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D COMMERCE BANK GROUP
CONSOLIDATED OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2023

	Notes	2023 BGN'000	2022 BGN'000
Interest income		66,932	37,077
Interest expense		(3,262)	(2,326)
Net interest income	4	63,670	34,751
Fee and commission income		12,600	12,882
Fee and commission expense		(2,183)	(1,960)
Net fee and commission income	5	10,417	10,922
Net trading income	6	2,776	4,637
Net loss on impairment of financial assets	7	(1,511)	(43)
Operating income		75,352	50,267
Operating income, net	8	3,144	5,752
Administrative operating expenses			
Personnel expenses	9	(18,593)	(15,233)
Depreciation and amortization	9,17,18,19	(3,968)	(3,842)
Other administrative operating expenses	9	(12,940)	(12,146)
		(35,501)	(31,221)
Profit before income tax		42,995	24,798
Income tax expense	10	(4,321)	(2,490)
Net profit for the year		38,674	22,308
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit pension plans	28	5	(9)
		5	(9)
<i>Items that may be classified to profit or loss:</i>			
Net (loss)/gain on debt securities at fair value through other comprehensive income		3,585	(11,546)
		3,585	(11,546)
Other comprehensive income for the year, net of tax	11	3,590	(11,555)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		42,264	10,753

The appendices on pages 5 to 114 are an integral part of the consolidated financial statements.

These consolidated financial statements on pages 1 to 114 were approved for issue by the Management Board of the Bank and signed on 12 June 2024.

 Anna Asparuhova
Chief Executive Director

 Martin Ganchev
Executive Director

 Milena Duneva
Preparer

BAKER TILLY KLITOU AND PARTNERS EOOD

RSM BG ODD

 Galina Lokmadjieva
Registered auditor,
Responsible for the audit and
Authorized representative

 Mariana Mihaylova
Registered auditor,
Responsible for the audit and
Authorized representative

This is a translation from Bulgarian of the Consolidated Financial Statements of D Commerce Bank Group for the year ended 31 December 2023.

D COMMERCE BANK GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2023

	Notes	2023 BGN'000	2022 BGN'000
ASSETS			
Cash and balances with the Central Bank	12	303,979	368,221
Due from banks	13	39,201	43,921
Loans and advances from customers	14	1,026,145	909,598
Securities at fair value through other comprehensive income	15	68,476	84,161
Securities at amortized cost	16	123,476	76,722
Investment property	17	10,370	14,924
Property and equipment and right-of-use assets	18	45,349	45,844
Intangible assets	19	4,567	4,555
Assets held for sale	20	-	22
Current tax receivables	21	37	477
Deferred Tax Assets		329	-
Other assets	22	32,482	28,361
TOTAL ASSETS		1,654,411	1,576,806
LIABILITIES			
Due to banks	23	7,658	5,012
Due to customers	24	1,431,754	1,391,701
Current tax liabilities	25	1,446	338
Deferred tax liabilities	26	-	240
Other liabilities	27	9,665	10,891
TOTAL LIABILITIES		1,450,523	1,408,182
EQUITY			
Equity attributable to equity holders of the parent			
Share capital		90,064	90,064
Reserves		75,259	60,024
Retained earnings		38,565	18,536
TOTAL EQUITY		203,888	168,624
TOTAL EQUITY AND LIABILITIES		1,654,411	1,576,806

The appendices on pages 5 to 114 are an integral part of the consolidated financial statements.

These consolidated financial statements on pages 1 to 114 were approved for issue by the Management Board of the Bank and signed on 12 June 2024 by:

Anna Asparuhova
Chief Executive Director



Martin Garchev
Executive Director

Milena Duneva
Preparer

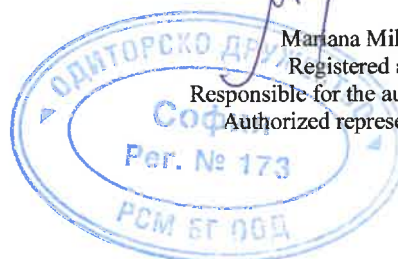
BAKER TILLY KLITOU AND PARTNERS EOOD

RSM BG ODD

Galina Lokmadzhieva,
Registered auditor,
Responsible for the audit and
Authorized representative



Mariana Mihaylova
Registered auditor,
Responsible for the audit and
Authorized representative



D COMMERCE BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2023

	Notes	2023 BGN'000	2022 BGN'000
Cash flows from operating activities			
Profit before tax		42,995	24,798
Net loss on impairment of financial assets	7	1,511	43
Net loss on impairment of non-financial assets	9	3,819	3,627
Depreciation of investment properties	9	149	215
Net interest income	4	(63,670)	(34,751)
Impairment of investment properties		59	17
Impairment of materials for resale		-	11
Dividend income		(21)	(10)
Income from sale of tangible assets, intangible assets and materials		(1,228)	(4,148)
Cash flows used in operating activities before changes in assets and liabilities from operating activities		(16,386)	(10,198)
<i>Changes in assets, used</i>			
Decrease in securities at fair value through other comprehensive income		12,807	9,614
Increase in loans and advances to customers		(99,980)	(122,405)
Decrease in assets held for sale		22	470
Increase in other assets		(6,454)	(17,640)
<i>Changes in operating liabilities</i>			
Increase in due from customers		37,905	171,694
Increase in other liabilities		1,269	3,418
Dividend received		21	10
Interest received		57,416	30,264
Interest paid		(1,089)	(1,495)
<i>Net cash flows used in operating activities before income tax</i>		(14,469)	63,732
Income tax paid		(4,756)	(2,490)
Net cash flows from operating activities		(19,225)	61,242
Cash flows from investing activities			
Purchases of property and equipment		(2,608)	(3,406)
Proceeds from sale of property and equipment		4,101	3,009
Purchases of investment property		-	(198)
Proceeds from sale of investment property		2,955	4,870
Purchases of intangible assets		(408)	(1,810)
Purchases of securities at amortized cost		(48,140)	(32,593)
Proceeds from securities at amortized cost upon maturity		5,050	22,712
Net cash flows from/ (used in) investing activities		(39,050)	(7,416)
Cash flows from financing activities			
Payments to banks		(2,160)	(2,467)
Payments for lease liabilities		(1,527)	(1,527)
Paid dividend		(7,000)	-
Net cash flows used in financing activities		(10,687)	(3,994)
Net increase/(decrease) in cash and cash equivalents		(68,962)	49,832
Cash and cash equivalents at the beginning of the year	29	412,142	362,310
Cash and cash equivalents at the end of the year	29	343,180	412,142

The appendices on pages 5 to 104 are an integral part of the consolidated financial statements.

These consolidated financial statements on pages 1 to 114 were approved for issue by the Management Board of the Bank and signed on 12 June 2024 by:

Anna Asparuhova
Chief Executive Director



Martin Ganchev
Executive Director

Milena Duneva
Preparer

BAKER TILLY KLITOU AND PARTNERS EOOD

RSM BG ODD

Galina Lokmadzhieva,
Registered auditor,
Responsible for the audit and
Authorized representative



Mariana Mihaylova
Registered auditor,
Responsible for the audit and
Authorized representative

This is a translation from Bulgarian of the Consolidated Financial Statements of D Commerce Bank Group for the year ended 31 December 2023.

D COMMERCE BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2023

Notes	Share capital		Statutory reserves		Reserve for financial assets at fair value through other comprehensive income		Attributable to equity holders of the parent		Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	
Balance as at 1 January 2022		90,064	51,853	910	15,044	157,871			
Changes in equity for 2022		-	18,807	-	(18,807)	-			
Distribution of profit for:		-	18,807	-	(18,807)	-			
*reserves		-	-	-	-	-			
Total comprehensive income for the year, including:		-	-	(11,546)	22,299	10,753			
**Net profit for the year		-	-	-	22,308	22,308			
*Other comprehensive income, net of taxes		-	-	(11,546)	(9)	(11,555)			
Balances as at 31 December 2022	28	90,064	70,660	(10,636)	18,536	168,624			
Changes in equity for 2023		-	-	-	-	-			
Distribution of profit for:		-	11,650	-	(18,650)	(7,000)			
*reserves		-	18,650	-	(18,650)	-			
**Paid dividend		-	(7,000)	-	-	(7,000)			
Total comprehensive income for the year, including:		-	-	3,585	38,679	42,264			
*Net profit for the year		-	-	-	38,674	38,674			
*Other comprehensive income, net of taxes		-	-	3,585	5	3,590			
Balances as at 31 December 2023	28	90,064	82,310	(7,051)	38,565	203,888			


The appendices on pages 5 to 14 of the consolidated financial statements.


These consolidated financial statements on pages 1 to 114 were approved for issue by the Management Board of the Bank and signed on 12 June 2024 by:


Anna Asparuhova
 Chief Executive Director

BAKER TILLY KLITOU AND PARTNERS PLOOD


София
 Рег. № 129
 БЕЛЖЪР ТИЛИ КЛИТУ И ПАРТНЪРИ ПЛОД


Galina Lokmadzhieva,
 Registered auditor,
 Responsible for the audit and
 Authorized representative


Milena Duneva
 Preparer

RSM BG ODD


София
 Рег. № 173
 РИМ БГ ООД


Mariana Mihaylova
 Registered auditor,
 Responsible for the audit and
 Authorized representative

1. CORPORATE INFORMATION ON THE GROUP

The D Commerce Bank Group (the Group) consists of D Commerce Bank AD (the Group/parent company) and its four subsidiaries – D Leasing EAD, D Insurance Broker EOOD, D Imoti EOOD and D Invest Park EOOD. The Group also includes Ivanchov Stan EOOD (100% owned by D Imoti EOOD), which is indirectly owned by the parent company.

