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## **INDEPENDENT AUDITORS' REPORT**

### **To the shareholders of D Commerce Bank AD**

#### **Report on the Audit of the Consolidated Financial statements**

##### **Opinion**

We have audited the consolidated financial statements of D Commerce Bank AD (the "Bank") and its subsidiaries (collectively the "Commercial Bank D Group" or the "Group"), containing the consolidated statement of financial position as of December 31, 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the explanatory notes to the consolidated financial statements containing material information about the accounting policy and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2023 and of its financial results from operations and cash flows for the year in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

##### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the section of our report entitled "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements".

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including the International Standards of Independence) of the International Ethics Standards Board for Accountants (IEAS Code), together with the ethical requirements of the Independent Financial Audit Act (IFAA), applicable in relation to our audit of the consolidated financial

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

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of greatest significance in the audit of the financial statements for the current period. These matters were considered as part of our audit of the consolidated financial statements as a whole and the formation of our opinion thereon, and we do not provide a separate opinion on these matters.

We have identified the matter described below as a key audit matter.

<i>Key audit matter</i>	<i>How this key audit matter was addressed in our audit</i>
<p><b>Impairment for expected credit losses on loans and advances to customers</b></p> <p>As of December 31, 2023, the consolidated financial statement includes:</p> <ul style="list-style-type: none"> <li>Gross value of loans granted and advances to customers including finance lease receivables in the amount of BGN 1,048,899 thousand (December 31, 2022: BGN 931,062 thousand) and impairment loss for expected credit losses ("ECL") in the amount of BGN 22,754 thousand (December 31, 2022: impairment loss for ECL: BGN 21,464 thousand), as presented in Note 14 to the consolidated financial statement;</li> <li>Net impairment loss on loans and advances to customers, recognized in the consolidated statement of profit or loss and other comprehensive income in the amount of BGN 1,511 thousand (2022: BGN 43 thousand), as presented in Note 7 to the consolidated financial statements report;</li> </ul> <p>Disclosures are included in the following notes to the consolidated financial statements:</p> <ul style="list-style-type: none"> <li>2.11.1.7 "Impairment of financial assets"</li> <li>2.24.1.2 "Determination of expected credit losses by type of financial assets"</li> <li>3.1 "Credit Risk"</li> <li>14 „Loans and advances to customers”</li> <li>7 "Net gain or loss from impairment of financial assets"</li> </ul> <p>Loans and advances to customers represent a significant part (62%) of the Group's total assets as of December 31, 2023.</p> <p>As described in Note 3.1, the Group applies an impairment model based on expected credit losses (ECL) of loans and advances to customers on an individual and collective (portfolio) basis, in accordance with IFRS 9 "Financial Instruments".</p>	<p>In this area, our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>Inquiries, walk-throughs and obtaining an updated understanding of the process for monitoring and determining the impairment for credit losses on loans and advances to customers at the Bank.</li> </ul>

Determining the impairment for credit losses on loans and advances to customers through the application of the ECL impairment model is related to the use of complex assumptions, calculations and judgments by the Group's management regarding the classification of loans and receivables with credit losses, and in determining the amount of expected credit losses. The key assumptions, judgments and parameters in determining the ECL are related to the development of quantitative and qualitative indicators for:

