



„D Commerce Bank”
AD

Consolidated Annual Financial
Statements and Activity Report for
2023

Group:

D COMMERCE BANK

Supervisory Board:

**Fuat Guven
Bahattin Gurbuz
Valeri Borisov Borisov**

Management Board:

**Anna Ivanova Asparuhova
Martin Emilov Ganchev
Plamen Ivanov Dermendzhiev
Valentina Dimitrova Borisova
Zahari Dimitrov Alipiev**

Executive Directors:

**Anna Ivanova Asparuhova
Martin Emilov Ganchev**

**Director of Planning, Control
and Financial Reporting
and Central Accounting
Directorate:**

Milena Duneva

**Director of Legal Directorate
and Chief Legal Advisor:**

Teodora Mateeva

Address of Management:

**Sofia
8, Gen. Totleben Blvd.**

Auditors:

**BAKER TILLY KLITOU AND PARTNERS EOOD
RSM BG ODD**

CONSOLIDATED MANAGEMENT REPORT

AND

CORPORATE GOVERNANCE STATEMENT

OF

D COMMERCE BANK GROUP

for 2023



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 2023 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 2023, the share capital of the company amounts to BGN 19 400 thousand.

IVANCHOV STAN EOOD

Sole owner limited liability company "Ivanchov Stan EOOD" was established in 2022. Its seat and address of management is in Sofia, Krasno Selo Region, 8, Gen. Totleben Blvd. As at 31 December 2023, the share capital of the company amounts to BGN 17 027 thousand.

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 2023 the share capital of the company amounts to BGN 2.2 million.

D Invest Park EOOD

D Invest Park EOOD was incorporated in 2021 as sole owner limited liability company with sole owner of the capital D Commerce Bank AD. As at 31 December 2023, the share capital of the company is BGN 17 554 thousand.

1. Group ownership and management

As at 31 December 2023, the capital of the Bank is held by Mr. Fuat Guven, who owns 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 2023 the Supervisory Board of the Bank comprises the following members:

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

As at 31 December 2023 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 2023

During the period 1 January 2023 – 31 December 2023 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 2023 the Bank has two Executive Directors and five members of the Management Board:

- Mrs. 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 2023

The information about changes in the management and the registration of the subsidiaries in the period from 1 January 2023 to 31 December 2023 is presented below:

4.1. D Insurance Broker EOOD

In the period from 1 January 2023 to 31 December 2023 there were no changes to the management and registration of the company.

4.2. D Imoti EOOD

In the period from 1 January 2023 to 31 December 2023 there were no changes to the management of the company.

4.2.1. Ivanchov Stan EOOD – subsidiary of D Imoti EOOD

In the period from 1 January 2023 to 31 December 2023 there were no changes to the management of the company.

4.3. D Leasing EAD

In the period from 1 January 2023 to 31 December 2023 there was the following change to the management and registration of the company.

4.4. D Invest Park EOOD

During the period 01.01.2023 - 31.12.2023 there were no changes in the management of the company. The following changes have been made to the company's registration:

4.4.1 The trade name of the company has been changed. "D PARK" EOOD is renamed to "D INVEST PARK" EOOD. The change was entered in the Commercial Register on 30.11.2023.

4.4.2. By a decision of the sole owner of the capital dated 22.11.2023, the capital of the company was increased with a non-monetary contribution, representing ownership of real estate. The amount of the increase is BGN 10,454,700.

After the registration of the increase, the capital of the company amounts to BGN 17,554,000, of which BGN 250,000 is a cash contribution and BGN 17,304,000 is a non-cash contribution/contributions. The capital is divided into 175,540 shares, BGN 100 each and is owned entirely by the sole owner of the capital – D COMMERCIAL BANK AD.

The change was entered in the Commercial Register on 30.11.2023.

4.4.3. On 30.11.2023, the current article of incorporation of the company, reflecting the above changes, was announced in the Commercial Register.

5. Information regarding the individuals managing and representing the subsidiaries

As at 31 December 2023, 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, Petya Radeva Valeva, Kostadin Bozhikov Munev - Members of the Board of Directors; the company is always represented by each two of the three Board Members.

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

5.5. "IVANCHOV STAN" EOOD - a subsidiary of "D IMOTI" EOOD - Fuat Guven – General Manager.

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

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

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

6.3 Under Art. 247, Para 2 of CA:

- item 1– The total remuneration received in 2023 by the Members of the MB and the SB of the Bank amounted to BGN 3,169 thousand.
- item 2 - No deals of this nature were performed in 2023;
- 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 2023 - 31 December 2023):

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 2023 - 31 December 2023):

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 – ultimate owner 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 Turizm 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. Ivanchov han EOOD, UTC 206801576, Sofia, 12 Cherni Vrah Blvd. - ultimate owner of the capital and Executive Director;
 27. Ivanchov stan EOOD, UTC 207148740, Sofia, Eduard Totleben Blvd No. 8, fl. 5 - ultimate owner of the capital and manager.
 28. "Hunting hills" EOOD, UIC 200521126, seat and address of management: Sofia. Sofia, blvd. 12 Cherni Vrah Str. – Manager;
 29. FORHUNT AD, UIC 200966005, seat and address of management: Sofia. Sofia, blvd. 12 Cherni Vrah Str. – Chairman of the Board of Directors and Executive Director;
 30. "Forhed" AD, UIC 200378646, seat and address of management: Sofia, Izgrev district, "Gen. Shteryu Atanasov" No. 5 - Chairman of the Board of Directors and Executive Director;
 31. "Forland" AD, UIC 200285067, seat and address of management: Sofia, Izgrev district, "Gen. Shteryu Atanasov" No. 5 - Chairman of the Board of Directors and Executive Director;
- *Mr. Fuat Güven is also the ultimate owner of the capital of the Bank's subsidiaries: "D INSURANCE BROKER" EOOD with UIC 175001373, Sofia. Sofia, Krasno Selo district, blvd. "Gen. Totleben No 8; "D IMOTI" EOOD with UIC 202773186, Sofia. Sofia, Krasno Selo district, blvd. "Gen. Totleben No 8; "D LEASING" EAD with UIC 203159604, Sofia. Sofia, Krasno Selo district, blvd. "Gen. "Totleben" No 8 and "D INVEST PARK" EOOD with UIC 206722972, Sofia. Sofia, Krasno Selo district, blvd. "Gen. Totleben" No 8.

Plamen Ivanov Dermendzhiev - Member of the Management Board (in the period 1 January 2023 - 31 December 2023):

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 2023 under Art. 240, b) of the Commercial Act.

II. 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.

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 2023 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)	2023	2022	Change	
Net interest income	63,670	34,751	28,919	83%
Net fees and commissions income	10,417	10,922	(506)	-5%
Net trading income	2,776	4,637	(1,861)	-40%
Net loss on impairment of financial assets	(1,511)	(43)	(1,468)	3414%
Operating income	75,352	50,267	25,085	50%
Administrative operating expenses	(35,501)	(31,221)	(4,280)	14%
Other operating income, net	3,144	5,752	(2,608)	-45%
Profit before income tax	42,992	24,798	18,197	73%
Income tax expense	(4,321)	(2,490)	(1,831)	74%
Net profit for the year	38,674	22,308	16,366	73%
Balance sheet (BGN'000)	2023	2022	Change	
Total assets	1,654,411	1,576,806	77,605	5%
Loans and advances to customers	1,048,899	931,062	117,837	13%
Due from banks	39,201	43,921	(4 720)	-11%
Securities	191,952	160,883	31,069	19%
Due to customers	1,431,754	1,391,701	40,053	3%
Due to banks	7,658	5,012	2,646	53%

GROUP

Equity	203,888	168,624	35,264	21%
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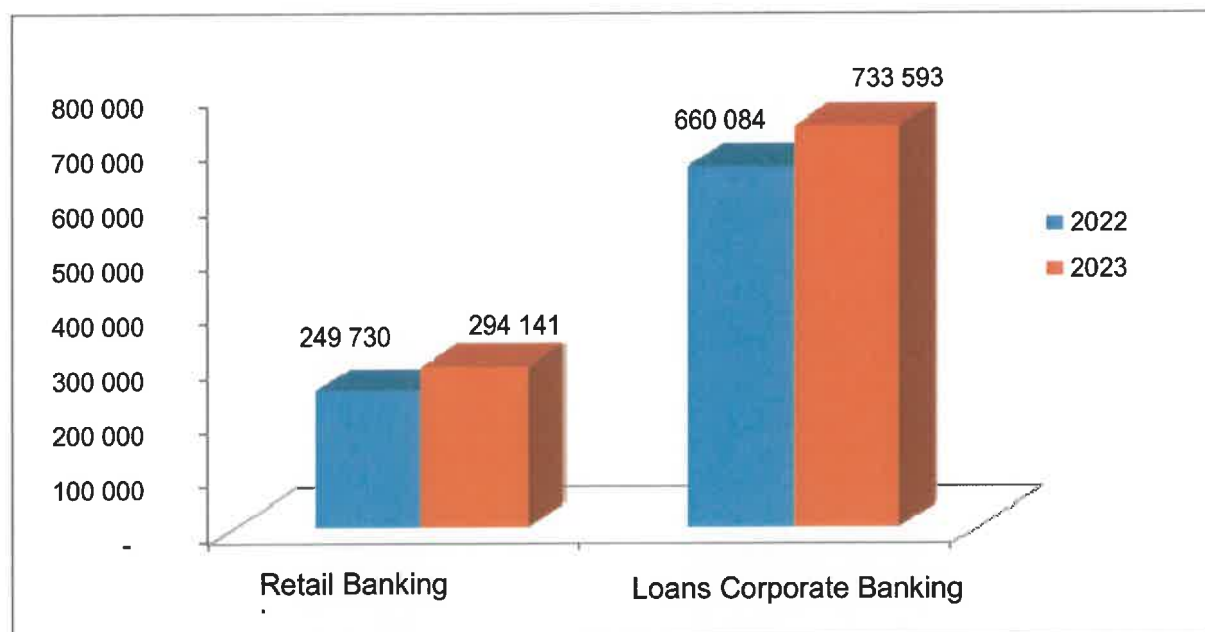
Key ratios (%)	2023	2022	
Loans to deposits ratio	73.3	66.9	6,4
Balance sheet provisions to loans	2.2	2.3	-0,1
Net interest margin	3.9	2.3	1,6
Impairment to loans ratio	- 0.1	- 0.0	-0,1
Return on assets	2.4	1.5	0,9
Return on equity	20.8	13.7	7,1
Total capital adequacy	18.13	16.97	1,2

In 2023, the Group reported profit before tax at the amount of BGN 42 million, and return on equity reached 20.8%, and return on assets – 2.4%.

The total amount of D Commerce Bank assets as at the end of 2023 reached BGN 1,654 million, which is an increase by 5% as compared to 2022.

Gross loans and advances to customers are up by 13% or BGN 117 million year-on-year. The amount of customer borrowings as at 31 December 2023 is BGN 1,432 million, increasing by 3% on annual basis.

Loans granted



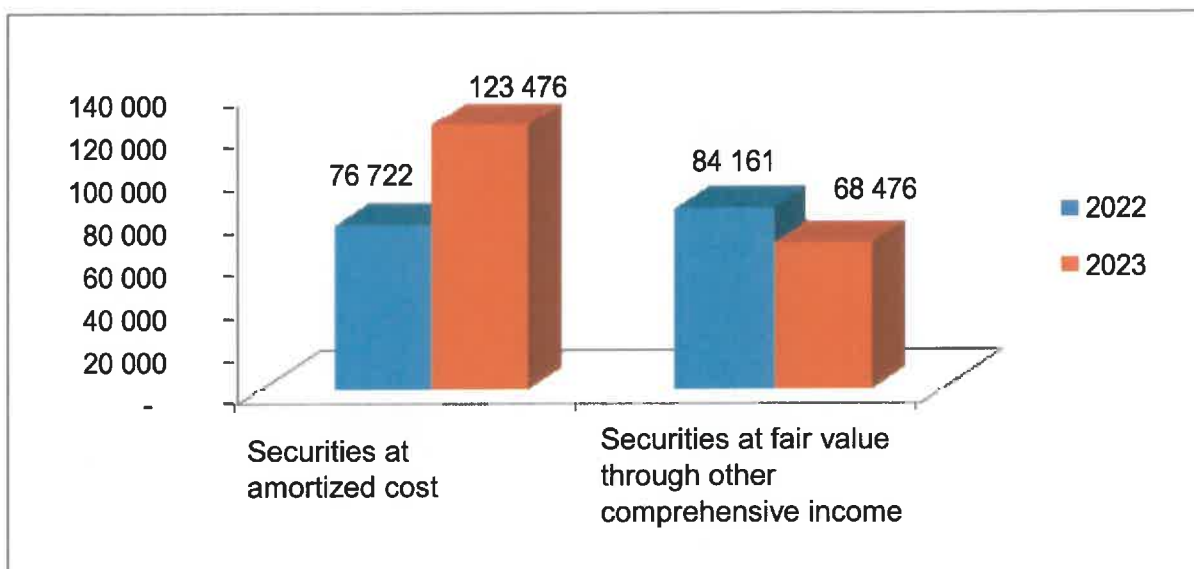
* Corporate banking includes budget and public companies (court and awarded loans are excluded)

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

In 2023 the Group's corporate loans share of the gross portfolio is 71%. Corporate portfolio increased by 11% on annual basis or by BGN 74 million.