1.1. General information***Parent company***

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

Subsidiaries***D Leasing EAD***

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

D Insurance Broker EOOD

D Insurance Broker EOOD is a sole owner limited liability company. Sole owner of the capital is D Commerce Bank AD. The circumstances related to the acquisition of 100% of Company's capital by the Bank were entered in the Commercial Register kept at the Registry Agency on 31 July 2013. Company's seat and registered office is: 8, Gen. Totleben Blvd., Krasno Selo Region, Sofia.

D Imoti EOOD

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

D Invest Park EOOD

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

Ivanchov stan EOOD

D Park EOOD is a sole owner limited liability company, entered in the Commercial Register kept at the Registry Agency on 09 December 2022. The sole owner of the capital is D Imoti EOOD, a subsidiary of D Commerce Bank AD.

1.2. Ownership and management*Parent company*

As at 31 December 2023, the capital of the Bank (parent company) is held by Mr. Fuat Guven, who holds directly 55.52% of the capital (31 December 2022: 55.52%), and the remaining 44.48% (31 December 2022: 44.48%) through Fortera AD, UIC 175194303. The Bank has a two-tier management system which implies a Management Board and a Supervisory Board.

As at 31 December 2023, the management of the parent company, being the Management Board (MB), is composed of 5 (five) members, namely: Anna Ivanova Asparuhova – Chairperson of the MB and Chief Executive Director; Martin Emilov Ganchev – Member of the MB and Executive Director; Plamen Ivanov Dermendzhiev – Member of the MB; Valentina Dimitrova Borisova – Member of the MB; Zahari Dimitrov Alipiev – Member of the MB.

As at 31 December 2023, those charged with the governance of the parent company represent the Supervisory Board (SB), which is composed of 3 (three) members, namely: Fuat Guven – Chairman of the SB, Valeri Borisov – Member of the SB, Bahattin Gurbuz – Member of the SB.

In accordance with the Credit Institutions Act the provisions of the Articles of Association of D Commerce Bank AD and its court registration, the Bank is represented jointly by all members of the MB, or jointly by two Executive Directors. The Executive Directors of the Bank as at 31 December 2023 are: Anna Ivanova Asparuhova – Chairperson of the MB and Chief Executive Director and Martin Emilov Ganchev – Member of the MB and Executive Director.

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

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

Subsidiaries

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

D Leasing EAD

The management of D Leasing EAD, i.e. the Board of Directors, as at 31 December 2023 is as follows: Ivaylo Georgiev Ivanov, Petya Radeva Valeva and Kostadin Bozhikov Munev. The company is represented jointly by any two of the three members of the Board of Directors.

D COMMERCE BANK GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

D Insurance Broker EOOD

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

D Imoti EOOD

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

D Park EOOD

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

Ivanchov stan EOOD

The company is managed and represented by the General Manager Fuat Guven.

As at 31 December 2023, the total staff number of the Group is 405 employees (31 December 2022: 397 employees).

1.3. Structure and principal activities of the Group

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

	Country	Interest as at 31 December 2023	Interest as at 31 December 2022
		%	%
D Park EOOD	Bulgaria	100%	100%
D Imoti EOOD	Bulgaria	100%	100%
D Leasing EAD	Bulgaria	100%	100%
D Insurance Broker EOOD	Bulgaria	100%	100%
Ivanchov stan EOOD – indirectly	Bulgaria	100%	100%-

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

	Date of acquisition of control
D Invest Park EOOD	15 November 2021
D Leasing EAD	29 July 2014
D Insurance Broker EOOD	9 July 2013
D Imoti EOOD	14 October 2013
Ivanchov Stan EOOD	9 December 2022

This is a translation from Bulgarian of the Consolidated Financial Statements of D Commerce Bank Group for the year ended 31 December 2023.

D COMMERCE BANK GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

1.3.2. Principal activities

Parent company

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

The Bank's main activities in 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.

As at 31 December 2023 the Bank has established 40 structural units, including Headquarters, 29 Financial Centres, 4 Offices and 6 remote workplaces in various cities in Bulgaria.

Subsidiaries

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

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

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

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

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

The principal activities of *Ivanchov stan EOOD* are management of real estate, mediation in transactions with them and any other activity not prohibited by law.

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

1.4. Group structure

As of 31.12.2023, the Group has opened 40 structural units, including head office, 29 financial centers, 4 offices and 6 outsourced workplaces located in separate cities of the country.

1.5. Legal environment

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

2. SUMMARY OF THE MATERIAL ACCOUNTING POLICIES OF THE GROUP***2.1. Basis for the preparation of the consolidated financial statements***

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

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

Since the adoption of these standards and/or interpretations practically applicable for annual reporting periods starting on January 1, 2023 at the earliest for enterprises in the Republic of Bulgaria, there have been no changes in the accounting policy of the group, respectively. assets, liabilities, operations and its results, except for certain new and the extension of disclosures already established, without resulting in any other changes in the classification or valuation of individual reporting items and transactions.

The Group has adopted the following new standards, amendments and interpretations to IFRS issued by the International Accounting Standards Board and approved by the EU, which are relevant and effective for the financial statements for the annual period beginning on 1 January 2023:

- Amendments to IAS 1 Presentation of Financial Statements and IFRS Appendix 2 Statements: Disclosure of Accounting Policies in Effect from 1 January 2023 Adopted by the EU
The bank discloses the material information related to the accounting policy instead of the main accounting policies. The amendments clarify that information about accounting policies is material if users of an entity's financial statements need it to understand other material information in the financial statements, and if an entity discloses immaterial information about accounting policies, that information should not override material information about accounting policies.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, effective 1 January 2023, adopted by the EU
The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 that help companies distinguish changes in accounting estimates from changes in accounting policies. The amendments will help companies improve the quality of

D COMMERCE BANK GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

accounting policy disclosures so that the information is more useful to investors and other primary users of financial statements.

- Amendments to IAS 12 Income Taxes: Deferred taxes related to assets and liabilities arising from single transactions effective January 1, 2023, adopted by the EU. The Group shall apply changes to the standard for transactions that occur on or after the start of the most recent comparative period presented. The Group should also recognise at the beginning of the comparative period deferred taxes for any temporary differences related to leases and decommissioning obligations and recognise the cumulative effect of the initial application of the amendments as an adjustment to the opening balance of retained earnings (or another component of equity, if applicable) on the relevant date.

The Group has adopted the following new IFRS standards, amendments and clarifications issued by the International Accounting Standards Board and approved by the EU, which are in force for the financial statements for the annual period beginning on January 1, 2023, but do not have a material impact on the financial results or financial position of the Company:

- IFRS 17 Insurance Contracts in force as of January 1, 2023, adopted by the EU;
- Amendments to IFRS 17 Insurance Contracts: Initial application of IFRS 17 and IFRS 9 – Comparative Information effective 1 January 2023, adopted by the EU; Amendments to IAS 12 Income Taxes: International Tax Reform - Model Second Pillar Rules, effective 1 January 2023, adopted by the EU

At the date of approval of these financial statements, certain new standards, amendments and clarifications to existing standards have been issued, but have not entered into force or have not been adopted by the EU for the financial year beginning on 1 January 2023 and have not been previously applied by the Company. They are not expected to have a material impact on the Company's financial statements. Management expects all standards and amendments to be adopted in the Company's accounting policy during the first period beginning after the date of their entry into force. Below is a list of changes to the standards:

- Amendments to IAS 1 Presentation of financial statements: Classification of liabilities as current and non-current, effective from January 1, 2024, adopted by the EU;
- Amendments to IAS 1 Presentation of Financial Statements: Non-current liabilities linked to financial indicators, effective from 1 January 2024, adopted by the EU;
- Amendments to IFRS 16 Leases: Leaseback obligation on sale and leaseback effective from 1 January 2024, adopted by the EU;
- Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier financing agreements, effective from 1 January 2024, have not yet been adopted by the EU;
- Amendments to IAS 21 Effects of Changes in Exchange Rates: Lack of Convertibility, effective 1 January 2025, have not yet been adopted by the EU.

2.2. Comparatives

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

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

2.3. Basis of measurement

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

2.4. Functional and presentation currency

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

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

2.5. Use of estimates

The presentation of the consolidated financial statements in accordance with International Financial Reporting Standards requires the Group's management to make best estimates, accruals and reasonable assumptions that affect the reported values of assets and liabilities, the amounts of income and expenses and the disclosure of contingent receivables and payables as at the date of the financial statements. These estimates, accruals and assumptions are based on the information, which is available at the date of the consolidated financial statements, and therefore, the future actual results of the Group might be different from them (whereas in a situation of financial crisis the uncertainties are much more significant). Items requiring more subjective judgement or having higher level of complexity, or where assumptions and estimates are material for the consolidated financial statements, are disclosed in *Note 2.25*.

2.6. Definitions and consolidation principles

2.6.1. Definitions

Parent company

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

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

Subsidiary company

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

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

D COMMERCE BANK GROUP

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

The parent company indirectly owns 100% of the capital of Ivanchov Stan EOOD through D Imoti EOOD.

2.6.2. Consolidation principles

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

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

Consolidation of a subsidiary

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

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

Acquisition of a subsidiary

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

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

When a business combination to acquire a subsidiary is achieved in stages, all investments previously held by the acquirer are measured at fair value on the acquisition date and the effects of such remeasurement are recognised in the current period profit or loss of the Group, including all effects

previously reported in the other components of comprehensive income are recycled.