- monitoring and identifying a significant deterioration in the credit quality of the exposures, the presence of low and/or significantly increased credit risk and, respectively, exposures with objective evidence of impairment - for the distribution of individual credit exposures by phases (Phase 1: Exposures without significant increase in credit risk; Phase 2: Exposures with a significant increase in credit risk but without available objective evidence of impairment and Phase 3: Exposures with objective evidence of impairment);
  - determining the underlying assumptions for "probability of default" (PD), loss given default (LGD) and "exposure given default" (EAD). A higher degree of approximation, judgment and estimation uncertainty is inherent in the calculations of expected credit losses on loans and advances on a collective (portfolio) basis in Phase 1 and Phase 2, which is dependent on the extent to which the Group has adequate and sufficient supporting historical information to test the assumptions used and calibrate the accuracy of the "probability of default" (PD) and loss given default" (LGD) estimates in the impairment model;
  - including information on the future development of macro-economic factors in the determination of the approximate estimates of ECL;
  - the assumptions and judgments applied by management in the review of individually significant credit impaired exposures in Phase 3, mostly related to the set of probable scenarios of the amounts and timing of future cash flows and final results, as well as for future collateral collectability.
- Review of documents and the methodology applied by the Group, the internal policy and procedures, and the impairment model used, as well as of the changes made in the current year related to them. Inquiries to the Group's experts responsible for credit risk modelling and management of credit risk.
  - Review and assessment of internal procedures and key process-level controls for application of the impairment policy and model, including documentation of the model, as well as for monitoring, frequency and accuracy of updating, and for the reasonableness of applied parameters and macro indicators.
  - Obtaining an updated understanding, assessing the design and application, and, accordingly, testing the operating effectiveness of certain key controls relevant to the audit, the monitoring process, staging, and determination of the amount of impairment for credit losses on loans and advances to customers. We involved our information technology (IT) experts in testing and evaluating the general IT controls of the Bank's internal information system used in the process of monitoring loans and advances to customers and determining expected credit losses.
  - Assessing the consistency in the application and the appropriateness of the methodology, the specific models for identifying credit losses and calculating the impairment, incl. of the key assumptions and judgments used therein, in accordance with the requirements of IFRS 9 and in the context of the specifics of the individual loan sub-portfolios of the Group. A reasonableness analysis and assessment were carried out of the following:
    - the relevance of the criteria for establishing a significant increase in credit risk;
    - the appropriateness of the allocation of exposures by stages according to the classification criteria defined by the Group;
    - the calculations of PD "probability of default" and LGD "loss given default" indicators by checking the assumptions used in the expected credit losses model;- the approach of incorporating predictive information into models.

Due to the significance of the above-mentioned circumstances: a) the materiality of the loans and advances to customers as a reporting object for the consolidated financial statements of the Group, as well as b) the complexity of the process, multiple significant judgments and assumptions, and the high degree of inherent uncertainty in the estimates of expected credit losses embedded in the impairment model of loans and advances to customers on an individual and collective (portfolio) basis, in accordance with the requirements of IFRS 9, we have identified this matter as a key audit matter.

When performing these procedures, we included specialists for credit risk assessment.

- Independent recalculation, including checking the mathematical accuracy and logic of certain parameters used in the impairment calculation for individual sub-portfolios, as well as performing procedures, on a sample basis, on the relevant input data
- Tracking the calculation of expected credit losses by the Group for the purpose of accrual of impairment for credit losses as of December 31, 2023, including data input, data processing and calculation. An independent recalculation of the expected credit losses of the loans was made and the results were traced back to the calculation performed by the Group.
- Performing detailed tests, on risk-based samples, of loans to corporates and individuals in all stages, to assess the adequacy and accuracy of the calculated impairment for credit losses. For the relevant exposures in the sample, the following audit procedures were performed:
  - analysis of the financial position and results of borrowers, and review of information and documents related to loan servicing;
  - review of collateral valuation reports for the relevant exposures, as for certain collaterals we used valuation experts to advise on the applied assumptions and methods in the valuations of the realizable value of the collaterals;
  - analysis and assessment of the main assumptions and judgments made by the Group's management in the calculation of credit losses on individual exposures in Stage 3;
  - test recalculations of certain parameters in the model and of the amount of expected credit losses at a collective level of the Stage 1 loans and Stage 2 loans in the sample.
- Perform analytical procedures based on detailed data to assess the interrelationships of trends in the impairment loss expense compared to the trends in the development of the Group's loan portfolio.
- Assessment of the adequacy, completeness and relevance of the Group's disclosures related to the impairment for credit losses on loans and advances to customers.