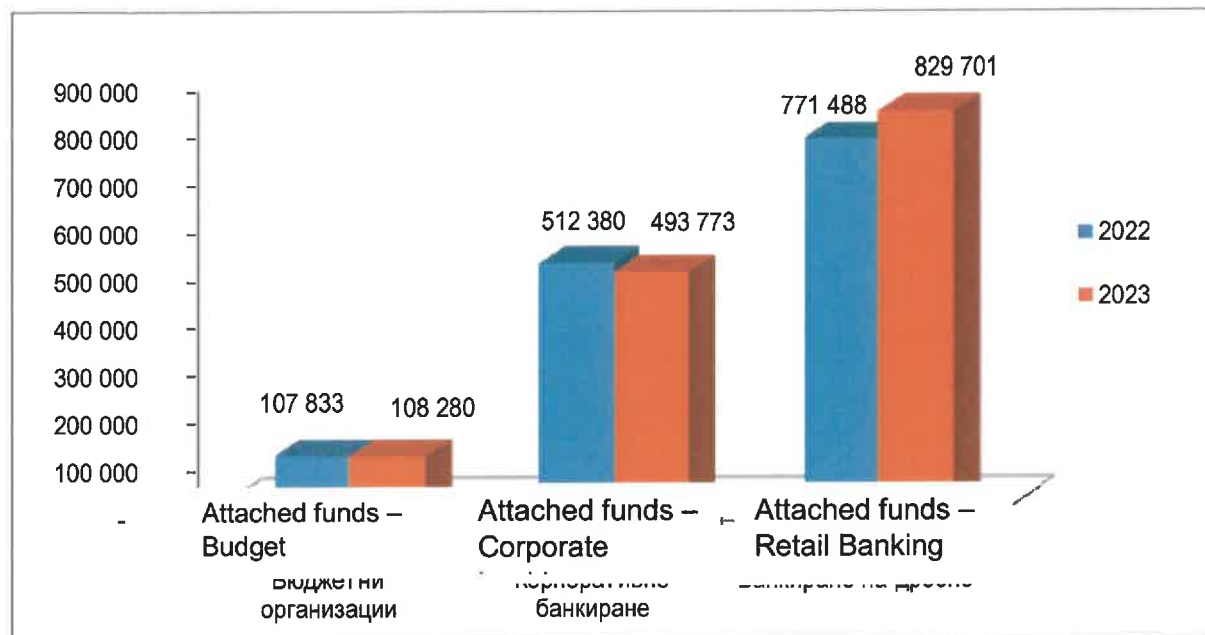
Retail loans increase by 18% year-on-year, mainly due to an increase in housing loans and consumer loans with mortgage.

Securities portfolio



In 2023 the Group through the parent (the Bank) increased its securities portfolio by BGN 31 million, with the increase in securities measured at amortised cost amounting by BGN 47 million and the decrease in securities at fair value through other comprehensive income of BGN 16 million.

Attracted funds



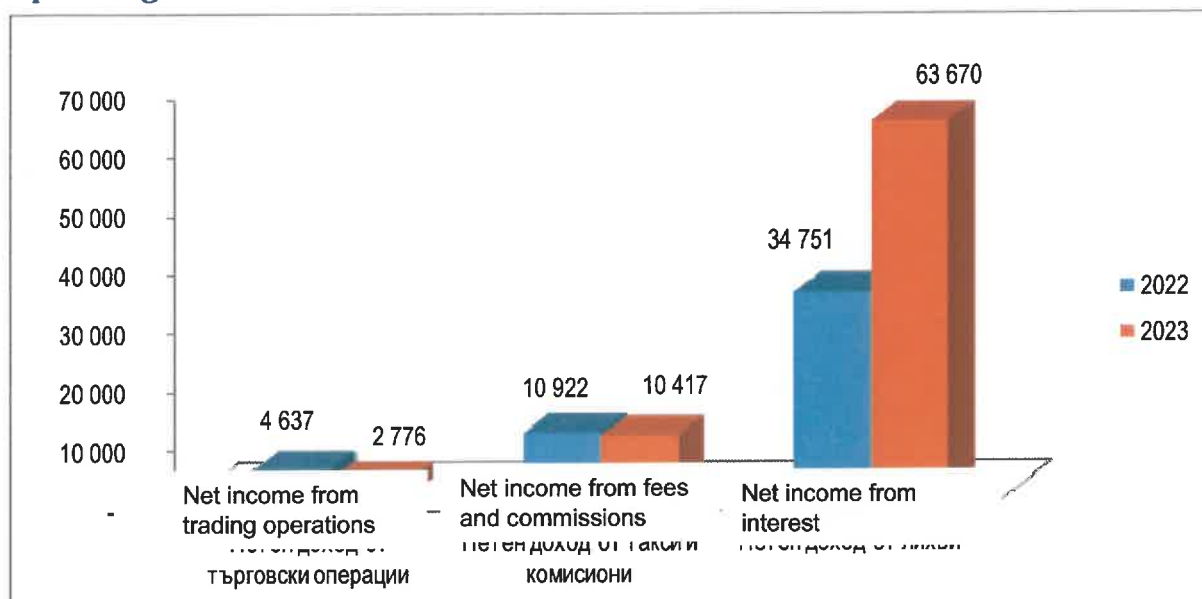
The Group follows a balanced asset and liability management policy aimed at optimising the results attained.

Attracted funds in corporate banking have increased on an annual basis by 4% or BGN 19 million.

Funds attracted from budget organisations increased by 0,4% on annual basis.

The increase in funds attracted from retail banking amounts to BGN 58 million or 8% on annual basis.

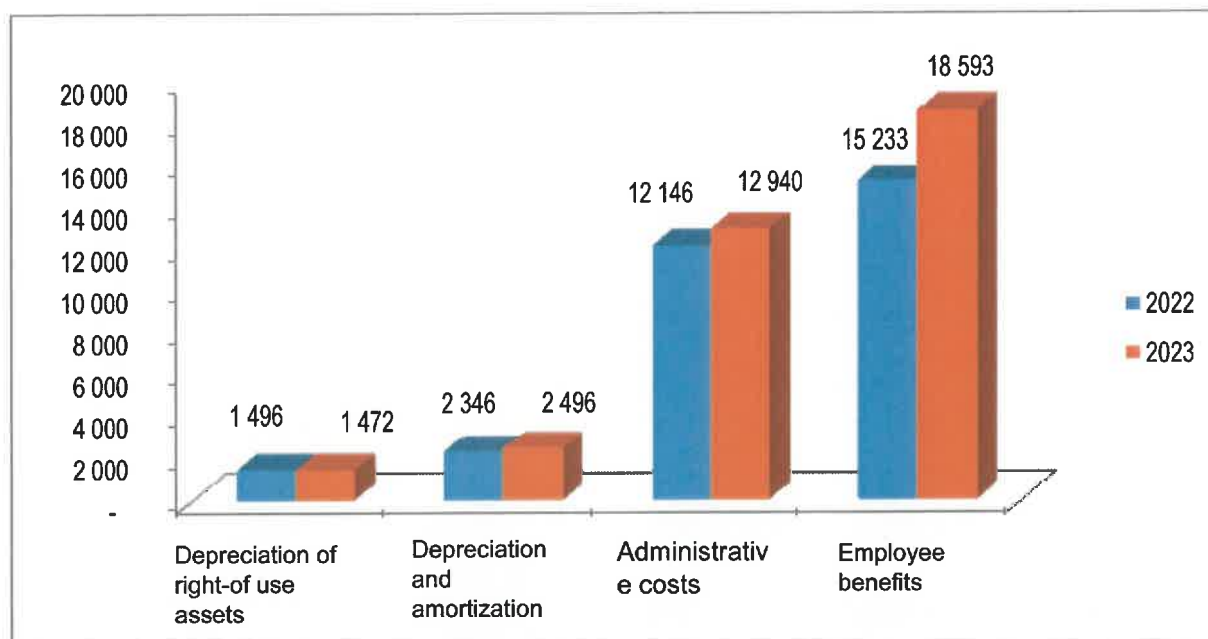
Operating income



In 2023 the net operating income of the Group excluding impairment of financial assets reached BGN 75.4 million, increasing by 50% on an annual basis.

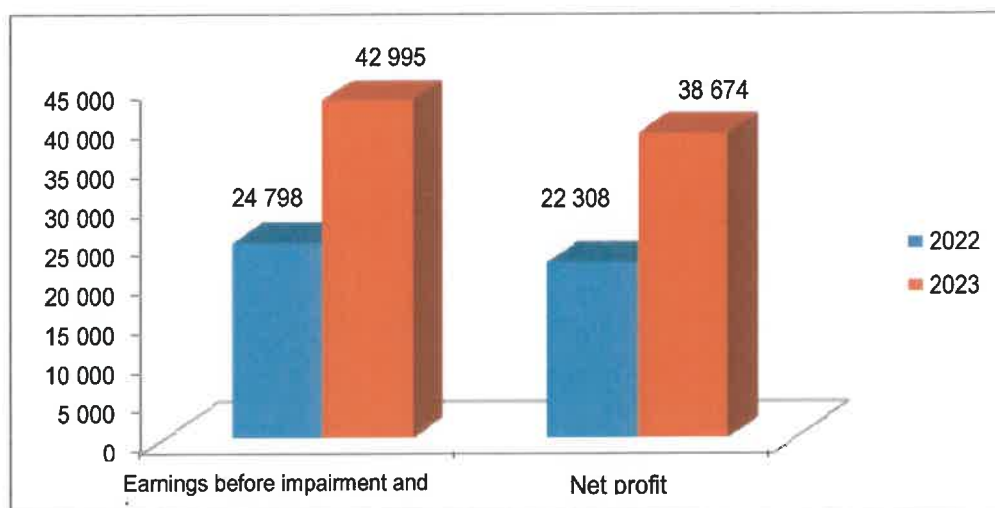
Over the period, net interest income increased to BGN 63.7 million, or 83% on an annual basis. Net fee and commission income reached BGN 10.4 million, decreasing by 5% on an annual basis.

Operating expenses

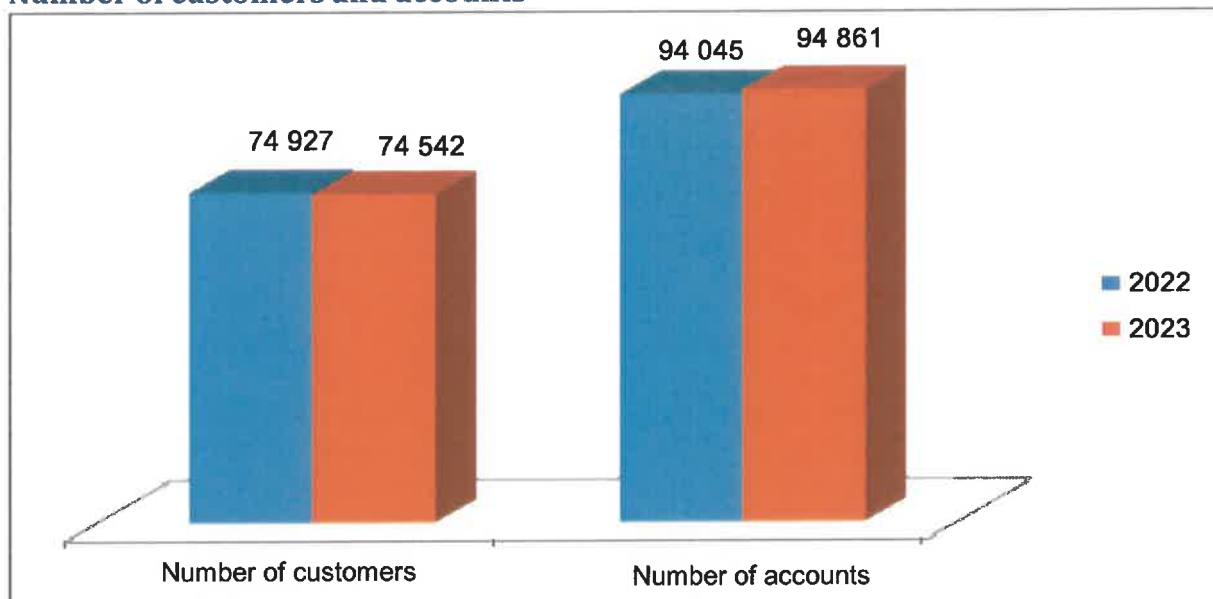


Operating expenses have increased by 22% on an annual basis.