Disposal of a subsidiary

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

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

Transactions with non-controlling interests

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

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

2.7. Foreign currency transactions

Upon its initial recognition, a foreign currency transaction is recorded in the functional currency (Bulgarian Lev) whereas the exchange rate to BGN at the date of the transaction or operation is applied to the foreign currency amount. Cash and cash equivalents, loans and receivables, investments in securities, payables, deposits and other payables, such as monetary reporting items denominated in

foreign currency, are recorded in the functional currency by applying the exchange rate as quoted by BNB every day. At 31 December, these amounts are presented in BGN at the closing exchange rate of BNB.

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

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

2.8. Interest income and expense

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

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

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

2.8.1. Effective interest method

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

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

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

2.8.2. Recognition of interest income

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

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

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

2.9. Fee and commission income and expense

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

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

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

2.10. Gains or losses on trading operations

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

2.11. Financial instruments

2.11.1. Financial assets

2.11.1.1. Recognition of financial assets

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

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

2.11.1.2. Initial measurement of financial assets

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

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

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

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

2.11.1.3. Classification and subsequent measurement of financial assets

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

Business model for the management of financial assets

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

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

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

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

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

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

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

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

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

Characteristics and testing of contractual cash flows of financial assets

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

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

respective exposure.

The process of establishing characteristics of contractual cash flows includes:

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

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

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

2.11.1.3.1. Financial assets at amortised cost

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

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

These financial assets are measured in the consolidated statement of financial position at amortised cost using the effective interest method, less the recognised accumulated impairment of expected credit losses (allowance). The interest income therefrom is measured and recognised based on the effective interest method (*Note № 2.11.7*). It is presented in the consolidated statement of comprehensive income (within profit or loss for the year) within the *interest income* item.

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

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

2.11.1.3.2. Financial assets at fair value through other comprehensive income

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

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

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

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

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

Over the period of holding debt securities measured at fair value through other comprehensive income, the Group recognises interest income based on the effective interest method (*Note 2.11.1.7*).

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

2.11.1.3.3. Financial assets at fair value through profit or loss

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

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

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

2.11.1.4. Reclassification of financial assets

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

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

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

c) upon reclassification of financial assets at fair value through other comprehensive income to financial assets at amortised cost, the fair value of the respective asset at the reclassification data is assumed to be its “established” amortised cost. The cumulative gain or loss accumulated in other comprehensive income, is written-off from equity (reserve for financial assets at fair value through other comprehensive income) and is adjusted against the fair value of the financial asset at the reclassification

date. The financial asset is measured at the reclassification data as if it has always been measured at amortised cost, and the adjustment is reflected in other comprehensive income, but not in profit or loss. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of reclassification.

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

2.11.1.5. Repurchase agreements

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

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

2.11.1.6. Derecognition of financial assets

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

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

2.11.1.6.1 Modification due to material change in terms and conditions

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

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

2.11.1.7. Impairment of financial assets

Expected credit losses approach

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

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

- Stage 1 (performing/regular exposures) – financial instruments without indication for increase in credit risk compared to initial recognition. The Group recognises 12-month impairment of expected credit losses from financial assets classified in Stage 1. Interest income is recognised based on the effective interest method, on the gross carrying amount of the asset.
- Stage 2 (under-performing exposures) – financial instruments with a significant increase in credit risk, but without objective evidence of actual impairment/incurred losses (the exposure is not in default). The Group recognises lifetime impairment of expected credit losses from the instruments in Stage 2. Interest income is recognised based on the effective interest method, on the gross carrying amount of the asset.
- Stage 3 (credit-impaired exposures) – financial instruments which not only have a significant increase in credit risk, but also objective evidence of actual impairment (“default” exposures).

The Group recognises lifetime impairment of credit losses from the instruments in Stage 3. Interest income is recognised based on the effective interest method, but on the net carrying amount of the instrument, i.e. less the allowance for impairment of credit losses.

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

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

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

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

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

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

The criteria of significant increase in credit risk and risk of default by types of financial assets adopted by the Group are disclosed in *Note 2.25.1.2*.

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

- Exposure at default (EAD) – estimate of the amount of exposure at the future point of default, by taking into consideration all future changes in the exposure after the balance sheet's date, payments of principal and interest, future drawdowns and interest accrued on payment default;
- Probability of default (PD) – estimate of the probability of a counterpart not meeting contractual clauses related to debt repayment over a certain time horizon;

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

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

➤ Discount factor – the factor applies to calculate the present value of expected cash flows from credit facilities. In determining the present value of expected cash flows, the Group uses the original effective interest rate. For exposures in its portfolio for which no information is available about the initial interest rate, the effective interest rate as at 31 December 2022 is applied.

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

In 2023 the Group maintained its expected credit losses model by applying a regression analysis to analyse and measure correlations between certain surveyed macroeconomic indicators (listed below) and the impact thereof on the credit quality of financial instruments for which expected credit losses are calculated. Based on these dependencies and on official forecasts of the European Commission, the Group models the future effect thereof on expected credit losses (PD).

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

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

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

➤ $ECL = EAD * PD_{12m} * LGD$

➤ The expected lifetime credit loss (ECL) for under-performing exposures (Stage 2) is calculated based on the following formula:

➤ $ECL = EAD * PD_{Lifetime} * LGD$

➤ The expected lifetime credit loss (ECL) for credit-impaired exposures (Stage 3) is calculated based on the following formula:

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

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

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

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

Valuation of collaterals

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

In order to calculate expected credit losses, the fair value of collaterals on the respective financial instrument is determined upon initial measurement, and subsequently – on an annual basis. In the formula, fair value is additionally adjusted by means of a set of coefficients to reflect the risks of disposal and the time value of money. The methods and models to determine fair value are: the comparative approach, capitalisation of future cash flows approach and the updated production cost approach. In as far as possible, the Group uses market data to assess the financial assets held as collateral. Other financial assets whose market value cannot be determined, are measured with the help of models. Non-financial collaterals such as real estate are recognised based on the valuation provided by independent appraisers. In the cases of real estate properties for retail and small business customers, the Group applies annual indexation based on public NSA statistical information regarding the change in prices by cities and regions. The indexation of residential properties is only applied when the change in prices does not indicate an annual decrease greater than 10%.

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

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

2.11.2. Financial liabilities and equity instruments

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

The Group classifies its liabilities, debt and equity instruments either as financial liabilities or as equity in accordance with the substance of the contractual arrangements with the respective counterparty regarding these instruments. The Group determines the classification of its financial liabilities at the

time of their origination. All financial liabilities held by the Group are classified as financial liabilities and are subsequently measured at amortised cost.

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

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

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

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

2.11.3. Netting of financial assets and financial liabilities

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

2.11.4. Financial guarantees and undrawn commitments

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

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

The net effect of the change in the estimate of expected credit losses from financial guarantees granted,

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

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

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

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

2.11.5. Derivative instruments

The Group has no derivative instruments at 31 December 2023 and as at 31 December 2022.

2.12. Leases

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

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

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

2.12.1.1 The Group as a lessee

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

The Group has not elected to apply the practical expedient of IFRS 16, which allows a lessee, by class of underlying asset, not to separate non-lease components from lease components, and instead account

for each lease component and any associated non-lease components as a single lease component. For contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Initial recognition

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

Right-of-use assets

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

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

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

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

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

Lease liabilities

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

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

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

Lease payments are discounted using the interest rate implicit in the lease, of that rate can be readily determined, or the Group's incremental borrowing rate, which it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The Group applies as a differential interest rate the interest rates on fixed-term deposits according to its interest rate bulletin, corresponding to the terms and types of counterparties to the lease contracts.

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

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

The Group subsequently measures the lease liability by:

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

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

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

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

Short-term leases and leases of low-value assets

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

Payments related to short-term leases and leases of low-value assets are recognised directly as current expenses in the statement of comprehensive income (within profit or loss for the year) on a straight-line basis over the lease term.

2.12.1.2 The Group as a lessor

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

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

Operating lease

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

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

Finance lease

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

The Group recognises finance income (lease interest) over the lease term based on a pattern reflecting a

constant periodic rate of return on the lessor's net investment in the lease. Interest income is included in the consolidated statement of comprehensive income (within profit and loss for the year) as finance income based on the Effective Interest Rate Method.

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

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

2.13.1. Property and equipment

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

Initial measurement

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

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

Subsequent measurement

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

Depreciation methods

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

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

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

Subsequent costs

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

Impairment of assets

The carrying amounts of property and equipment in the consolidated statement of financial position are reviewed for impairment when events or changes in circumstances indicate that they might permanently differ from their recoverable amount. If any such indications exist that the estimated recoverable amount of an asset is lower than its carrying amount in the consolidated statement of financial position, the latter is adjusted to the recoverable amount of the asset. The recoverable amount of property and equipment is the higher of the fair value less costs to sell or the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions and assessments of the time value of money and the risks, specific to the particular asset. Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year) on the line item “*other administrative and operating expenses*”.

Gains and losses on disposal (sale)

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

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

2.13.2. Right-of-use assets

Right-of-use assets are presented together with property and equipment in the consolidated statement of financial position, and the policy applied is disclosed in *Note 2.13*. The Group uses straight-line depreciation of right-of-use assets over the lease term.

2.14. Investment property

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

investment purposes.

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

Initial measurement

Investment property is initially measured at cost. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure – professional fees, broker commissions, property transfer taxes, etc. The initial measurement includes all permanently attached tangible fixed assets and other assets without which the investment property would not be suitable for its designation. The acquisition cost of investment properties acquired as collateral on non-performing loans is usually the price determined at the public sale or the bilaterally agreed price.