**Other information other than the consolidated financial statements and the auditor's report thereon**

Management is responsible for the other information. The other information consists of an activity report, including information about the Group's activities, including a corporate governance statement, prepared by management in accordance with Chapter Seven of the Accounting Act and other applicable legal requirements, but does not include the consolidated financial statements and our audit report on it.

Our opinion on the consolidated financial statements does not extend to the other information and we do not express any form of assurance opinion about it, unless and to the extent expressly stated in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and thereby evaluate whether that other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to contain material misstatement.

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with IFRS as applicable in the EU and for such system of internal control as management determines is necessary to ensure the preparation of financial statements that are free from material misstatement, whether or not are due to fraud or error.

In preparing the consolidated financial statements, management is responsible for evaluating the Group's ability to continue as a going concern, disclosing, where applicable, matters related to the going concern assumption and using the going concern basis of accounting, unless management does not intend to liquidate the Group or cease its operations, or if management has no practical alternative but to do so.

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

**Auditors' Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our auditor's opinion. A reasonable degree of assurance is a high degree of

assurance, but it is not a guarantee that an audit performed in accordance with ISAs will always detect a material misstatement where it exists. Misstatements may arise as a result of fraud or error and are considered material if they could reasonably be expected, alone or in aggregate, to influence the economic decisions of consumers made on the basis of that individual financial report.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement that results from fraud is greater than the risk of not detecting a material misstatement that results from error because fraud may involve collusion, forgery, intentional omissions, statements to mislead the auditor, as well as ignoring or override of internal control.
- obtain an understanding of internal control relevant to the audit in order to develop audit procedures that are appropriate in the particular circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- reach a conclusion about the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that could cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the disclosures in the consolidated financial statements related to that uncertainty or, if those disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease functioning as a going concern.
- evaluate the overall presentation, structure, and content of the consolidated financial statements, including disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that achieves fair presentation.

obtain sufficient and appropriate audit evidence about the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements.

- we are responsible for instructing, supervising, and performing the audit of the Group. We bear the sole responsibility for our audit opinion.

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

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

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

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

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Additional reporting matters under the Accounting Act**

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

### **Opinion in connection with Art. 37, para. 6 of the Accounting Act**

Based on the procedures performed, our opinion is that:

- The information included in the activity report for the financial year for which the consolidated financial statement is prepared corresponds to the consolidated financial statement.
- The activity report is prepared in accordance with the requirements of Chapter Seven of the Accounting Act.
- The corporate governance statement referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven

of the Accountancy Act and Art. 100(m), paragraph 8, where applicable, of the Public Offering of Securities Act.

**Reporting according to Art. 10 of Regulation (EU) No. 537/2014 in connection with the requirements of Art. 59 of the Law on the Independent Financial Audit**

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

- Baker Tilly Klitou and Partners EOOD and RSM BG OOD were appointed as statutory auditors of the Bank's consolidated financial statements for the year ended on December 31, 2023, by the General Shareholders' Meeting held on September 19, 2023, for a period of one year.
- The audit of the Bank's consolidated financial statements for the year ending on December 31, 2023 represents the seventh full uninterrupted statutory audit engagement carried out by Baker Tilly Klitou and Partners EOOD and the second full uninterrupted statutory audit engagement carried out by RSM BG OOD.
- We hereby confirm that the auditor's opinion expressed by us is consistent with the additional report, provided to the Audit Committee of the Bank, in compliance with the requirements of Art. 60 of the Law on the Independent Financial Audit.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Bank and its subsidiaries.

**For**

Baker Tilly Klitou and Partners EOOD



Galina Lokmadjieva

Registered auditor, responsible for the audit

12 June 2024

Sofia



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**For**

RSM BG OOD



Mariana Mihaylova, PhD

Registered auditor, responsible for the audit

12 June 2024

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