Net result



Number of customers and accounts



III. 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's 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 2023.

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.

In 2023 the market situation was extremely complicated and hard to forecast. In the last few years, risks have materialized that were previously considered unlikely or rather hypothetical. The health crisis that broke out in 2020 posed serious challenges to the global community, hindered economic processes worldwide, but the applied decisive measures and mechanisms for liquidity support of business and consumers limited the negative impacts. And if the problems with the pandemic have already been overcome in most places in the world, then Russia's invasion of Ukraine, and subsequently the war in the Middle East, will continue to exacerbate geopolitical tensions, without clarity at the moment. Tight financing conditions in the euro area, following a series of key interest rate hikes by the ECB, continue to have a strong impact on the economy, dampening demand, which is contributing to lower inflation. Economic growth is expected to remain weak in the short term, and subsequently the economy to recover (on average 0.6% in 2023 to 0.8% in 2024 and 1.5% in 2025 and 2026) due to the growth in real incomes. In the context of resilient labor markets, these factors lead to a strong upswing in private consumption. However, the withdrawal of fiscal support measures to offset energy prices and inflation introduced since 2022 will have a slight negative impact on growth in the 2024-2026 period. As the energy crisis subsides, governments should continue to withdraw related support measures to avoid an increase in inflationary pressures in the medium term, which would require even greater monetary policy tightening. Fiscal policies should be aimed at achieving greater productivity in the euro area economy and gradually reducing high public debt. The ECB expects to continue to reinvest in full the principal payments of maturing securities acquired under the Pandemic Emergency Purchase Program (PEPP) in the first half of 2024. During the second half of the year a reduction in the PEP portfolio is foreseen with 7,5 billion euro monthly and termination of reinvestments in the end of 2024. Structural reforms and investments to increase the euro area's supply-side capacities, which are expected to be supported by the full implementation of the Next Generation EU program, have the potential to contribute to reducing price pressures in the medium term, while supporting the green and digital transitions. To this end, it is important to reach an agreement on the reform of the EU's economic governance framework, as well as to accelerate progress towards the establishment of a Capital Markets Union and the completion of the Banking Union.

The risks to economic growth are that it will be lower if the effect of central banks' monetary policy turns out to be stronger than expected. A weaker global economy or a further slowdown in global trade could also have an adverse impact.

Russia's war against Ukraine and the conflict in the Middle East are major sources of geopolitical risk, as a result of which business and household confidence in the future prospects could be reduced. Growth may be higher if the increase in real incomes leads to higher consumption and/or if the global economy registers stronger-than-expected growth.

The bank fully followed a conservative policy in 2023 regarding investments in securities. The purchases were of government securities of the Republic of Bulgaria and the Republic of France, highly liquid and with low risk.

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 Bank has developed a precise and specific methodology for the purpose of assessing the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of the Bank's activities outside the trading book.

The bank has a clear policy setting out aspects of identifying, assessing, managing and mitigating risks arising from potential changes in interest rates and of assessing and monitoring activities.

The bank monitors and evaluates the risk of the CSRBB credit spread.

Credit spread risk is the change in market perception regarding the credit quality of groups of different credit-risk instruments, due to changes in expected execution levels or due to changes in market liquidity.

- The bank's exposure to interest rate risk as of 31.12.2023 is disclosed in *Appendix No 3.2.1. Interest rate risk* from the annexes to the individual annual financial statements of the bank as of 31.12.2023

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 2023 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 2023.

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 always maintains highly liquid assets in various currencies. 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 2023 is disclosed in *Note 3.3. Liquidity risk* in the notes to the consolidated annual financial statements of the Group as at 31 December 2023.

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 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. In the past 2023, operational risk remains one of the most critical risks due to geopolitical events that increase the likelihood of cyberattacks against banks. Software infrastructure remains vulnerable to cyber- attacks, including ransomware attacks and threats against third-party service providers. The growing number and sophistication of cyberattacks poses serious challenges to operational risk management. Technological advances require continuous improvements to cybersecurity and other internal controls to create operational resilience and reduce the risk of the bank experiencing significant service disruption. The Bank's efforts during the year are focused on strengthening the security of systems, security assessments and tests, identification of potential vulnerabilities and regular assessment of the overall security of systems and their components.

Thanks to the timely implementation of measures to eliminate all identified problems, no operational events were identified during the year that brought real losses as a result of cyberattacks. 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 2023 is disclosed in *Note 3.5. Capital management* in the notes to the consolidated annual financial statements of the Group as at 31 December 2023.

IV. Operating activities

1. Corporate banking

Large Corporate Clients

Market trends and competition

2023 was mostly marked by the continued trend of gradual but continuous increases in key interest rates, both in the US and by the ECB and the BNB.

This has directly affected the final interest rates on loans, as a result of the ever-increasing Euribor used as a pricing basis for both existing loans and newly approved loans.

On the other hand, the attracted resources of the banks in the country and in particular of D Commercial Bank AD remained high, and the Bank even noted a relatively high growth of deposits and funds on current accounts.. In this regard, the increase in interest rates on deposit products was smooth and lagged behind the growth of the price of credit products.

- The above contributed to the expected higher net interest margin and respectively profit for the sector. This, in turn, caused market pressure from the larger players, who began to price the interest rates on loans to small, medium and large customers on the basis of a deposit index in order to attract them at a better price. In order to retain its clients, the Bank often renegotiated interest margins and offered new clients at comparatively lower margins than Euribor, but price competition had an impact and Corporate Banking failed to meet the set portfolio volume targets, with the exception of the Public and Budget Clients segment, where the momentum gained in 2022 helped to partially offset the negative trends.
- At the same time, it should be noted that the achieved average interest margin is twice as high as planned in the segment. The situation is similar with the other banks in the country.
- Expectations for 2024 are for the interest rates on deposit products to smoothly catch up with the main interest rates of central banks and to start a trend of shrinking the net interest margin.
- It can be said that inflation has been controlled by the intervention of the main interest rates of central banks, but it has not yet reached the desired level and in this regard, a new increase in the coming months is not excluded, but with less frequency and rather retention of the current interest rates.

- The ongoing war in Ukraine and the newly flared up conflict in Israel have created conditions of instability and is expected in 2024. companies to continue to work cautiously.
- In terms of individual industries, the most noticeable change was noted in the construction sector, where the purchase and sale of residential properties decreased steadily in the last two quarters of 2023, but the average price per sq. m. in larger cities has stopped growing, and the expectations are that it will continue next year. The Renewable energy sources (RES) sector continues to develop, but at a slower speed, given the lower price of electricity. energy, compared to the first months after the outbreak of the war in Ukraine. In this regard, the Bank's policy requires a higher own participation and other risk mitigants, such as attracting co-debtors with independent cash flow, e.g. The agricultural sector was characterized by higher volatility of the price of finished products and in this regard, a number of farmers withheld stock quantities in search of a larger profit margin. This hides risks, which presupposes the Bank to examine even more carefully and thoroughly the financing of each individual agricultural client. It should be noted that the average price of agricultural land increased last year as a result of the increased interest in purchases.
- The industries with potential for development remain the food industry, light industry, transport and freight forwarding activities, as well as the agricultural sector, defined in the Bank's business strategy.

Main goals and objectives

- Moderate growth of the loan portfolio, in accordance with the sectoral limits, the risk appetite of the Bank and the need to compensate for the significant volume of upcoming repayments to existing customers.
- Offering a full package of banking services to credit and non-credit clients with a focus on the transactional business and cross-selling, aimed at increasing fee and commission revenues in order to compensate for the narrowing interest margins;
- Maintaining the good quality of the loan portfolio and early identification of potential problematic exposures;
- Cross-selling together with other segments in the Bank;
- Striving to achieve optimal levels of deposit resources in order to gradually increase them in order to meet the liquidity needs of the Bank and the loan-to-deposit ratio to decrease gradually. Directing lending to customers with sustainable business, export-oriented companies and companies producing goods and services with stable demand;
- Active attraction of fixed-term and open-ended resources.

Steps, policies and actions taken

- Enhanced monitoring of the loan portfolio with a focus on the sectors directly affected by the health crisis.
- Making special efforts for strict and quality control over the credit exposures of existing customers, aimed at early identification of the first signals of potential deterioration.

Regular detailed monitoring of customers on whose loans the principal and interest deferral mechanisms have been applied has been introduced due to the pandemic;

- Rigorous individual analysis of all aspects of the given credit exposures, taking into account the damage caused by the global pandemic;
- Development of cross-selling in order to increase profitability without increasing risk;
- Achieving greater flexibility in offering customer-specific credit products; A form of control over the duration of the credit process has been introduced with the main aim of reducing the time for concluding a credit transaction;
- Achieving higher quality in customer service from this segment.

Medium-sized business customers

Market trends and competition

- The segment of medium-sized corporate customers in 2023 was influenced even more than that of large corporate companies by the growth of interest rates on loans and loan products;
- Companies' sales and turnover have recovered from the negative impact of the pandemic over the past two years, but the ongoing conflict in Ukraine, as well as the new one in Israel, makes them more cautious about new investments;
- Their development in 2024 will be conditioned by their ability to adapt to ongoing challenges – relatively reduced but still uncontrolled inflation, rising financing rates and volatility in energy prices. A key advantage will be the absorption of funds under European programs and the expected funds under the Fund for Recovery from Europe for investments in new technologies in order to optimize the processes and the price of the initial products and services;
- The use of banking products and services from the middle business segment continues to emerge as an extremely important business line in the management of banks' corporate business;
- The demand for financing from this segment in terms of working capital is expected to continue, dictated by the need for liquid funds for current payments and the increased prices of raw materials and materials. In the middle segment, there is an even more pronounced need to replace deferred payments to counterparties with immediate ones, in order to address the risk of difficult collection of receivables;
- The main driver of economic development and sectors with good prospects are expected to be trade in foodstuffs, agriculture, pharmaceutical industry and housing construction in larger cities, although transaction volumes in the latter are starting to decrease;
- The interest in the construction of renewable energy sources remains relatively high, but not as great as in the past year, given the decrease in the price of electricity. compared to the first months of the war in Ukraine.

Main goals and objectives

- The main direction in 2024 will again be to attract customers using a variety of banking products with the potential for transactional business. The segment will focus on increasing the number of products used by one client and increasing the intensity of banking by customers;
- Detailed monitoring of clients affected by the health crisis;
- Increasing the number of customers through the provision of package services;
- Increase in fees and commissions on credit and non-credit operations to compensate for the reduced interest margin;
- Increasing the number of loans for projects financed under European programs and making them a top priority;
- Increase in revenues from fees and commissions on credit and non-credit operations;
- Diversification of the portfolio in different sectors and prevention of concentrations in order to avoid sectoral risk.

Steps, policies and actions taken

- The main priority is to improve the results and efficiency of the segment, optimize the credit process and the services offered to customers.
- In the case of RES financing, an update was made of the expected price of electricity energy, which calculates the return on investment.
- Clearly focusing on a list of potentially good clients and holding meetings with them;
- Introduction of strict control over the credit process in order to reduce the time for approval and finalization of credit transactions;
- Regular monitoring of the financial status of credit customers;
- Organization and conduct of sales trainings; Active communication and offering package services and products in order to more comprehensively enter a business group.

Results 2023 of Corporate Banking, incl. Public and Budget Clients segment and planned development for 2024

As a result of the above, and in addition, a number of early repayments on larger exposures, caused mainly by increased interest rates on loans, corporate banking reports a net growth in the loan portfolio of BGN 67.267 million for the year or 10%, compared to the previous 2022. Total amount of loans granted to corporate clients excluding the public segment amounted to BGN 732,571 thousand at the end of the period. The financial data of loans to corporate customers are presented according to intra-bank segmentation and differ from the disclosures in the Annual Report.

The portfolio distribution between the big, medium-sized and public segment is 14.5%/57.1%/28.4%. The numeric representation of this ratio is as follows:

- Big corporate clients – BGN 106.2 million.