Subsequent measurement

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

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

Depreciation methods

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

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

Impairment of assets

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

Gains and losses on from sale

Investment properties are derecognised from the consolidated statement of financial position when they are permanently withdrawn from use and no future economic benefits are expected therefrom or on

disposal, upon transfer of control to the recipient.

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

2.15. Intangible assets

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

Amortisation methods

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

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

Impairment of assets

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

Gains and losses on disposal (sale)

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

2.16. Non-current assets held for sale

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

Non-current assets classified in this group are available for immediate sale in their present condition.

They are classified in this category only when the Group's management has a clear intent and a priority

to sell them in the foreseeable future (within 1 year) and has started procedures to actively seek buyers.

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

Assets in this classification group are not depreciated.

2.17. Assets acquired through collateral

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

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

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

2.18. Provisions

Provisions are recognised when the Group has a present constructive or legal obligation as a result of a past event and it is likely that the settlement of this obligation is related to a resource outflow. Provisions are estimated on the basis of management's best estimate at the date of the statement of financial position of the costs necessary to settle the relevant liability. The estimate is discounted when the maturity of the obligation is long-term.

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

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

Short-term benefits

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

At each consolidated financial statements date, the Group assesses the expected accumulating

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

Defined contribution plans

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

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

According to the Labor Code, the Group, in its capacity as an employer, is obliged to pay its staff compensation in the amount of the gross remuneration of the relevant employee for two months upon termination of the employment relationship with him due to retirement. In the event that the employee has acquired in the Group or in the same group of enterprises ten years of work experience in the last twenty years, the compensation is in the amount of the gross remuneration for six months. By their nature, these schemes are unfunded defined benefit plans.

The calculation of the amount of these liabilities requires the participation of qualified actuaries in order to be able to determine their current value at the date of the financial statement, on which they are presented in the statement of financial position, and respectively the change in their value is presented in the statement of profit or loss and other comprehensive income such as: a) current and past service costs, interest costs and the effects of layoffs and settlements are recognized immediately, in the period in which they arise, and presented in current profit or loss, under the item "expenses for personnel", and b) the effects of subsequent valuations of liabilities, which essentially represent actuarial gains and losses, are recognized immediately, in the period in which they arise, and are presented to the other components of comprehensive income, in the line item "subsequent valuations of defined benefit pension plans". Actuarial gains and losses arise from changes in actuarial assumptions and experience. At the date of each annual financial statement, the Group appoints certified actuaries who issue a report with their calculations of its long-term obligations to staff for termination of employment benefits on retirement. For this purpose, they apply the credit method of estimated units. The present value of the defined benefit obligation is calculated by discounting the future cash flows that are expected to be paid within the maturity of this obligation and using the interest rates of government long-term bonds with a

similar term quoted in Bulgaria, where it operates and the Group itself.

Termination benefits

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

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

2.20. Income taxes

The current income taxes of the Group are determined in accordance with the requirements of the Bulgarian tax legislation – the Corporate Income Taxation Act (CITA). The nominal income tax rate in Bulgaria for 2023 is 10% (2022: 10%).

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

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

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

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

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

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

As at 31 December 2023 the deferred income taxes of the Group are computed at a tax rate of 10%,

which is also valid for 2024 (31 December 2022: 10%).

2.21. Cash and cash equivalents

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

2.22. Share capital and reserves

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

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

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

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

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

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

2.23. Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

The Group applies various valuation techniques that would be relevant to the specific features of the respective conditions and for which it has sufficient available inputs while trying to use at a maximum the publicly observable information, and respectively, to minimize the use of unobservable information.

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

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

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

Fair values reflect the credit risk of the instrument and include adjustments to account for the credit risk of the Group and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group

believes a third-party market participant would take them into account in pricing a transaction.

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

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

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques that use inputs other than directly quoted prices but are observable, either directly or indirectly, including where the quoted prices are subject to significant adjustments; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

For the purposes of fair value disclosures, the Group aggregates the respective assets and liabilities on the basis of their nature, basic characteristics and risks as well as of the fair value hierarchical level (*Note 2.24.2.1 and Note 2.24.2.2*).

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

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

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

2.25.1. Expected credit losses**2.25.1.1. Determining expected credit losses from financial assets with low credit risk**

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

2.24.1.2. Determining expected credit losses by types of financial assets

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

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

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

In addition, with the start of the war in Ukraine in February 2022, the Group analysed and found that there are no customers who have direct exposure to the markets in Ukraine and Russia.

The total exposure of retail banking customers, heavily affected by the crisis, amounts to BGN 11,000, and the amount of expected credit loss when these exposures are transferred to the category of non-performing exposures is insignificant.

Corporate Banking has not provided financing to clients with significant business with Ukraine and Russia.

The specific observable indicators are disclosed in *Note № 2.24.1.2.1. to Note 2.24.1.2.6.*

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

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

- Criteria to assess if there is a significant increase in credit risk, and their specific application, especially based on qualitative characteristics;
- Segregation of separate financial instruments into separate portfolios for the purpose of collective impairment;
- Developing the model of expected credit losses, including selection and application of specific formulas and data;
- Establishing specific links and calculating average indicators for probability of default for the separate internal risk groups (portfolios) of exposures or individual exposures;
- Determining the regression links between certain macroeconomic scenarios and the respective indicators, such as GDP, unemployment, Harmonised Index of Consumer Prices (HICP), House Price Index and income per capita and their impact on PD, LGD and EAD, as well as on changes in the amount of collaterals;
- Selection of forecast macroeconomic indicators to be applied in the formulas to calculate expected credit losses;

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

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

The Group usually uses the publicly available information on the ratings of bank counterparts given by internationally recognised rating agencies such as Moody's, Standard & Poor's and Fitch. In 2021 the Group improved its model in the part for financial instruments without a credit rating from Moody's, Fitch and Standard & Poor's.

For them, the credit rating of another recognised organisation is considered – ABKO (BCRA for Bulgarian banks, etc.). This is done in accordance with the requirements of COMMISSION IMPLEMENTING REGULATION (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council. In prior years, financial instruments without such credit rating were assessed based on the stage of credit quality of exposures according to the respective central government of the jurisdiction where the institution was incorporated. Starting from 2021, when there is no ABKO credit rating, credit quality is determined, as follows: first of the parent (if there is one), and in the other cases, the expert assessment of the competent risk unit is applied based on individual analysis and review of the external credit rating of institutions from the same jurisdiction, operating in the same economic sector with similar financial and risk indicators and a similar business model. For financial instrument whose credit rating cannot be determined, PD is used for an SG category based on public information of Moody's external credit rating agency. The financial instruments with "investment-grade" external credit rating of the counterpart are assumed to have low credit risk, respectively, 12-month expected credit losses are calculated for them.

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

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

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

$$ECL = EAD * PD * LGD$$

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

$$\text{ECL} = \text{EAD} * \text{PD}_{\text{Lifetime}} * \text{LGD}$$

For 2023, the net loss stated from change in the estimate of expected credit losses from amounts due from banks is BGN 6 thousand (2022: profit of BGN 6 thousand) (*Note 7*).

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

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

Expected credit losses are determined on an individual (exposure and/or connected group of exposures) and collective level (sub-portfolios). Upon performing the calculations and analysis, consideration is made of the presence or absence of objective indicators for significant increase (decrease) in credit risk and risk of default. Such indicators are those events which occur following the initial recognition of the exposure and which impact expected future cash flows from the exposure. The Group currently monitors mainly the following indicators to assess change in the credit risk, by using internal and external information, namely: days past due, restructuring measures, analysis of the borrower's financial indicators, relations with the Group, debts to other banks, presence of distrains, reputation risk, etc. In 2023, the Group did not change its set of criteria to assess change in credit risk due to the COVID-19 pandemic, but rather focused on enhancing the efficiency of risk management and early indication of changes in the behaviour and performance by clients, while the loans under moratorium were identified for more specific current monitoring. The Group monitors the performance of clients irrespective of their business sector and without a predefined weight on the risk assessment of the sectors most severely affected by the COVID-19 crisis. In 2023, the Group continues to make a more detailed review of the qualitative criteria for credit risk, including by monitoring trends of aggravation of financial indicators in the companies' interim financial statements.

The criteria adopted by the Group to assess the occurrence of a significant increase in the credit risk and risk of default compared to the risk level upon initial recognition of the financial instrument are related to the product's specifics, respectively the characteristics of the portfolio, upon using accessible, grounded and reasonable information. The criteria adopted by the Group are grouped into two groups: a) *automatic criteria*: days past due, restructuring measures and financial indicators (where applicable) and b) *additional criteria*: commenced forced execution by other counterparts of the borrower or by the state; insolvency or liquidation proceedings initiated; significant change in main indicators and coefficients for financial analysis; delay in the borrower's repayments to other institutions by over 90 days; default of obligations to meet certain financial indicators according to the initial approval of the disbursed loan. The Group has not changed its set of criteria for increased credit risk and has not added

the COVID-19 criterium, i.e. the fact that a debtor operates in a sector which has been directly and significantly affected by the pandemic or belongs to a group employed in such sectors, or the fact that a debtor has made use of the moratorium conditions.

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

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

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

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

- Discount factor – in determining the present value of expected cash flows, the Group uses the original effective interest rate. For exposures in its portfolio for which no information is available about the initial interest rate, the effective interest rate as at 31 December 2022 is applied.

- Probability of default (PD):

Determining 12-month PD

To determine 12-month PD for collectively assessed exposures in Stage 1 for each separate sub-portfolio, the Group maintains historic information about migration coefficients for credit exposures from Stage 1 and Stage 2 to Stage 3. The amount of 12-month PD is determined on a sub-portfolio basis according to the rate of aggravation and is calculated as a moving average for a period covering 6 years.

Determining lifetime PD for a loan

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

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

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

- Loss given default (LGD)

The LGD parameters for collectively impaired credit exposures in Stage 1 and Stage 2 is determined based on historical information including all loans which have at least once initial default date. The analysis surveys the amount of amounts accumulated and not collected over a period of 5 years, as from

the first day of default of the loan transaction, excluding the periods in which the loan was performing. The parameter is calculated as a ratio between the net present value of cash inflows in loans in default as from the date of initial default. Cash inflows include repayment of principals, interest, charges, realisation of collaterals and execution costs. Cash inflows are discounted with the effective interest of each loan transaction as at the date of default. The LGD parameter is determined separately for each sub-portfolio.

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

➤ Macroeconomic forecast indicators

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

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

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

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

$$\text{ECL} = \text{EAD} * \text{PD}_{12\text{m}} * \text{LGD}$$

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

$$\text{ECL} = \text{EAD} * \text{PD}_{\text{Lifetime}} * \text{LGD}$$

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

$$\text{ECL} = \text{EAD} * \text{PD}_{\text{Lifetime}} - \text{LV}(\text{Coll})$$

As at 31 December 2023 and as at 31 December 2022 the Group has no purchased exposures which were purchased originally credit (POCI) and are non-performing.

For 2023, the net loss stated from the change in the estimate of expected credit losses from other financial assets is BGN 269 thousand (2022: BGN 269 thousand net loss) (*Note 7*).

2.24.1.2.3. Modelling and Risk Parameters in Determining Expected Credit Losses Related to Debt Securities at Amortised Cost

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

The Group usually uses the publicly available information on the ratings of bank counterparts given by internationally recognised rating agencies such as Moody's, Standard & Poor's and Fitch. In 2021 the Group improved its model in the part for financial instruments without a credit rating from Moody's, Fitch and Standard & Poor's. For them, the credit rating of another recognised organisation is considered – ABKO (BCRA for Bulgarian banks, etc.). This is done in accordance with the requirements of Commission Implementing Regulation (EU) 2016/1799 of 7 October 2016 laying down implementing technical standards with regard to the mapping of credit assessments of external credit assessment institutions for credit risk in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013 of the European Parliament and of the Council. In prior years, financial instruments without such credit rating were assessed based on the stage of credit quality of exposures according to the respective central government of the jurisdiction where the institution was incorporated. Starting from 2021, when there is no ABKO credit rating, credit quality is determined, as follows: first of the parent (if there is one), and in the other cases, the expert assessment of the competent risk unit is applied based on individual analysis and review of the external credit rating of institutions from the same jurisdiction, operating in the same economic sector with similar financial and risk indicators and a similar business model. For financial instrument whose credit rating cannot be determined, PD is used for an SG category based on public information of Moody's external credit rating agency.

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

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

The Group uses public information to determine the main risk parameters – probability of default (PD) and loss given default (LGD), based on the External Credit Rating Agency Moody's (Annual Default Study: Corporate Default and Recovery Rates и Sovereign Default and Recovery Rates). The Recovery Rates for debt financial instruments reflect the degree to which the principal and interest of a debt

instrument in default can be recovered. The recovery rates make it possible to forecast the loss given default, calculated as minus 1 recovery rate. For financial instruments classified at Stage 3, LGD is determined depending on the presence of collateral and the expected cash flows agreed with the counterpart in an out-of-court settlement, by considering and weighing different scenarios.

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

$$\text{ECL} = \text{PD} * \text{LGD} * \text{EAD}$$

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

$$\text{ECL} = \text{EAD} * \text{PDLifetime} * \text{LGD}$$

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

In 2023, the net loss on change in the estimate of expected credit losses from debt securities at amortised cost is BGN 1 thousand (2022: a net loss of BGN 0 thousand) (*Note 7*).

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

The approach, modelling and risk parameters upon determining expected credit losses are analogous to those disclosed in Note 2.25.1.2.3.

For 2023, the net loss stated from the change in the estimate of expected credit losses from debt securities at fair value through other comprehensive income is BGN 26 thousand (2022: BGN 26 thousand). (*Note 7*).

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

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

For 2023, the net loss stated from the change in the estimate of expected credit losses from other financial assets is BGN 45 thousand (2022: BGN 45 thousand) (*Note 7*).

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

The Group applies the general approach as per IFRS 9 to determine expected credit losses from financial guarantees granted, letters of credit and undrawn commitments. Upon determining expected credit losses related to undrawn commitments, a credit conversion factor is used, calculated based on historical information covering a ten-year period.

The Group performs a monthly review of the guarantees and letters of credit issued, analysing any new

events, circumstances and facts following their issue date.

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

In 2023 and 2022, no effect has been stated of the change in the estimate of expected credit losses from financial guarantees.

2.24.2. Fair value measurement

2.24.2.1. Measurement of the fair value of financial instruments

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

Securities held by the Group and measured at fair value through other comprehensive income representing: a) debt securities is fixed or determinable payments and fixed maturity (corporate and government securities); b) corporate shares or interests in the equity of other entities (minority interests) are measured and presented at fair value in the consolidated statement of financial position (Level 1). The measurement policy adopted by the Group estimates the average price based on the 'ask' and 'bid' quotes on the last working day of the reporting period (year), published in an international information system for financial instruments, eliminating the highest and the lowest quotes (extreme values).

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

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

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

Cash and balances with the Central Bank

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

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

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

Receivables from banks

Amounts due from banks include inter-banking deposits and nostro accounts.

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

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

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

Loans and advances to customers

Loans and advances to customers are presented net, less the accumulated impairment. The definition of the fair value of *loans and advances to customers* is based on valuation models, such as discounted cash flows techniques and it is classified by the Group at Level 3 of the fair value hierarchy.

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

Securities measured at amortised cost

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

Other financial assets

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

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

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

Liabilities to banks

Liabilities to banks include placements (deposits) and borrowings in the form of loans.

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

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

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

Liabilities to customers

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

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The fair value of floating or fixed rate items with an original maturity *up to* 3 months, coincides with or is close to their carrying (amortised) amount. The fair value of floating or fixed rate items with original maturity *over* 3 months is calculated using the discounted cash flows technique applying average interest rates for the respective term and currency published by BNB.

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

Other financial liabilities

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

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

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

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

As at 31.12.2023		Fair value						
Note		<i>Financial instruments at amortised cost</i>	<i>Financial instruments at FVOCI</i>	<i>Total</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
		BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Financial assets measured at fair value								
Securities at fair value through other comprehensive income	15	-	68,476	68,476	68,476			68,476
Financial assets not measured at fair value								
Cash and balances with the Central Bank	12	303,979	-	303,979	27,081	276,898		303,979
Due from banks	13	39,201	-	39,201		39,201		39,201
Loans and advances to customers	14	1,026,145	-	1,026,145			1,040,595	1,040,595
Securities at amortised cost	16	123,476	-	123,476	73,819			73,819
Other financial assets	22	2,006	-	2,006			2,006	2,006
Total		1,494,807	68,476	1,563,283	169,376	316,099	1,042,601	1,528,076
Financial liabilities not measured at fair value								
Due to banks	23	7,658	-	7,658	-	7,658	-	7,658
Due to customers	24	1,431,754	-	1,431,754	-	1,433,000	-	1,433,000
Other financial liabilities*	27	7,857	-	7,857	-	-	7,857	7,857
Total		1,447,269	-	1,447,269	-	1,440,658	7,8574	1,448,515

This is a translation from Bulgarian of the Consolidated Financial Statements of D Commerce Bank Group for the year ended 31 December 2023.

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As at 31.12.2022				Fair value			
Note	Financial instruments at amortised cost	Financial instruments at FVOCI	Total	Level 1	Level 2	Level 3	Total
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Financial assets measured at fair value							
Securities at fair value through other comprehensive income	15	-	84,161	84,161			84,161
Financial assets not measured at fair value							
Cash and balances with the Central Bank	12	368,221	-	368,221	28,103	340,118	368,221
Due from banks	13	43,921	-	43,921		43,921	43,921
Loans and advances to customers	14	909,598	-	909,598		915,947	915,947
Securities at amortised cost	16	76,722	-	76,722	73,819		73,819
Other financial assets	22	2,029	-	2,029		2,029	2,029
Total		1,400,491	84,161	1,484,652	186,083	384,039	1,488,098
Financial liabilities not measured at fair value							
Due to banks	23	5,012	-	5,012	-	5,012	5,012
Due to customers	24	1,391,701	-	1,391,701	-	1,391,915	1,391,915
Other financial liabilities*	27	9,581	-	9,581	-	9,581	9,581
Total		1,406,294	-	1,406,294	-	1,396,927	1,406,508

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

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

a) Fair value of assets held for sale

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

b) Fair value of investment property

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

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coefficients in relation to market benchmark transactions.

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

Non-financial assets	Note	Carrying amount	Fair value	Carrying amount	Fair value
		31.12.2023	Level 3	31.12.2022	Level 3
		BGN '000	BGN '000	BGN '000	BGN '000
Investment property	17	10,370	22,428	14,924	22,457
Assets held for sale	20	-	-	22	72
Total		10,370	22,428	14,946	22,529

2.24.3. Actuarial calculations

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

2.24.4. Leases**2.24.4.1. Determining whether a contract contains a lease or lease components**

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

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

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

Upon determining the term of leases, the Group's management determines whether it is reasonably certain that it would exercise the extension/termination option, considering all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option to extend the lease, or not to exercise the option to terminate the lease, such as significant enhancement to the underlying

asset, significant adaptation and customisation of the underlying asset, costs related to termination of the lease and costs for the lease, relocation and identification of another asset, the importance of the underlying asset for the Group's operations, etc.). Extension options (or the periods after the termination option) are only included in the lease term if it is reasonably certain they will be extended (or will not be terminated). The Group reassesses the assessment of options upon the occurrence of a significance event or a significant change in circumstances that is within the Group's discretion and may impact the assessment.