- Medium-sized corporate clients – BGN 418.6 million.
- Public and budget clients – BGN 207.8 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, which includes big and medium clients, is allocated by sectors, as follows: construction (21%), trade (20%), followed by agriculture (11%), light industry and tourism with 9% each, real estate (8%), finance and insurance (6%), 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. Via the sales tool – calculator, sales are maximally facilitated, and so is the calculation of the amount of permissible funding.

The past 2023 was strongly influenced by the initiated policy of a gradual increase in interest rates by the ECB, which led to a smooth and constant increase in the final interest rates on loans, given that the Bank's pricing is based on Euribor. At the same time, given the high liquidity and appetite for measured risk, the banking system in the country maintained the interest rates on deposits and loans of its customers or more smoothly followed the increasing trend, compared to the ECB correction. However, at the end of the year, as expected, the interest on the liabilities and, respectively, on the assets of the portfolios began to increase. To preserve its customer base, the Bank adjusts the fixed commission to the Euribor interest rate on an exceptional basis, but despite these discounts the interest margin increased.

In the past 2023 the average interest rate on loans of the segment amounted to 5.9%, compared to 4.2% on the budget. This brought gross income for the Bank in the amount of BGN 40.666 million which represents an overfulfillment of the budgeted amount by BGN 10.461 million. Compared to the previous year 2022 the growth of interest income for 2023 amounts to BGN 16.651 million.

The number of active loans for 2023 reached 625, compared to 596 for 2022. The newly approved loans of the segment for the year amounted to EUR 212.847 million but as a result of the planned and early repayments, the net growth remains below the budgeted by BGN 50 million.

In 2024 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. The budget for the upcoming 2024 foresees a growth of 10% of the loan portfolio. 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 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. In view of 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 2024, 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, and in particular green energy projects, 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 2023 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 2023 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 2023, 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 to enhance customer experience and satisfaction at lower operational risk levels.

In 2023, the retail banking segment continued to develop its main activities as follows:

Constant analysis of the market for various types of products and services for individuals and legal entities, including fees and commissions and accordingly update product cards, fee and commission tariff and interest bulletins of individuals and legal entities - small business. Based on the market analysis, 7 changes were made to the tariffs in the various sections, all of which are in the direction of fee increases, 7 changes to the interest rate bulletins, mainly for interest on time

deposits and 6 changes regarding various parameters of credit products for individuals, which cover both financial conditions and elements of risk and creditworthiness requirements.

For the credit products for the Small Business segment, we have made changes to the product card of Agricultural Loan against Subsidies in accordance with the new programming period and the new support measures.

We developed campaigns for various products for natural persons and legal entities and ran sales promotion contests to attract customers. During the year, the following sales and advertising campaigns were held - 2 for residential lending, 2 for deposits, 1 for consumer lending, 1 for loans for legal entities and 1 for package programs for companies.

During the year, we continued to actively impose the Bank's brand and position it in the field of housing and mortgage lending. In January, we conducted training for the employees of the credit intermediary Winners Group. In April, we participated in the first part of the Property Show in Varna, together with Unique Estates and in December we realized the second part in the city of Sofia.

In November, we took part in the IX conference of the NREA on the actions on the real estate market in Bulgaria. In July, we took part in a specialized event to present the Bank in the annual event of NSNI and Unique Estates, including an interview in a magazine for specialized real estate in the country. With these participations, we carried out product placement of D Bank in the housing lending segment.

In the first half of 2023, we continued the focus on working with credit intermediaries and through associations with wide business representation in various fields. We supported the positioning of the Bank in the field of housing loans with increased advertising on targeted sites and outdoor advertising in large cities and the national road network. Also in 2023, we participated in the event for farmers - Bata Agro, in order to support lending to small businesses.

In 2023 we have started new projects for process optimization and innovative financial solutions have been implemented:

After the optimization of client documents in 2022, in 2023 we implemented the next phases of the paperless service project, namely: Creation of an electronic client file in BIS Banker for individuals and legal entities, automation of requests, forms and forms, which allowed changing the process of servicing individual clients in the Bank's offices when opening new customers and selling new products to old customers. In 2023, we introduced the possibility for individuals to sign client documents with Qualified Certificate of Qualified Electronic Printing (QCQEP) when selling passive products at the Bank's offices as the next step towards reducing the paper printing of documents.

We started working on a project for the implementation of a scoring model for assessing the risk of individuals, as well as for the introduction of the calculation of the credit rating of individuals small business. In the past year, the number of newly granted loans was increased at a high level

of quality of the loan portfolio. We achieved an annual growth of the loan portfolio in Retail Banking in the amount of 18.2%, and of the attracted funds by 7.5%.

The market for personal loan products was highly competitive and there was demand and growth in home loans. In order to maintain a good sales rhythm and increase the loan portfolio, we continued the housing loan campaigns, which we linked to an increase in cross-selling.

In 2023 changes in interest rates on borrowed funds were frequent, by applying a gradual increase in interest rates on deposits of individuals in line with market trends. The focus was on both deposit products to attract new customers and new money, as well as conducting campaigns to retain the attracted funds on maturing deposits through promotional interest margins on some products.

In November 2023, we introduced a new product on the liability - SAFE ACCOUNT. SAFE ACCOUNT is a type of savings account with functionality for automatic, regular saving of an amount and period chosen by the client. The client determines an amount - savings component, which will save at a frequency chosen by him/her and assigns the Bank to transfer the amounts. In 2023, the active supply of loans continued, and during the year additions and amendments were made to the loan products:

- The one-year period of fixed interest was abolished, which required the revision of all clients and intrabank documents in connection with housing and mortgage loans.

- In March, a change in the interest rates of standard consumer loans was introduced, packages under the Partners program. The maximum allowable amounts of consumer loans were also increased.

- The Rules for lending to employees and administrators of the Bank were updated in connection with the amendments to the Credit Institutions Act, and other changes;

- As of November 2023, a new product for individuals was introduced - a consumer loan "FAST CREDIT" in the amount of up to BGN 10,000 with a repayment period of up to five years. A new system LoanBox (LB) was also introduced for reviewing and approving credit applications, including the implementation of rating and scoring and automation/management of credit processes in D Commerce Bank AD;

- We have prepared analyses and substantiated the changes in the applicable new values of basic indices for loans to individuals, agreed on 6-month Euribor, as of March 1 and September'

- The interest rates for small business products were refined in accordance with market conditions.

Tariff changes in 2023 followed the market trends in the direction of increasing the fees and especially for a significant increase in the fees for the operations that are carried out through the bank group offices. Fees for cash operations, for payments made through offices, for cash transfers, for card transactions, monthly account servicing fees, etc. were increased. In 2023, we achieved 96% of the budget for fees and commissions in the individuals' segment, and 97% in the

small business segment. The growth compared to the previous year is 7% for citizens and 13% for small businesses, respectively.

The commercial focus during the year was focused on attracting new business clients with a good financial profile and liquidity collateral.

The emphasis in lending was aimed at developing the portfolio of loans to high-potential small businesses and agribusiness clients. In parallel with the financing of this customer profile, we also expanded the range of products and services used by them. In 2023, we continued to strengthen the Bank's position and develop partnerships with customers with high potential, through the creation of comprehensive solutions for banking services for this type of customers and the implementation of various commercial initiatives, including:

Commercial campaign for Small Business customer bundle programs, running in the last two quarters of 2023, in order to attract new, develop and retain existing clients of the Bank with potential.

Despite the contraction of economic activity in the country, as a result of the war in Ukraine and high inflation, in 2023 in the Small Business segment, the credit portfolio grew by 20%. Attracted funds on current accounts and deposits from customers small business companies grew by 2% on an annual basis.

The attracted funds on current accounts and term deposits of Small Business clients decreased by 1.6% compared to the previous year 2022. This decline is due to an operation with a one-time effect of BGN 22 million. The same are received on the last business day of 2022 to a client's account with the Bank and transferred by him outside the Bank on the first business day of the new year 2023. Without this operation, the funds raised by Small Business would have increased by 10%.

In 2023, there is again a steady growth in the number of customers using the remote banking service D Bank Online. For one year, the number of users with active rights in the Internet banking platform has increased by 9%, with the predominant share continuing to be individuals. The number of operations carried out through the main electronic channel increased by 1% compared to 2022.

In 2023, there was a decrease in the number of users of the Online Channel, and the trend towards an increase in operations through the Bank's Online Channel is stable and upward. This year, the active users of the Internet banking platform D Bank Online (DBO) have decreased by 200. The total number of users of D Mobile (DM) is 5,085 and continues to grow despite the limited functionalities of the mobile application compared to the Bank's on-line channel. It should be noted that 1/4 of the Bank's active clients also use the mobile service and the forecast is that their number will grow in proportion to the implemented new functionalities that we provide. The

number of operations performed through the two channels increased to 1,336,430. For comparison, the number of operations in 2022 was 878,290.

In terms of the number of transactions through both channels, the ratio is as follows:

- DBO 2023 – 1,336,430
- DM 2023 – 42,000

The sustained interest in the online banking platform compared to previous years is due not only to the desire of customers to perform transactions remotely, but also to the improvements made in order to improve the system so that meets the growing needs of customers for the service.

In 2023, new functionalities were implemented in D Bank Online related to card products – a request for a new PIN, a request for a new debit card with a change of collection office. For BGN operations, the ability to quickly transfer Blink was added. We have provided the opportunity for corporate clients to order a file for mass payments for the salaries of their employees. In order to meet the needs of customers, we have provided the opportunity for remote opening of a current account through the channel of D Bank Online.

In 2023, in the D Mobile application, with which we provided D Bank customers with the opportunity to use the 3D Sec function in the application, the possibility of biometric authentication for card payments in the web environment was also developed.

The implementation of these functionalities in the Bank's mobile channel is innovative, because practically our customers use 3 applications through one mobile application – D Mobile, 3 D Sec and D Token. It is this implementation solution that allows for a better user experience when working with the application.

In 2023, work on improving and introducing new functionalities continued. The mobile application now has new opportunities with which we strive to improve customer satisfaction and to offer new opportunities to attract new users and customers of the Bank.

In 2023, the bank expanded the services provided by the Call Center of Borika to serve end customers of D Bank. In this way, we provide our customers with 24/7 service on topics with a wider scope such as: blocking of bank cards; assistance with bank card problems; cases related to payments on the Internet with a card; blocking access to online banking channels and others. The expansion of the Borika Call Center would bring undeniable benefits, both in terms of the urgent need to block access to online banking and bank card services, and in terms of customer satisfaction.

In 2023, a serious positive trend in the use of bank cards is maintained. Over 58% of debit bank cards have transactions and over 37% of credit cards. The strategy that the bank will implement

for the next period is to increase the use of credit cards by both individuals and business customers.

Transactions with our cards are 2.57 million as follows: POS transactions in 2023 – 1,826,392 with value of the transactions BGN 149,810,167 and ATM transactions – 745,657 amounting to BGN 227,536,135.

In 2023, projects with Borica were completed, which provided:

- new card services, which provide an opportunity for a customer to choose a card delivery office and PIN.
- a new service for express issuance of a card and PIN, with which the card is with the client for 1 day within Sofia and 2 days for the country.
- a new model for card distribution - the cards are packed in Borica, each of which is in a separate envelope with an individual cover letter on the Bank's letterhead.
- an ATM with a deposit function put into working mode – the service is available to the Bank's clients.

Active work continued on the project with Borica for migration of the card program. At the suggestion of the Card Department, additional improvements to the card program were included in the project, the most significant of which are:

- a new model of servicing package programs.
- development of new card services (SMS charging from the card program and credit card refunds with the Bonus cash program);
- a new model for charging fees on card accounts.
- Suspension of currency conversion of transactions in connection with the requirements of Art. 50 of the Law for payment services and payment systems.
- Gaps in the application of the card tariff have been eliminated and actions have been taken to identify and eliminate functional and systemic causes leading to inconsistencies in credit cards;
- assignments for reference information from the map program, etc.

In terms of improving the POS services offered by the Bank and following the strategy for the development of the Card activity, a functionality for accepting payments with international POS cards in budget enterprises was introduced. In 2023, the Card Department took action to prepare a proposal for a new POS commission tariff and a new procedure for offering and servicing POS services in the context of the Bank's strategic projects for full membership Acquiring, VISA and Mastercard. The bank continues its outsourcing cooperation with Borica in terms of servicing new merchants with POS terminals, as part of the strategy to transfer to the POS Outsourcing contract

with Borica and the remaining about 70 pcs. The POS terminal is owned by the Bank in order to provide 24/7 service and installation.

3. Financial markets and investments

In the past financial year 2023, the Financial Markets and Investments Directorate continues to work on the implementation of the current tasks in its capacity as the bank's vaults for providing liquidity, investing available funds, securing budget funds and foreign exchange trading on the international financial markets.