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

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

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

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

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

In the cases when the Group is a lessee and cannot readily determine the interest rate to discount lease liabilities, it uses the incremental borrowing rate it would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

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

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

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

December 2023.

2.25. Custodial services

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

3. RISK MANAGEMENT POLICY DISCLOSURES

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

Risk management structure

The main units which are directly responsible for risk management in the Group include:

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

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

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

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

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

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

The Central Bank exercises additional supervision on the risk management in the Group by requesting periodic reports and subsequent control on the observance of the regulatory set maximum exposure

levels to particular types of risks.

Measurement and management of major risks

The management of the Group has approved various internal rules and methodologies for risk measurement based on statistical models and/or on empirical observations, analyses and judgements based on historical experience of the trends and relations between different factors and conditions.

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

Periodically, reports are drawn up on the specific types of risk for subsequent analysis and possible correction of the already determined limits for individual types of operations and transactions.

3.1. Credit risk

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

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

Receivables from banks

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

Loans to clients

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

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

The Group has made a comprehensive risk assessment and believes that the credit risk increase criteria

included in the ECL models under IFRS 9 sufficiently predict the risk assessment of customers for the following reasons:

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

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

The references herein below show where in these consolidated financial statements there are disclosures about the policies and process established by the Group to measure and impair risk exposures related to loans to clients according to IFRS 9 Financial Instruments:

- Explanation of the Group's system for internal assessment of risk exposures – individual and collective impairment approach (*Note 2.11.1.3.1* and *Note 2.11.1.7*);
- How the Group determines, calculates and monitors a significant increase in credit risk and risk of default for individually and collectively assessed exposures (*Note 2.11.1.7* and *Note 2.25.1.2.2*);
- Details about the calculation of expected credit losses at each stage of impairment (*Note 2.11.1.7* and *Note 2.24.1.2.2*).

Definition of default and recovery

The Group assumes that a default has occurred when:

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

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

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

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

- the Group considers there are no longer prerequisites for extending the default status for an exposure that was previously non-performing, when at least 3 months have passed from the

point at which the default conditions were no longer met;

- the Group considers the debtor's behaviour over the monitoring period;
- the Group considers the debtor's financial position over the monitoring period;
- after the expiry of the monitoring period, an assessment should be carried out, and if the Group still considers it is very unlikely that the debtor repays in full, without selling a collateral, the exposures should continue to be classified as default until the Group considers that the improvement in the credit quality is actual and permanent;
- the conditions should also be met with respect to new exposures to the debtor, in particular when prior default exposures to the same debtor were sold or written-off.

Exposure at default

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

Loss given default

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

Significant increase in credit risk

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

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

Grouping financial assets assessed on a collective base

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

As at 31 December 2023, the Group has divided its exposures into 17 sub-portfolios sharing similar risk characteristics based on pre-defined criteria. Currently, on a monthly basis, the Group monitors and analyses the criteria set which determine belonging to the respective sub-portfolio of existing or newly arising credit exposures.

Categorisation of credit exposures – renegotiated and restructured exposures

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

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

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

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

- the new contractual conditions are more favourable for the debtor than the previous ones, when the debtor encounters or may encounter difficulties in meeting their financial obligations;
- the new contractual conditions are more favourable for the debtor than the contractual conditions the Bank offered to debtors with a similar risk profile at the point when the debtor encounters or may encounter difficulties in meeting their financial obligations;

- under the initial contractual conditions the exposure was classified as non-performing (default) before the change in the contractual conditions or would have been classified as non-performing (default) if the contractual conditions were not changed;
- the measure results in full or partial waiver of the debt;
- the Group permits the execution of contractual clauses allowing the debtor to change contractual conditions, and the exposure was classified as non-performing (default) before the execution of these clauses or would have been classified as non-performing (default) if the clauses had not been executed;
- at the point of granting the loan or approximately at this point the debtor made principal or interest payments under another debt to a Group company that would have been classified as a non-performing (default) exposure if the payments had not been made;
- the change in the contractual conditions includes repayments made by selling a collateral, when this change is a facility.

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

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

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

Internal process of assessment and classification of credit exposures

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

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

The non-performing exposures of the Group are those exposures which meet the following criteria:

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

Debt and equity securities

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

Financial guarantees, letters of credit and undrawn loans

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

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

Maximum exposure to credit risk

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

Financial assets	31.12.2023	31.12.2022
	BGN '000	BGN '000
Cash and balances with the Central Bank	303,979	368,221
Receivables from banks	39,201	43,921
Loans and advances to customers	1,026,145	909,598
Securities at fair value through other comprehensive income	68,476	84,161

This is a translation from Bulgarian of the Consolidated Financial Statements of D Commerce Bank Group for the year ended 31 December 2023.

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Securities at amortised cost	123,476	76,722
Other financial assets	2,006	2,029
Total financial assets	1,563,283	1,484,652

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Bank guarantees and letters of credit	19,397	16,083
Undrawn amount of authorised loans	149,832	174,057
	169,229	190,140
Maximum credit exposure	1,732,601	1,674,792

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

31.12.2023	Maximum exposure to credit risk	Coverage of the maximum credit exposure with the collateral accepted by the Group measured at fair value				Net exposure to credit risk
		Cash	Real estate	Other acceptable collateral	Total acceptable collateral	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cash and balances with the Central Bank	303,979	-	-	-	-	303,979
Receivables from banks	39,201	-	-	-	-	39,201
Loans and advances to customers	1,026,145	13,825	636,267	22,173	672,265	353,880
Securities at fair value through other comprehensive income	68,476	-	-	-	-	68,476
Securities at amortised cost	123,476	-	-	-	-	123,476
Other financial liabilities	2,006	-	-	-	-	2,006
Total	1,563,283	13,825	636,267	22,173	672,265	891,018
31.12.2022	Maximum exposure to credit risk	Coverage of the maximum credit exposure with the collateral accepted by the Group measured at fair value				Net exposure to credit risk
		Cash	Real estate	Other acceptable collateral	Total acceptable collateral	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cash and balances with the Central Bank	368,221	-	-	-	-	368,221
Receivables from banks	43,921	-	-	-	-	43,921
Loans and advances to customers	909,598	11,355	614,471	17,404	643,230	266,368

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Securities at fair value through other comprehensive income	84,161	-	-	-	-	84,161
Securities at amortised cost	76,722	-	-	-	-	76,722
Other financial liabilities	2,029	-	-	-	-	2,029
Total	1,484,652	11,355	614,471	17,404	643,230	841,422

Receivables from banks

The table below presents receivables from banks as at 31 December 2023 and 31 December 2022 based on Moody's ratings.

	31.12.2023	31.12.2022
	BGN'000	BGN'000
Aa1 to A3	35,955	19,609
Baa1 to Ba3	3,112	23,932
Without rating	134	380
	39,201	43,921

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

Loans and advances to customers

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

31.12.2023	Carrying amount	Category under IFRS 9 on 31 December 2023			Coverage of the maximum credit exposure with the collateral accepted by the Bank measured at fair value				Net exposure to credit risk
		Stage 1	Stage 2	Stage 3	Cash	Real estate	Other acceptable collateral	Total acceptable collateral	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Standard exposures	988,849	909,617	79,232	-	13,718	600,026	21,663	635,407	353,442
Non-performing exposures	37,296	-	3,009	34,287	107	36,241	510	36,858	438
	1,026,145	909,617	82,241	34,287	13,825	636,267	22,173	672,265	353,880

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<i>including:</i>										
<i>Exposures companies</i>	<i>to</i>	803,544	692,460	77,525	33,559	13,059	457,709	22,173	492,941	310,603
<i>Exposures individuals</i>	<i>to</i>	222,601	217,157	4,716	728	766	178,558	-	179,324	43,277

31.12.2022	Carrying amount	Category under IFRS 9 on 31 December 2022			Coverage of the maximum credit exposure with the collateral accepted by the Bank measured at fair value				Net exposure to credit risk
		Stage 1	Stage 2	Stage 3	Cash	Real estate	Other acceptable collateral	Total acceptable collateral	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Standard exposures	872,306	761,423	110,883	-	11,354	577,599	17,353	606,306	266,000
Non-performing exposures	37,292	-	2,514	34,778	1	36,872	51	36,924	368
	909,598	761,423	113,397	34,778	11,355	614,471	17,404	643,230	266,368

<i>including:</i>										
<i>Exposures companies</i>	<i>to</i>	720,155	575,993	110,152	34,010	10,466	465,122	17,404	492,992	227,163
<i>Exposures individuals</i>	<i>to</i>	189,443	185,430	3,245	768	889	149,349	-	150,238	39,205

Collateral

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

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

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

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2023 and 31 December 2022:

	Loans and advances to customers	
	31.12.2023	31.12.2022
	BGN '000	BGN '000
Against loans provisioned individually and on a portfolio basis:		
Mortgages of real estate	185,292	1,411,088
Cash deposits	7,076	8,954
Other collateral	1,604,672	4,853,075
	1,797,040	6,273,117
Against past due but unprovisioned loans:		
Mortgages of real estate	89,543	40,579
Cash deposits	131	236
Other collateral	253,900	152,432
	343,574	193,247
Against neither past due, nor provisioned loans:		
Mortgages of real estate	1,332,829	36,439
Cash deposits	19,753	8,444
Other collateral	3,066,484	378,807
	4,419,066	423,690

Credit exposures to companies

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

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

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

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individual maturities, and in certain cases – changes in the accepted collateral.