- ***Liquidity***

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

As a consequence of the ECB's constant interest rate increase (6 times during the year), the overall profitability of the portfolio increased from 3.80% and the State Fund for Investment Support (DFPI) focuses on money market operations. The number of interbank deposits was in the range of BGN 83 million at the beginning of the year to over BGN 300 million in the second half of the year, reaching BGN 410 million in September. Due to the nature of the attracted resources, the free funds were mainly invested in short-term (up to 7 days) deposits. As a result, revenues amounting to BGN 9.4 million were realized or by BGN 6.05 million more than budgeted.

- ***Investments***

In 2023, the trend of maintaining ever higher liquidity that began in 2022 continued. The portfolio of securities that the Directorate manages was moving in the amount of about BGN 150 million, and at the end of the year it reached 194 million as a result of the purchase of short-term first-class bonds. The total return of the portfolio rose from 1.30% in the previous period to 1.65% in the amount of BGN 3.16 million.

BGN 2.56 million were realized from revenues from securities or by BGN 393 thousand more than budgeted.

- ***Budgeted funds***

In 2023, the amount of budget funds continued to move between 90 and 120 million. leva, which by law are secured by government securities of the Republic of Bulgaria from the bank's portfolio.

- **FX**

In the field of forex trading, 2023 was not as successful as the previous year. With a planned BGN 3.74 million, the Directorate realized BGN 2.78 million in revenues from the purchase and sale of foreign currency or nearly BGN 1 million less than those set in the budget. The decline in the final result compared to 2022 is due to the change in the business of our large public clients as a result of the ongoing military conflicts and the new geopolitical situation, which led to the lack of deals with them. However, the effect cleared from the revenues from trading with the large clients in question shows a default of only BGN 130 thousand or 4.4% compared to the previous year.

Regardless of the worse result in forex trading, it can be said that the past 2023. is the most successful for the directorate in the entire history of the bank. The total result of the State Fund for Investment Support (DFPI) exceeded the budgeted indicators and reached BGN 14.74 million.

4. 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 2023, the subsidiary concluded 3,800 insurance contracts (including annexes to existing insurance) in General Insurance and Life Insurance.

The total recorded premium income in 2023 is BGN 2,030 thousand.

The realized commissions under the concluded insurance contracts are BGN 448 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

GROUP

- 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 268 thousand was reported in 2023 (2022: BGN 203 thousand).

5. 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.

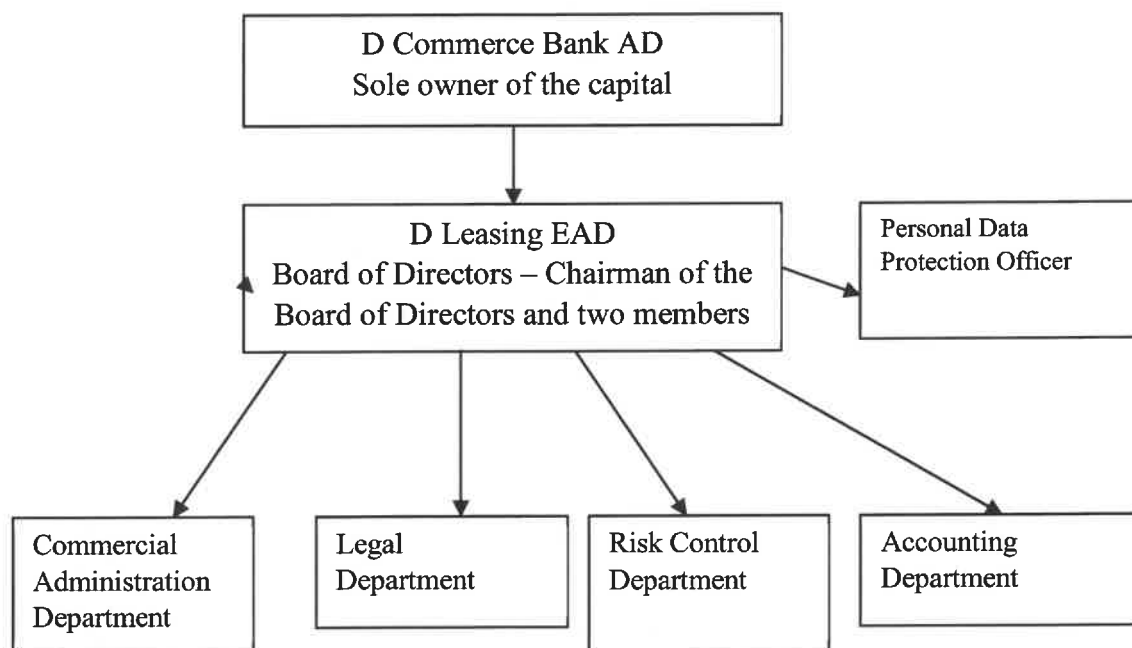
As at 31 December 2023 the subsidiary's assets amount to BGN 25 981 thousand. The company has provided financing to its target groups in the form of finance leases at the amount of BGN 25 186 thousand.

The liabilities of the subsidiary represent mainly liabilities under loan agreements signed with D Commerce Bank AD amounting to BGN 22 518 thousand, as well as BGN 351 thousand finance lease liabilities related to real estates which are owned by D Commerce Bank and are subleased to third parties.

The capital of the Company is in the amount of BGN 3 021 thousand, of which equity BGN 2200 thousand, legal reserves BGN 540 thousand, retained earnings BGN 281 thousand.

As of 31.12.2023, interest income is BGN 1 708 thousand, other income is BGN 215 thousand.

Management structure of D Leasing:



There were no changes in the structure in the first quarter of 2024.

6. 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.

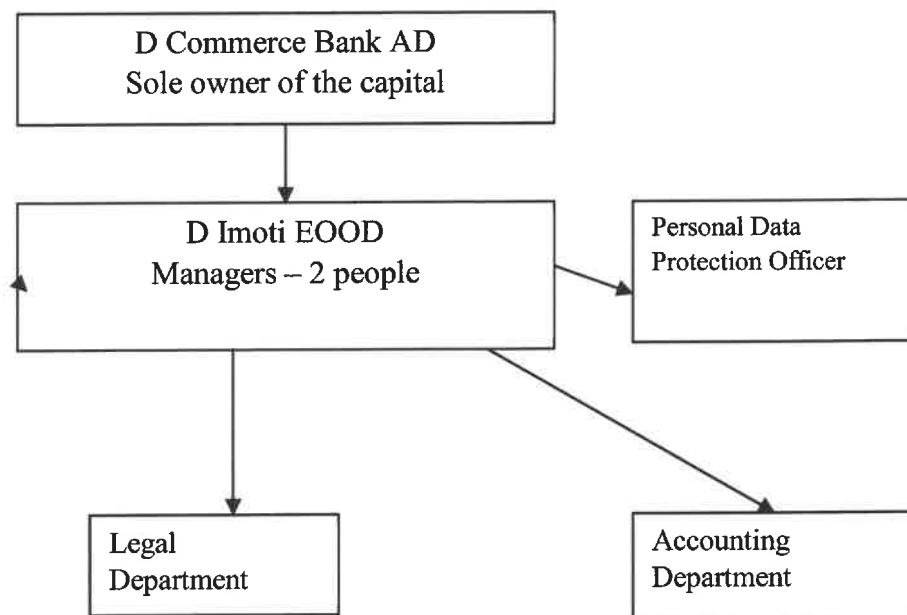
As at 31 December 2023, the Company's assets amount to BGN 25 316 thousand, including investment properties BGN 6 519 thousand (renovated former "Moscow" hotel in Dobrich, investment property 75 acres at the entrance to Burgas, agricultural land 1030 ares), investment in a subsidiary BGN 17.027 thousand (purchase of 100% shares from Ivanchov stan EOOD, which owns real estate in St. Konstantin and Elena, Varna).

The Company's liabilities are worth BGN 6.124 thousand and mainly represent obligations under a loan agreement with D Commerce Bank AD in the amount of BGN 6.000 thousand, which are for the purchase of shares from Ivanchov Stan EOOD.

The capital of the Company is in the amount of BGN 19.192 thousand, of which equity BGN 19.400 thousand, accumulated losses BGN 208 thousand.

As of 31.12.2023, revenues of BGN 545 thousand.

Management structure of D Imoti EOOD:



There were no changes in the structure in the first quarter of 2024.

7. D Invest Park EOOD

D Invest 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.

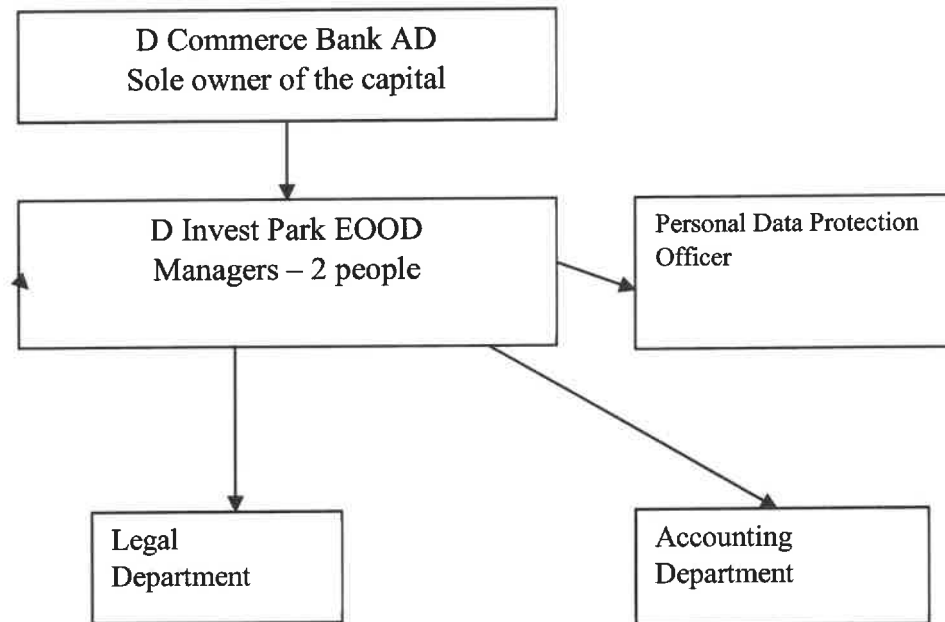
As at 31 December 2023, the Company’s assets amount to BGN 17.471 thousand, they mainly represent investment properties of BGN 9.682 thousand (Regulated plot in the village of Hrishteni, municipality Stara Zagora, Regulated Land and Building in Stara Zagora, Regulated Land and a building in the city of Sofia, Regulated Land and Building in Burgas, Regulated land in Sofia).

The Company has no liabilities to be reported for the period.

The capital of the Company is in the amount of BGN 17.471 thousand, of which equity BGN 17.554 thousand and accumulated losses BGN 83 thousand.

As of 31.12.2023, revenues are not reported for the period.

Management structure of D Invest Park EOOD.:



There were no changes in the structure in the first quarter of 2024.

8. Ivanchov stan EOOD

The subject of the company's activity: management of real estate, mediation in transactions with them and any other activity not prohibited by law.

As of 31.12.2023, the Company's assets are worth BGN 17,645 thousand. They are mainly material stocks – real estate /apartments, underground stations, outdoor parking spaces/ in the resort of St. St. Constantine and Elena in the town of Svetlana. Varna.

Liabilities of the company in the amount of BGN 649 thousand represent mainly a commercial loan from the sole owner of the capital D Imoti EOOD.