*Credit exposures to individuals**Residential mortgage lending*

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Loan-to-value (LTV) ratio		
Less than 50%	41,913	28,380
Over 50% to 70%	60,936	61,532
Over 70% to 90%	34,720	30,458
Over 90% to 100%	3,099	1,108
Over 100%	877	333
Total	141,545	121,811

Internal risk groups of loans and advances to customers

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

31.12.2023	Stage 1 on a collective basis	Stage 2 on a collective basis	Stage 3 on an individual basis	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Standard exposures	913,830	81,335	-	995,165
Non-performing	-	3,009	50,725	53,734
Expected credit loss	(4,213)	(2,103)	(16,438)	(22,754)
Amortized cost following impairment	909,617	82,241	34,287	1,026,145

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31.12.2022	Stage 1 on a collective basis	Stage 2 on a collective basis	Stage 3 on an individual basis	Total
	BGN'000	BGN'000	BGN'000	BGN'000
Standard exposures	765,874	115,050	-	880,924
Non-performing	-	2,534	47,604	50,138
Expected credit loss	<u>(4,451)</u>	<u>(4,187)</u>	<u>(12,826)</u>	<u>(21,464)</u>
Amortised cost following impairment	<u>761,423</u>	<u>113,397</u>	<u>34,778</u>	<u>909,598</u>

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

31.12.2023	Performing and non-provisioned	Individually provisioned	Portfolio provisioned	Past due but unprovisioned	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Serviced exposures	480,492	-	493,294	21,379	995,165
Non-performing exposures	7,485	26,314	-	19,935	53,734
Expected credit losses	-	<u>(16,438)</u>	<u>(6,316)</u>	-	<u>(22,754)</u>
Carrying amount	<u>487,977</u>	<u>9,876</u>	<u>486,978</u>	<u>41,314</u>	<u>1,026,145</u>

31.12.2022	Performing and non-provisioned	Individually provisioned	Portfolio provisioned	Past due but unprovisioned	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Serviced exposures	3,353	-	877,189	383	880,925
Non-performing exposures	3,845	25,805	2,871	17,616	50,137
Expected credit losses	-	<u>(12,826)</u>	<u>(8,638)</u>	-	<u>(21,464)</u>
Carrying amount	<u>7,198</u>	<u>12,979</u>	<u>871,422</u>	<u>17,999</u>	<u>909,598</u>

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

<i>Days past due</i>	31.12.2023	31.12.2022
	BGN '000	BGN '000
up to 30 days	21,825	10,466
30-60 days	836	108
60-90 days	10,033	1,080
90-180 days	6,954	141
over 180 days	1,666	6,204
Carrying amount	41,314	17,999

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

	Stage 1	Stage 2	Stage 3	Total
31.12.2023 r.				
	BGN '000	BGN'000	BGN '000	BGN '000
Restructured financial assets	-	3,388	15,695	19,083
<i>incl. restructured in 2023</i>	-	3,032	8,154	11,186
31.12.2022				
	BGN '000	BGN'000	BGN '000	BGN '000
Restructured financial assets	278	2,575	9,497	12,350
<i>incl. restructured in 2022</i>	-	2,479	2,024	4,503

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

The table below presents the carrying amounts of debt and equity securities measured at fair value through other comprehensive income, grouped by rating assigned by Moody's as at 31 December 2023 and 31 December 2022:

	31.12.2023	31.12.2022
	BGN'000	BGN'000
Aa1 to A3	-	-
Baa1 to Ba3	58,518	73,845
Lower than Ba3	9,685	10,100
Without rating	273	216
	68,476	84,161

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Debt securities measured at amortised cost at the amount of BGN 74,963 thousand with rating Baa1 (31 December 2022: BGN 74,730 039 thousand with rating Baa2) and BGN 48,513 thousand with rating B2 (31 December 2021: BGN 1,992 thousand with rating B1), determined against the rating of the respective security published by Moody's rating agency.

Credit risk - concentration

Receivables from banks

The Group currently monitors the risk of concentration to individual counterparties based on approved limits. They are defined as follows:

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

The determination and control on meeting and compliance with limits to banks for part of the overall risk management system of the Group. Concentration is monitored by means of:

- ✓ Determining the level of potential risk of forming permissible risk exposure of unsecured amounts due to counterpart banks;
- ✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts due to each counterpart bank depending on its creditworthiness;
- ✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts – foreign bonds issued by foreign banks, financial institutions and foreign corporations with whom the Bank does (not) maintain a correspondence model;
- ✓ Determining limits to fix the amount of forming permissible risk exposure by types of financial instruments;
- ✓ Determining limits to fix the amount of forming permissible risk exposure of unsecured amounts – sovereign bonds granted against collateral (repo transactions) of banks registered in Bulgaria with whom the Group does (not) maintain a correspondence model;

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

	31.12.2023	%	31.12.2022	%
	BGN '000		BGN '000	
Receivables from Bulgarian banks	32,901	84%	23,488	53%
Receivables from foreign banks	6,311	16%	20,454	47%
Total before impairment	39,212	100%	43,942	100%
Impairment of credit losses	(11)		(21)	
Total	39,201		43,921	

Loans and advances to customers

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

- ✓ Limit for maximum exposures to a single person or economically related parties – determined with respect to credit exposures to customers – non-financial institutions within the meaning of Art. 395 of Regulation (EU) 575/2013;
- ✓ Limit by lending target industry and the respective main activity of borrowers – determined based on analysis and findings regarding the specific sectors that Group finances in accordance with its strategy (condition, perspectives, yield, development trends in the short- and long-term) and the level of classified loans for the respective target industry and the respective main activity of the borrower;
- ✓ Limits on the term –determined based on analysis and findings regarding statistical data presented by BNB on the distribution of loans by maturity, maturity structure of liabilities and the expectations of the Group regarding the development of its deposit business and classified exposures;
- ✓ Limits by amount – determined based on analysis and findings regarding statistical data presented by BNB on the distribution of loans by amount, strategy of the Group for the development of its market position and the level of classified exposures;
- ✓ Limits by currency – determined based on statistical data presented by BNB on the distribution of loans by currency, structure of liabilities by currency and the level of classified loans by currency.

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

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

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	31.12.2023	%	31.12.2022	%
	BGN '000		BGN '000	
Individuals and households	224,295	21%	191,959	21%
Trade and services	129,515	12%	136,444	15%
Construction - buildings	118,156	11%	109,591	12%
Agricultural production and trade	94,219	9%	96,271	10%
Production	84,250	8%	98,511	11%
Trade in fuel / energy carriers	83,137	8%	54,293	6%
Construction – roads, facilities, networks	70,037	7%	51,794	6%
State and local government	63,469	6%	77,748	8%
Pharmaceuticals, health care	58,505	5%	25,803	3%
Insurance/ Leasing/Finance	33,573	3%	33,671	4%
Tourism	30,718	3%	589	0%
Transport and communication	29,764	3%	34,342	4%
RES – photovoltaic power plants	16,865	3%	8,649	1%
Scrap trade	3,252	0%	3,134	0%
Other	9,144	1%	8,263	1%
Total before impairment	1,048,899	100%	931,062	100%
Impairment of credit losses	(22,754)		(21,464)	
Total	1,026,145		909,598	

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

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	31.12.2023	%	31.12.2022	%
	BGN '000		BGN '000	
Individuals and households	224,244	21%	191,577	21%
Trade	139,579	13%	112,027	12%
Construction	112,733	11%	124,003	13%
Public	99,499	10%	74,115	8%
Real estate/leasing	86,298	8%	71,647	8%
Agriculture	57,360	5%	37,284	4%
Light industry	54,812	5%	58,723	6%
Transport	54,193	5%	46,312	5%
Energy	49,763	5%	11,184	1%
Tourism	43,383	4%	63,165	7%
Insurance/finance	31,611	3%	37,643	4%
Publishing	24,971	3%	21,867	2%
Waste/wastewater	15,288	2%	16,967	2%
Pharmaceuticals/healthcare	14,443	1%	22,337	2%
Services	10,636	1%	13,065	1%
Heavy industry	7,998	1%	4,976	1%
Transport vehicles	5,040	0%	-	0%
Wood/paper/packaging	4,860	1%	10,382	1%
Computer technologies	1,729	0%	1,141	0%
Culture/entertainment	1,109	0%	133	0%
Computers and technology	717	0%	572	0%
Other	8,633	1%	11,942	1%
Total before impairment	1,048,899	100%	931,062	100%
Allowance for credit losses	(22,754)		(21,463)	
Total	1,026,145		909,599	

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

	31.12.2023	%	31.12.2022	%
	BGN'000	% of capital	BGN'000	% of capital
The largest total credit exposure *	24,506	13,53%	33,987	23,60%
Total amount of the five largest credit exposures *	145,550	80,38%	153,519	106,59%
Total amount of all credit exposures * - over 10% of capital	333,577	184,22%	400,154	277,82%

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

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

Debt and equity securities

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

The types of securities that the Group uses include:

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

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

✓ Debt instruments of credit institutions;

✓ Debt instruments of other issuers;

✓ Corporate shares;

For each of these types, the Group has adopted limits on their maximum exposure.