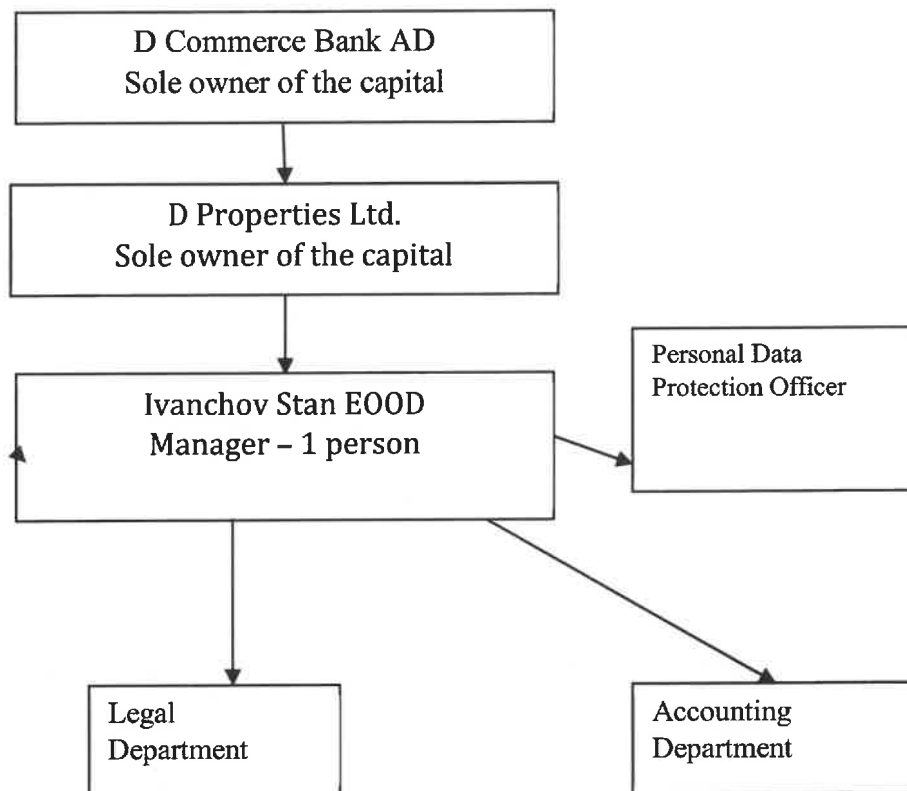
Equity capital of the Company in the amount of BGN 16,996 thousand, of which fixed capital is BGN 17 027 thousand, accumulated loss from previous years BGN 31 thousand.

In 2023, the company's revenues in the amount of BGN 261 thousand from the sale of real estate.

The realized financial result before taxes for 2022 is a loss of BGN 13 thousand.

In the reporting year 2023, the Company has no employees employed on an employment contract.

Management structure of Ivanchov Stan EOOD:



There were no changes in the structure in the first quarter of 2024.

V. Development plans

In accordance with Art. 39, item 4 of the Accountancy Act the Group presents its expected strategic development plans for 2024.

In 2024, the Group plans to focus its efforts on:


- Sustainable growth and development of the Group;
- 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.

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

On February 17, 2024, the bank notified the BNB that it is ready to start the supervisory dialogue process in connection with the capital plans and the planning of dividend distribution in the amount of BGN 12,000,000 from the accumulated reserves for 2023.

Date: 12 June 2024



Anna Asparuhova
Chief Executive Director
D COMMERCE BANK AD



Martin Ganchev
Executive Director
D COMMERCE BANK AD



CORPORATE GOVERNANCE STATEMENT

D Commerce Bank AD prioritizes the ability to maintain its resources and relationships with stakeholders in the long term, as well as to manage its dependencies and impacts within the business ecosystem in the short, medium and long term. Clear objectives, the evaluation and follow-up of processes, as well as the dialogue with stakeholders are invariably linked.

D Commerce Bank AD is aware of the European trends in redirecting capital flows to more sustainable technologies and companies; Systematic integration of sustainability into risk management, as well as the promotion of transparency and long-term planning, are combined with the ambition of good economic results with a positive impact, investing in projects and organizations.

The Bank analyzes the environmental and social impacts of its activities and strives for efficiency in the use of natural resources, reduction of waste and pollution levels, mitigation of climate change, protection of biodiversity. Human and labour rights, as well as health and safety, are treated as issues of the highest priority.

The objectives for redirecting capital/investment flows towards more sustainable technologies and companies; Systematic integration of sustainability into risk management, as well as the promotion of transparency and long-term planning, are combined with the ambition of good economic results with a positive impact, investing in projects and organizations. Environmental and socially responsible action is an essential part of sustainable business growth.

I. Declaration under Regulation (EU) 2020/852 ('Taxonomy Regulation')

EU Taxonomy Regulation (EU) 2020/852 aims to steer bank financing towards sustainable activities by establishing a legal and technical framework to help achieve the objectives of the European Green Deal. The Regulation and the delegated acts set out the criteria by which economic activities can be classified as sustainable by financial and non-financial undertakings.

Under the Regulation, financial undertakings must disclose the proportion of exposures to eligible and Taxonomy-aligned economic activities to financial and non-financial corporations within the scope of the Non-Financial Reporting Directive (NFRD).

To be Taxonomy-compliant, an activity must make a substantial contribution to one of the six environmental objectives:

1. Climate change mitigation
2. Adaptation to climate change
3. Sustainable use and conservation of water and marine resources
4. Transition to a circular economy, including waste prevention and recycling
5. Pollution prevention and control
6. Protecting and restoring biodiversity and ecosystems

Non-financial undertakings within the scope of the Non-Financial Reporting Directive (NFRD) are expected to disclose publicly information about their activities, to the extent that they are eligible and compliant with the Taxonomy criteria, for the first time as early as early 2022.

In order to calculate the key indicators defined in Delegated Regulation (EU) 2021/2178, D Commercial Bank must use the public information disclosed by its counterparties within the scope of the Regulation. The main key indicator for us as a credit institution is the GreenAsset Ratio (GAR), which contains as a numerator the exposures to financial and non-financial corporations under the scope of the NFRD, as well as to households for the purpose of purchasing property or a car, as well as those secured by real estate, financing taxonomy-aligned economic activities. The denominator covers the Bank's balance sheet assets, excluding exposure to government entities and central banks, and the value of the trading portfolio.

At the date of publication of this non-financial statement, funded companies that are subject to NFRD disclosure obligations publish very limited information on their revenue, capital and operating expenditure activities eligible and Taxonomy-compliant.

The Bank's green asset ratio for 2023 is 1%. The reported percentage of eligible assets under the Taxonomy is due to exposures to individuals for mortgage loans, which represent 14% (BGN 176,704 thousand) of the covered assets and exposure to credit institutions. Exposure to credit institutions represents a significant part of the Bank's portfolio. Some of those counterparties reported a green asset ratio (GAR) that was attached to the Bank's exposure to the relevant institutions. The taxonomy-aligned assets of these exposures represent 0.17% (BGN 2,114 thousand) of the covered assets.

Commerce Bank D for the most part finances small and medium-sized enterprises and a proportionally small part of large enterprises. With the entry of the Corporate Sustainability Reporting Directive (CSRD) into Bulgarian legislation in mid-2024 and the gradual expansion of the scope of obligated non-financial corporations, it is expected that both the covered assets and the ratio of green assets (GAR) of the Bank will increase.

Voluntarily reported indicators

In addition, the Bank carried out an additional analysis of the activity and use of funds from its portfolio to corporate clients. Potentially eligible economic activities under the Taxonomy represent 16% (BGN 199,388 thousand) of the total value of the covered assets, which are loans and advances to small and medium-sized enterprises not subject to the reporting obligation under

the NFRD, as well as large enterprises that are subject to the reporting obligation under the NFRD but have not disclosed the necessary information.

Taking into account the voluntarily reported percentage of Taxonomy-eligible assets, the total indicator increases to 31% of the total value of the assets covered, or BGN 376 092 thousand.

As part of this analysis, D Commercial Bank also reviewed its exposures to activities such as installation of photovoltaic systems and production of energy from photovoltaic panels. These activities contribute to the achievement of Taxonomy Mitigation Objective One and the technical criteria described in the Regulation are easy to meet.

Therefore, in the voluntary part of our reporting, we assume that they could be aligned and considered Taxonomy-aligned. This leads to an increase in our GAR of 0.17%, disclosed in Annex 0. Summary of the Key Performance Indicators (KPIs) that credit institutions are required to disclose pursuant to Article 8 of the Taxonomy Regulation' to 0,97% disclosed in 'Table 1. Voluntarily reported indicators below.

Reporting on EU Taxonomy-aligned activities of subsidiaries

The information in this declaration presents the activities of the parent company (Commercial Bank AD) of D Commercial Bank Group (the group).

Data on the subsidiaries of the Group – "D Insurance Broker" EOOD, "D Leasing" EAD, "D Imoti" EOOD, "D Park" EOOD – will be reported in accordance with the requirements of Art. 8 of Regulation (EU) 2020/852 on the Taxonomy from the moment of occurrence of the obligation to report sustainability information, pursuant to Directive (EU) 2022/2464 as regards undertakings' sustainability reporting. The latter is expected to be transposed into the Bulgarian Accounting Act in mid-2024 and to be applied to the Group for the reporting year 2025 at the earliest.

After the obligation has arisen, the Group will report information on the eligibility and compliance of the activities of its subsidiaries on a sub-consolidated basis and in accordance with the relevant reporting requirements for financial and non-financial undertakings of Commission Delegated Regulation (EU) 2021/2178.

Table 1. Voluntarily reported indicators

	As % of assets covered	As % of total assets	Gross book value (thousand BGN)
Exposure to Taxonomy-eligible activities	31%	23%	376 092
-of which exposure to entities covered by NFRD disclosure obligations	6%	4%	71 233
- of which exposure to undertakings not covered by NFRD disclosure obligations	10%	8%	128 155
-of which exposure to households	14%	11%	176 704
Exposure to Taxonomy-aligned activities - Green Asset Ratio (GAR)	1,14%	0,84%	13 969
Assets covered (which are included in the GAR calculation)			1 224 888
All assets of the bank			1 660 030

0. Summary of the KPIs that credit institutions are required to disclose pursuant to Article 8 of the Taxonomy Regulation

	Total value of environmentally sustainable assets	KPIs**	% of coverage (of the total value of assets)*
Based on KPI Green Assets Ratio (GAR) - Amount at a given date (availability)	2 113 970	0,17%	74%

* Percentage percentage of assets covered by the KPI in total value of bank assets

** Based on the KPI for the counterparty's turnover

Note 1: In all reporting templates: cells with black colouring shall not be populated.

Note 2: The reporting of the KPIs for fees and commissions (Sheet 6) and the trading book (Sheet 7) only applies from 2026. Including SMEs in these KPIs is done only if the result of the evaluation of the impact is positive.



D COMMERCE BANK GROUP

1. Assets included in the GAR calculation

a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p		
																Disclosure reference date	
		Climate Change Mitigation (CEC)					Adaptation to climate change (ACC)					TOTAL (CIC+ACC)					
		of which for Taxonomy-relevant sectors (Taxonomy-eligible)					of which for Taxonomy-relevant sectors (Taxonomy-eligible)					of which for Taxonomy-relevant sectors (Taxonomy-eligible)					
		of which environmentally sustainable (Taxonomy-aligned)					of which environmentally sustainable (Taxonomy-aligned)					of which environmentally sustainable (Taxonomy-aligned)					
		incl. specialized lending		of which transitional		incl. specialized lending		of which transitional		incl. specialized lending		of which transitional		incl. specialized lending		of which auxiliary	
Thousand BGN	Common Gross carrying amount																
1	GAR - Assets covered, included in both the numerator and the denominator																
2	Loans and advances, debt securities and equity instruments that are not held for trading and eligible for inclusion in the GAR calculation																
3	Financial corporations																
		62 072															



D COMMERCE BANK GROUP

4	Credit institutions	32 175																
5	Loans and advances	32 175	31 742	4 218				31 742	0,22		31 742	4 218						
6	Debt securities, including those with some use of the proceeds	-																
7	Capital instrument	-																
8	Other financial corporations	29 897																
9	of which investment intermediaries	-																
10	Loans and advances																	
11	Debt securities, including those with some use of the proceeds																	
12	Capital instrument																	
13	of which management companies	-																
14	Loans and advances																	
15	Debt securities, including those with some use of proceeds	-																

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D COMMERCE BANK GROUP

16	Capital instrument	-																																																
17	of which insurance undertakings	-																																																
18	Loans and advances																																																	
19	Дългови ценни книжа, в т.ч. с известно използване на постъпленията	-																																																
20	Capital instrument	-																																																
21	Non-Financial Corporations (NFCs)	633 499																																																
22	NFCs that are subject to NFRD disclosure obligations	65 468																																																
23	Loans and advances	55 783																																																
24	Debt securities, including those with some use of proceeds	9 685																																																
25	Capital instrument	-																																																
26	Households	223 420																																																



D COMMERCE BANK GROUP

27	of which loans secured by residential real estate	176 704	176 704																176 704
28	of which loans for renovation of buildings	-																	
29	of which motor vehicle loans	-																	
30	Financing of local governments	170 561																	
31	Collateral acquired by taking possession: residential and commercial real estate	-																	
32	Other funding of local government bodies	182 052																	
33	Other assets excluded from the numerator in the calculation of the GAR (covered in the denominator)	791 492																	
34	Non-Financial Corporations (NFCs)	633 499																	



35	SMEs and NFCs (other than SMEs) not covered by the Disclosure obligations under the NFRD	540 676
36	Loans and advances	243 264
37	of which: loans secured by commercial real estate	243 264
38	of which loans for renovation of buildings	-
39	Debt securities	9 685
40	Equity instruments	-
41	Third-country counterparties not covered by non-NFRD disclosure obligations	-
42	Capital instrument	-
43	Debt securities	-
44	Capital instrument	-

45	Derivatives	-																												
46	Interbank loans on demand	7 031																												
47	Cash and cash-related assets	27 081																												
48	Other assets (e.g. goodwill, goods, etc.)	123 880																												
49	Total value of assets in GAR	1 224 888																												
50	Other assets not included in the calculation of the GAR	276 898																												
51	Government entities	-																												
52	Central bank exposures	276 898																												
53	Trading Portfolio	-																												
54	Total Asset Value	1 660 030																												
Off-balance sheet exposures - entities not covered by NFRD disclosure obligations																														
55	Financial guarantees	892																												
56	Assets under management	-																												



D COMMERCE BANK GROUP

57	of which debt securities	-																	
58	of which equity instruments	-																	

2. GAR - information by sector

In this template, credit institutions shall disclose information on exposures to sectors covered by the NACE Level Four Taxonomy in relation to the counterparty's main activity.

As of the date of disclosure, none of the counterparties of Commercial Bank D that is under the disclosure obligation under the NFRD provides the necessary information under the Taxonomy Regulation. The information presented in this table is the result of the analysis of the bank's portfolio, which also covers NFRD not subject to a non-reporting obligation under the NFRD and is based on assumptions.

a	b	Climate Change Mitigation (CIC)			Adaptation to climate change (ACC)			TOTAL (SIC+ACC)			
		c	e	f	h	i	k	L	n	o	q
Sectoral breakdown - the fourth level of NACE (code and label)	Non-financial corporations (covered by NFRD)	SMEs and other NFCs not covered by the NFRD	Non-financial corporations (covered by NFRD)	SMEs and other NFCs not covered by the NFRD	Non-financial corporations (covered by NFRD)	SMEs and other NFCs not covered by the NFRD	Non-financial corporations (covered by NFRD)	SMEs and other NFCs not covered by the NFRD			
	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN	Gross carrying amount thousand BGN
	of which: Environmentally sustainable (SIC)	of which: Environmentally sustainable (SIC)	of which: Environmentally sustainable (AIC)	of which: Environmentally sustainable (AIC)	of which: Environmentally sustainable (AIC)	of which: Environmentally sustainable (AIC)	of which: Environmentally sustainable (AIC)	of which: Environmentally sustainable (AIC)	of which: Environmentally sustainable (SIC+AIC)	of which: Environmentally sustainable (SIC+AIC)	of which: Environmentally sustainable (SIC+AIC)
1	Construction of residential and non-residential buildings	52 379			45 114		0	0	97 493		
2	Rental and operating of own or leased real estate	20 964					0	0	20 964		
3	Motion picture, video and television programme production activities				12 458		0	0	12 458		
4	Production of electricity	9 398	9 398				938	0	9 398	9 398	
5	Urban and suburban passenger land transport	8 813					0	0	8 813		
6	Development of building projects	7 658			7 658		0	0	15 316		

D COMMERCE BANK GROUP

7	Collection of non-hazardous waste							3 662																
8	Buying and selling of own real estate		301					3 112																3 662
9	Manufacture of other electronic and electric wires and cables							2 794																3 112
10	Hospital activities		22 879																					5 588
11	Construction of utility projects for electricity and telecommunications							769																0
12	Sea and coastal freight water transport							732																0
13	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials							707																769
14	Manufacture of electric lighting equipment							698																732
15	Construction of roads and motorways		684					684																707
16	Freight transport by road		1 004					350																684
17	Manufacture of builders' ware of plastic							201																350
18	Other building completion and finishing							171																201
19	Manufacture of other builders' carpentry and joinery							66																171
20	Other construction installation							54																66
21	Manufacture of metal structures and parts of structures							53																54
22	Manufacture of optical instruments and photographic equipment							39																106
23	Distribution of gaseous fuels through mains		33 856																					0
24	Manufacture of paper and paperboard		6 566																					0
25	Postal activities under universal service obligation		5 005																					0

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This is a translation from Bulgarian of the Consolidated Management Report and Corporate Governance report of D Commerce Bank Group for the year ended 31 December 2023.

3. KPI - GAR - amount as of a certain date (availability)

	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p				
	Climate Change Mitigation (SIC)						Adaptation to climate change (ACC)						TOTAL (SIC+ACC)						
	of which for Taxonomy-relevant sectors (Taxonomy-eligible)						of which for Taxonomy-relevant sectors (Taxonomy-eligible)						of which for Taxonomy-relevant sectors (Taxonomy-eligible)						
	of which environmentally sustainable (Taxonomy-aligned)						of which environmentally sustainable (Taxonomy-aligned)						of which environmentally sustainable (Taxonomy-aligned)						
	incl. specialized lending		of which transitional		of which auxiliary		incl. specialized lending		of which transitional		of which auxiliary		incl. specialized lending		of which transitional		of which auxiliary		
% (of the total value of the assets covered in the denominator)	17%	0,34%					0,00002%							17%	0,34%				
GAR - Assets covered, included in both the numerator and the denominator	17%	0,34%					0,00002%							17%	0,34%				17%
Loans and advances, debt securities and equity instruments that are not held for trading and eligible for	3%	0,34%					0,00002%							3%	0,34%				3%



D COMMERCE BANK GROUP

32	Other funding of local government bodies	0%	0,00%								0%							0%	
49	Total value of assets In GAR	51%	1,03%								51%							1,03%	51%

CORPORATE GOVERNANCE STATEMENT

The D Commercial Bank Group (the Group) consists of D Commercial Bank AD (parent company/bank) and its four subsidiaries – D Leasing EAD, D Insurance Broker EOOD, D Imoti EOOD, D Invest Park EOOD and Ivanchov Stan EOOD.

Composition and functioning of the Management Body of D Commercial Bank AD represented by the Supervisory Board and the Management Board and the committees to the Management Body.

The parent (the Bank)

D Commercial Bank AD has a two-tier form of management.

The General Meeting of Shareholders elects a Supervisory Board, which in turn elects the members of the Management Board, the Chief Executive Officer, the Executive Directors and the members of the Management Board.

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

The Management Body bears the ultimate and entire responsibility for the Bank and determines, exercises control and is responsible for the implementation of the organizational rules and the rules regulating internal management in the Bank, which guarantees its effective and reasonable management.

The Management Body bears the ultimate and entire responsibility for the Bank and determines, exercises control and is responsible for the implementation of the organizational rules and the rules regulating internal management in the Bank, which guarantees its effective and reasonable management.

The duties of the management body are clearly defined, distinguishing between the duties of the Management Board - the management (executive) function and the Supervisory Board - the control (non-executive, supervisory) function.

The responsibilities and duties of the Supervisory Board and the Management Board are detailed in the following documents.

- Articles of Association of D Commercial Bank AD
- Rules on the scope of powers and responsibilities of administrators and persons occupying key positions in the bank.
- Rules regulating the procedure for decision-making in D Commerce Bank AD
- Rules of Procedure of the Management Board of D D Commercial Bank, approved by the Supervisory Board of D D Commercial Bank
- Rules for the operation of the Supervisory Board as a Risk Committee
- Rules for the operation of the Supervisory Board as a Selection Committee
- Rules for the operation of the Supervisory Board as a Remuneration Committee

- Policy for selection and evaluation of the members of the Management Board and the Supervisory Board
- Remuneration policy
- Corporate governance policy in the D Commerce Bank Group
- Organizational rules of D Commerce Bank AD
- Articles of Association of D Leasing EAD
- Articles of Association of D Insurance Broker EOOD.
- Articles of Association of D Imoti EOOD
- Articles of Association of D Invest Park EOOD
- Articles of Association of Ivanchov Stan EOOD

All members of the management body are fully aware of the structure and responsibilities of the management body as well as the division of tasks between the different parts of the management body and its committees. In order to have appropriate checks and balances, decision-making should not be dominated by a single member or a small subset of members.

The control and management functions of the management body interact effectively with each other. The two functions provide each other with enough information to allow them to perform their respective roles.

The management body is responsible for defining, approving and supervising the implementation of:

- a. the overall business strategy and key policies of the institution in the applicable legal and regulatory framework, taking into account the long-term financial interests and solvency of the Bank;
- b. the overall risk strategy, including the institution's risk appetite and risk management framework and measures, to ensure that the management body devotes sufficient time to risk issues.
- c. adequate and effective internal governance and internal control framework, which includes a clear organisational structure and well-functioning independent internal risk, compliance and audit functions that have the necessary powers, status and resources to carry out their functions;
- d. the amount, type and allocation of internal and regulatory capital to adequately cover the Bank's risks;
- e. objectives for managing the Bank's liquidity;
- g. rules aimed at ensuring that individual and collective assessments of the suitability of the management body are carried out effectively, that the composition and succession planning of the management body are appropriate and that the management body performs its functions effectively;
- h. selection and suitability assessment procedure for key position holders;
- i. rules aimed at ensuring the internal functioning of each committee of the management body, when established, which provide detailed information on:
 - the role, composition and tasks of each of them;

- an appropriate information flow, including documentation on recommendations and conclusions, and reporting levels between each committee and the management body, competent authorities and other parties;
- j. a risk-taking culture that concerns the institution's risk awareness and risk-taking behaviour;
- k. corporate culture and values that promote responsible and ethical behaviour, including a code of conduct or similar instrument;
- l. policy on conflicts of interest at institutional level and for staff;
- m. rules aimed at ensuring the reliability of accounting and financial reporting systems, including ensuring financial and operational controls and compliance with legal requirements and relevant standards;
- n. processes, mechanisms and methodologies for credit risk management and culture; appetite for credit risk, strategy and credit risk limits; credit risk policies and procedures; policies and procedures for making credit decisions; credit risk management and internal control frameworks.
- o. a Non-performing exposures (NPEs) strategy, aimed at a time-bound reduction of NPEs, presenting the Bank's approach and objectives with regard to the effective management of NPEs in order to achieve maximum collection and minimise the number of NPEs;
- p. effective and efficient internal control processes for the NPE collection framework to ensure full alignment between the NPE strategy and the operational plan, on the one hand, and the Bank's overall business strategy and risk appetite, on the other;

The management body shall supervise the process of disclosure and communication with external stakeholders and competent authorities;

All members of the management body are informed of the overall business, financial and risk position of the institution, taking into account the economic environment, as well as of the decisions taken that have a significant impact on the institution's operations;

Chief Executive Officer - exercises control over the overall activity of the Bank and the activities of the other Executive Directors and members of the Management Board. Responsible for the implementation of the decisions taken by the Management Board and the National Assembly.

Executive Directors and Members of the Management Board - organize the work on the proper implementation of the adopted policy on risk management and compliance with the approved limits for

the activities for which they are directly responsible, control the work of the individual structural units in terms of risk analysis and assessment.

Committees of the Bank's Management Body

The bank has committees that support the activities of the Bank's Management Body.

Each committee performs its work on the basis of Rules of Procedure, which have been adopted by the Management Board and approved by the Supervisory Board.

Committees to the Supervisory Board

The Supervisory Board of the bank performs the functions of a **Risk Committee**, advising and giving instructions to the Management Board of the bank in relation to the overall current and future strategy regarding risk and risk appetite of the bank, and assisting in the control of its implementation by senior management staff. The Supervisory Board, as a Risk Committee, may use human and other resources that it deems necessary and appropriate for carrying out its activities, including external experts to receive advice. The Supervisory Board performs the functions of a Risk Committee in accordance with the requirements of the Credit Institutions Act and Ordinance 7 of the Bulgarian National Bank on the Organization and Management of Risks in Banks. In carrying out its functions as a Risk Committee, the Supervisory Board adheres to previously adopted rules for the operation of the Supervisory Board as a Risk Committee.

The Supervisory Board of the Bank performs the functions of a **Nomination Committee** and organizes and carries out its activities in accordance with the provisions of the Credit Institutions Act, Regulation (EU) No 575/2013 and Ordinance No 20 of the Bulgarian National Bank on the issuance of approvals for members of the Management Board (Board of Directors) and the Supervisory Board of a credit institution and requirements in connection with the performance of their functions, EBA's Guidelines for the Assessment of the Suitability of Members of the Management Body and Key Positions (EBA/GL/2021/06). In carrying out its functions as a Selection Committee, the Supervisory Committee adheres to previously adopted rules for the operation of the Supervisory Committee as a Selection Committee.

The Supervisory Board of the bank performs the functions of a **Remuneration Committee** in accordance with the requirements of the Credit Institutions Act and Ordinance 4 of the Bulgarian National Bank on the requirements for remuneration in banks. In carrying out its functions as a Remuneration Committee, the Supervisory Board adheres to previously adopted rules for the operation of the Supervisory Board as a Remuneration Committee.

Audit Committee – Functions in accordance with the provisions of the Independent Financial Audit Act. The Audit Committee monitors the financial reporting process, which ensures transparency, true and fair presentation of the Bank's financial statements. Monitors the effectiveness of the Bank's internal control, internal control system and risk management system. The Audit Committee checks and monitors the independence of the statutory auditors, monitors the process of statutory audit of the annual

and consolidated financial statements and the sustainability report of the Group, takes into account the audit reports and informs the Supervisory Board of D Bank AD about the results of the statutory audit.

Standing committees of the Management Board

Asset and Liabilities Management Committee - a liquidity management body competent to prepare action plans in cases of unforeseen cash outflows due to unexpected events or adverse circumstances, taking into account the possible impact of alternative scenarios in relation to the Bank or on the market as a whole, as well as a combination thereof; carries out ongoing control and analysis of the capital adequacy of the Bank and, if necessary, proposes to the Management Board a draft decision to change the structure of assets and liabilities and the opportunities for their diversification; review all policies, rules, procedures and limits relating to the management of all types of risk and propose them to the Governing Council for approval analyzes the current state of the assets and liabilities of D Commerce Bank AD, monitors the risks related to the management of the Bank's liquidity and the market of financial instruments and proposes specific measures in case of deviation from the adopted limits or in emergency situations.

Credit Committee - a permanent collective body, whose main activity is aimed at assessing the credit risk arising from specific credit transactions or the total credit exposure of a person or group of related parties and approving the parameters thereof within its competence, and with its proposals and decisions it assists in increasing the loan portfolio through effective selection of credit transactions. Analyzes the quality of the loan portfolio and the trends in its development.

Committee for Determination of Expected Credit Losses - a specialized advisory and control body to the Management Board of the Bank, whose main activity is aimed at minimizing the risk of losses of the Bank, through the system for monitoring, evaluation, classification and provisioning of risk exposures determination of expected credit losses in accordance with IFRS 9 and categorization of risk exposures in accordance with Regulation (EU) No. 575/2013 general goals and objectives of the Bank, assisting the Management Board with its proposals and decisions for the effective management of credit risk.

Risk Events Assessment Committee - a specialized internal body of the management of D Commercial Bank AD in the field of operational risk management and control; makes decisions for the final registration of operational events, evaluates any losses that may have occurred, analyzes the data registered in the accounting registers.

Complaints, signals and objections Review Committee - a permanent internal banking body, which is responsible for the consideration of complaints, signals and objections submitted to D Commerce Bank, discussing, analyzing and taking decisions on the cases brought before it.

Personal Data Protection Officer - has a duty to monitor compliance with the General Data Protection Regulation and to inform and advise employees of their legal obligations in relation to the processing of personal data. It also provides advice and monitors the data protection impact assessment process in accordance with the principles laid down in the Regulation. Acts as a point of contact and cooperates

with the supervisory authority – Commission for Personal Data Protection, taking due account of the risks related to personal data processing operations and taking into account the nature, scope, context and purposes of the processing.

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

Diversity policy applied to administrative, management and supervisory bodies

The policy for ensuring diversity in the selection of the members of the Management Board of D Bank AD describes the legal requirements for the members of the Management Board, incl. the Executive Members of the Management Board of the Bank, the requirements aimed at ensuring diversity in the selection of the members of the Management Board of the bank are presented, the criteria that must be met and the qualities that the members of the management body of the bank must possess are also described in detail.

Remuneration management

The Bank has a Remuneration Policy, adopted by the Supervisory Board, on the proposal of the Management Board of D Commercial Bank. The policy introduces the principles for the formation of remuneration in the Bank, which must correspond to the scale of the activity, the business strategy, the implementation of the objectives and the achieved medium-term financial results, values, accepted ethical standards and the long-term interests of the shareholders, promoting reliable and effective risk management, not stimulating excessive risk-taking and concentrations.

Remuneration management shall ensure equal opportunities for all staff, regardless of their gender, in terms of their professional development and monitor the evolution of the gender pay gap separately for the identified staff and for the members of the Management Body.

Key Features of the Entity's Internal Control and Risk Management Systems in Relation to the Financial Reporting Process

The internal control system of financial reporting and reporting of D Commerce Bank AD has been developed as a result of studies of good reporting and control practices in Bulgaria and of large international groups, as well as in compliance with national legal requirements, incl. for companies and groups listed on regulated markets. It is in a constant process of monitoring by the management and of further development and improvement.

The Bank's internal control system of financial reporting and reporting is a complex of behavioral and technical principles, rules, means, procedures and control actions, which are specially developed and adapted to the specifics of the Bank, its activities and reporting system. It is aimed at:

- Ensuring ongoing monitoring and directing of reporting activities according to their goals and the expectations of its different users, and achieving the necessary effectiveness and efficiency, incl. in the use of borrowed resources; and

- Ensuring adequate and timely addressing of identified business risks that have an impact on financial, management and operational reporting.

In particular, it is designed in such a way as to create comfort for the management that:

- the bank complies with the applicable legal requirements in the field of accounting, reporting and other directly related areas, especially the requirements of the Accountancy Act and the International Financial Reporting Standards;
- the bank complies with the applicable legal requirements in the field of accounting, reporting and other directly related areas, especially the requirements of the Accountancy Act and the International Financial Reporting Standards;
- The bank complies with the instructions and guidelines of senior management regarding reporting and documentation;
- The bank complies with the instructions and guidelines of senior management regarding reporting and documentation;
- There is a high degree of security for the protection and maintenance of the bank's assets, incl. and prevention of fraud and errors; and
- There is a provision of reliable, quality and timely financial and operational information for internal and external users.

The main components of the internal control system regarding financial reporting and reporting include:

- Adoption and compliance with the ethical principles and rules of conduct adopted by the Code of Ethics of D Commercial Bank AD with regard to financial reporting and reporting and all related processes, procedures and actions of the entire staff of the bank;
- Development and definition of an optimal structure of units involved in the processes related to financial reporting, with clearly defined responsibilities and delegations, powers and obligations, incl. through developed written internal documents;
- Development of policies for the selection, training and development of personnel involved in the processes of accounting and financial reporting;
- Development, implementation and maintenance of control procedures and rules for each stage of the processes related to accounting, financial reporting and reporting, with priority gradual introduction of formalized written procedures; and
- Development of procedures for identification, monitoring and management of risks related to accounting, financial reporting and reporting, incl. the development of adequate measures and actions to minimize them;
- Development and maintenance of an adequate organization of the information system, incl. controls for access, input, processing and retrieval of data, changes in the system, distribution of responsibilities of its employees, as well as storage and preservation of the integrity and authenticity of data in the system.

Control environment

The Bank develops and improves a reliable and comprehensive internal control framework, which includes control functions with the necessary powers and access for independent performance of obligations by the structural and auxiliary units that monitor and control. All processes in the bank, including risk management processes, are structured according to the "three lines of defense", which include business units, risk management and compliance functions, as well as internal audit. The control functions are independent of the operational units that monitor and control, as well as are organizationally independent of each other, as they perform different functions. The internal control framework is in accordance with the applicable requirements in this area, incl. Ordinance No. 10 of the BNB on the organization, management and internal control of banks and the EBA Guidelines on internal governance according to (EBA/GL/2021/05). D Commerce Bank AD has a Conflict-of-Interest Disclosure Policy and a process has been established for the timely identification, management, prevention or mitigation of existing and potential conflicts of interest.

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

The management at the different levels of D Bank AD has introduced and constantly monitors the observance of ethical values such as integrity, independence and objectivity as foundations of the professional behavior of all persons involved in the processes related to accounting and financial reporting in the bank. They are the framework against which the control environment is built and which have influenced the effectiveness of the design of the model, administration and ongoing monitoring of the other components of internal control in the field of accounting and financial reporting. Integrity and ethical conduct are a product of the bank's established common ethical and behavioral standards.

They are clearly communicated with all financial, accounting and control personnel, and they are constantly established in practice.

The ethical principles that guide professional conduct and which should be observed by all persons involved directly or indirectly in the accounting activities and processes of and related to financial reporting are: objectivity; Impartiality; independence; conservatism; transparency; methodological justification; consistency and use of independent experts. These principles apply at all stages of financial reporting when: choice of accounting policy; accounting closing; the preparation and application of estimates and the preparation of public and management financial statements, other public reports and documents containing financial information.

The Code of Ethics regulates and refers to the professional conduct of employees, the relationships between employees and customers of the Bank, the relationships between individual employees, the protection of the interests of the Bank, the prevention of conflicts of interest, as well as the ways to resolve them, if they arise. The Code of Ethics aims to:

- to determine the ethical standards of the professional activity of employees;
- to propose norms of behavior that will help employees manage their actions in areas where conflicts between morality, tasks and individual culture of employees may arise.
- to create unity by overcoming conflicts and disputes;

- to create a good atmosphere between all employees, helping to share experience and build and develop professionalism.

By observing the rules of conduct laid down in this Code and adopted by all employees, the aim is to build and strengthen the positive image of the bank. The rules of conduct contained in this Code are an integral part of the daily activities of the bank's employees, and compliance with the ethical rules of conduct is a guarantee for the legality of the employees' actions and protection from unfounded accusations by the bank's customers. The activities of the employees are carried out in compliance with the principles of legality, loyalty, honesty, impartiality, responsibility and accountability. When selecting candidates for employment in the bank, the presence of qualities that meet the requirements for professional ethics is taken into account. Each person who enters the bank is obliged to perform as well as possible the assigned official tasks.

Bodies responsible for the control functions over the financial reporting process

Parent-company (The Bank)

The authorities, which have certain responsibilities and powers regarding the financial reporting process and respectively, of other related processes are: the Management Body of the Bank represented by the Supervisory Board and the Management Board, the Chief Economist - Director of the Planning, Control, Financial Reporting and Main Accounting Directorate, and the Head of the Internal Audit Service. Their functions and responsibilities can be summarized as follows:

- **The Management Body of the Bank**, represented by the Supervisory Board and the Management Board, adopts and confirms: the accounting policy and the changes thereto for each reporting period, the developed accounting estimates as of the date of each reporting period, incl. the methodology applied; financial statements and reports, and other public documents containing financial information; the functions, organization and responsibilities of all structural units and their managers involved in the processes of financial reporting; the development, implementation and ongoing monitoring of the functioning of the individual components of the internal control system; receives timely information from the activities of the Internal Audit Service;
- **Chief Economist, Director of Planning, Control, Financial Reporting and General Accounting Directorate**
 - ✓ Organizes and manages the accounting activities of the bank – controls and methodologically manages the current accounting, is responsible for the development and implementation of accounting methodologies and techniques; is responsible for the accounting closing process and the preparation of all accounting estimates, proposes and develops accounting policies and changes in them, monitors current changes in IFRS.
 - ✓ carries out the overall organization, methodological support and implementation of the process related to the preparation of the individual and consolidated financial statements of the bank, incl. the current control, instruction, monitoring and analysis of the financial

statements for the purposes of consolidation of the companies of the D Commerce Bank group communicates with regulatory authorities, prepares analyses, forecasts and management reporting information, contacts internal and external expert bodies, consulting and audit companies.

- **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 Invest 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.

Ivanchov stan 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.

Of great importance are also personal qualities that meet the requirements of the Bank's Code of Ethics, which defines the ethical standards of professional behavior of employees, norms of behavior that will help them manage their actions in areas where conflicts between morality, tasks and individual culture of employees may arise, creating a good atmosphere between all employees, helping to share experience and build and develop professionalism.

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.

The strategy for training and improving the qualification of employees is an integral part of the bank's business strategy and is aimed at increasing the quality and efficiency of work. The process of exchange of good practices in the professional field - within the Bank and through a network of professional contacts with external training institutions is a major tool in the Bank's Human Resources Management and Development Policy.

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.
- DWH Support Team – A structure aimed at providing support for the Bank's DWH data warehouse

Chief Economist, Director Planning, control, financial reporting and accounting

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.

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 external 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.

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.

D COMMERCE BANK GROUP

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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 Director
D COMMERCE BANK AD

Date: 12 June 2024



Martin Ganchev
Executive Director
D COMMERCE BANK AD



The logo for D Commerce Bank AD, Sofia. It features a blue square with a white stylized 'D' and a white crescent moon above it. To the right of the 'D' is the word 'Bank' in a bold, sans-serif font, with 'Commerce' in a smaller font above it. Below the square is the text 'D COMMERCE BANK AD' and 'SOFIA'.