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

	31.12.2023	%	31.12.2022	%
	BGN '000		BGN '000	
Issued by the government of the Republic of Bulgaria	127,599	66,47%	125,063	78%
Issued by foreign governments and governmental agencies	54,394	28,34%	24,639	15%
Republic of Turkey	-		12,093	
Republic of Romania	5,881		12,546	
Republic of Croatia	48,513		-	
Issued by credit institutions	-		1,812	1%
Poland	-		-	
UK	-		1,812	
Hungary	-		-	
Other - Bulgaria	9,959	5,19%	9,369	6%
Total	191,952	100%	160,883	100%

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

	Stage 1 Individual	Stage 1 Collective	Stage 2 Individual	Stage 2 Collective	Stage 3	Total
31.12.2023						
Portfolios						
Securities measured at fair value through other comprehensive income	68,476					68,476
Securities measured at amortised cost	123,476					123,476
Receivables from banks	39,201					39,201
Loans and advances to customers		909,569		82,240	34,336	1,026,145
Undrawn commitments under loan agreements		142,319		6,930	583	149,832
Guarantees and letters of credit		14,342		5,035	20	19,397
Industry segment						
Finance	39,475	49,859		4	-	89,338
Government	181,993	80,497		1,768	-	264,258
Citizens and households	-	217,082		4,893	1,045	223,020
Trade	9,685	96,283		18,044	17,450	141,462
Construction		105,616		4,069	6,429	116,114
Fuels		90,385		2,921	-	93,306
Production		163,577		22,864	9,154	195,595
Services		106,270		27,677	258	134,205
Region						
Supranational	-	-	-	-	-	-
Europe	230,197	907,081		82,240	34,336	1,253,854
America	507	-		-	-	507
Asia	449	2,488		-	-	2,937

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	Stage 1	Stage 1 Collective	Stage 2	Stage 2 Collective	Stage 3	Total
31.12.2022	Individual		Individual			
Portfolios						
Securities measured at fair value through other comprehensive income	84,161					84,161
Securities measured at amortised cost	76,722					76,722
Receivables from banks	43,921					43,921
Loans and advances to customers		761,423		113,397	34,778	909,598
Undrawn commitments under loan agreements		142,666		31,368	23	174,057
Guarantees and letters of credit		8,397		7,660	26	16,083
Industry segment						
Finance	45,950	24,063				70,013
Government	149,699	51,365		2,023	-	203,087
Citizens and households		186,220		3,236	1,069	190,525
Trade	9,155	96,741		27,697	12,233	145,826
Construction		95,755		11,528	13,375	120,658
Fuels		68,006		9,275	-	77,281
Production		159,399		40,468	4,640	204,507
Services		79,874		19,170	3,461	102,505
Region						
Supranational						
Europe	175,879	758,827		113,397	34,778	1,082,881
America	15,997	-		-	-	15,997
Asia	12,928	2,596		-	-	15,524

3.2. Market risk

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

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

3.2.1 Interest rate risk

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

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

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

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

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

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

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Interest sensitivity analysis

31 December 2023	Financial assets and liabilities						
	Carrying amount	Up to 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Interest-free
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Cash and balances with the Central Bank	303,979	303,979	-	-	-	-	-
Receivables from banks	39,201	39,201	-	-	-	-	-
Loans and advances to customers	1,026,145	967,904	6,547	9,922	11,357	30,415	-
Securities at fair value through other comprehensive income	68,476	660	175	9,834	38,464	19,069	274
Securities at amortised cost	123,476	20,012	28,960	10,091	64,413	-	-
Other financial assets	2,006	-	-	-	-	-	2,006
Total assets	1,563,283	1,331,756	35,682	29,847	114,234	49,484	2,280
Liabilities to banks	(7,658)	(7,658)	-	-	-	-	-
Liabilities to customers	(1,431,754)	(886,363)	(93,010)	(171,154)	(281,228)	-	-
Other financial liabilities	(7,857)	(262)	(320)	(595)	(1,770)	(565)	(4,345)
Total liabilities	(1,447,269)	(894,283)	(93,330)	(171,749)	(282,998)	(565)	(4,345)
Change	116,014	437,473	(57,648)	(141,902)	(168,764)	48,919	(2,065)

31 December 2022	Financial assets and liabilities						
	Carrying amount	Up to 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years	Interest-free
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Cash and balances with the Central Bank	368,221	368,221	-	-	-	-	-
Receivables from banks	43,921	43,921	-	-	-	-	-
Loans and advances to customers	909,598	852,742	18,503	32,842	4,976	535	-
Securities at fair value through other comprehensive income	84,161	662	12,087	6,829	25,999	38,368	216
Securities at amortised cost	76,722	502	1,993	2,197	72,030	-	-
Other financial assets	2,029	-	-	-	-	-	2,029
Total assets	1,484,652	1,266,047	32,583	41,868	103,005	38,903	2,245
Liabilities to banks	(5,012)	(5,012)	-	-	-	-	-
Liabilities to customers	(1,391,701)	(812,457)	(77,142)	(188,840)	(313,262)	-	-
Other financial liabilities	(9,581)	(357)	(349)	(675)	(2,713)	(806)	(4,681)
Total liabilities	(1,406,294)	(817,826)	(77,491)	(189,515)	(315,975)	(806)	(4,681)
Change	78,358	448,222	(44,908)	(147,647)	(212,970)	38,097	(2,436)

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Sensitivity of the financial result to changes in interest rates

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

Interest-sensitive assets and liabilities currency	Increase/ (decrease) of interest %	Effect on the financial result after tax		Impact on equity	
		2023	2023	2023	2023
		BGN '000		BGN '000	
BGN	10 bp/(10 bp)	572/(572)		572/(572)	
Other currency	10 bp/(10 bp)	246/(246)		246/(246)	
BGN	20 bp/(20 bp)	1,145/(1,145)		1,145/(1,145)	
Other currency	20 bp/(20 bp)	493/(493)		493/(493)	
Interest-sensitive assets and liabilities currency	Increase/ (decrease) of interest %	Effect on the financial result after tax		Impact on equity	
		2022	2022	2022	2022
		BGN '000		BGN '000	
BGN	10 bp/(10 bp)	417/(417)		417/(417)	
Other currency	10 bp/(10 bp)	255/(255)		255/(255)	
BGN	20 bp/(20 bp)	744/(744)		744/(744)	
Other currency	20 bp/(20 bp)	453/(453)		453/(453)	

3.2.2 Currency and price risk
Foreign currency risk

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

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

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Eurozone affect the figures in the consolidated financial statements.

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

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

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

31 December 2023	In USD	In EUR	In BGN	In other currencies	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial assets					
Cash and balances with the Central Bank	2,149	90,879	210,703	248	303,979
Receivables from banks	30,746	5,053	1,105	2,297	39,201
Loans and advances to customers	2,539	285,001	738,605	-	1,026,145
Securities at fair value through other comprehensive income	-	68,236	240	-	68,476
Securities at amortised cost	-	64,900	58,576	-	123,476
Other financial assets	550	232	1,224	-	2,006
Total financial assets	35,984	514,301	1,010,453	2,545	1,563,283
Financial liabilities					
Liabilities to banks	-	4	7,654	-	7,658
Liabilities to customers	35,521	414,965	978,833	2,435	1,431,754
Other financial liabilities	443	1,230	6,180	4	7,857
Total financial liabilities	35,964	416,199	992,667	2,439	1,447,269
Net balance sheet currency position	20	98,102	17,786	106	116,014
Off-balance sheet currency position	-	58,810	(58,675)	(135)	-
Open foreign currency position	20	-	-	(29)	(9)
Contingent liabilities and commitments	-	44,461	124,768	-	169,229

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31 December 2022	In USD	In EUR	In BGN	In other currencies	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Financial assets					
Cash and balances with the Central Bank					
	1,759	59,668	306,361	433	368,221
Receivables from banks	33,976	3,611	3,318	3,016	43,921
Loans and advances to customers	2,631	311,265	595,702	-	909,598
Securities at fair value through other comprehensive income	-	83,979	182	-	84,161
Securities at amortised cost	-	16,584	60,138	-	76,722
Other financial assets	569	232	1,228	-	2,029
Total financial assets	38,935	475,339	966,929	3,449	1,484,652
Financial liabilities					
Liabilities to banks	-	-	5,012	-	5,012
Liabilities to customers	37,669	398,882	951,738	3,413	1,391,702
Other financial liabilities	1,286	4,114	4,130	51	9,581
Total financial liabilities	38,955	402,996	960,880	3,464	1,406,295
Net balance sheet currency position	(20)	72,343	6,049	(15)	78,357
Off-balance sheet currency position	-	29,337	-	-	29,337
Open foreign currency position	(20)	-	-	(15)	(35)
Contingent liabilities and commitments	-	27,141	162,999	-	190,140

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

Foreign currency sensitivity analysis

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

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

The management of the Group is of the opinion that the above analysis of the foreign currency sensitivity based on the balance sheet structure of the foreign currency assets and liabilities also reflects the foreign

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currency sensitivity of the Group during the year.

Securities price risk

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

3.3. Liquidity risk

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

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

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

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

The Group develops appropriate policies which ensure:

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

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

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

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

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

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

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

	2023	2022
	%	%
At 31 December	258.72%	269.98%
Average value for the period	396.95%	460.14%
Highest value for the period	728.58%	692.79%
Lowest value for the period	220.74%	256.74%

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The table below presents the maturity structure of the consolidated financial assets and liabilities of the Group at carrying amounts and the Group's off-balance sheet commitments:

31 December 2023	Carrying amount	Up to 1 month	1-3 months	3 months to 1 year	1 – 5 years	Over 5 years
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Cash and balances with the Central Bank	303,979	303,979	-	-	-	-
Receivables from banks	39,201	39,201	-	-	-	-
Loans and advances to customers	1,026,145	16,815	40,697	219,224	449,453	299,956
Securities at fair value through other comprehensive income	68,476	274	-	9,810	39,299	19,093
Securities at amortised cost	123,476	-	-	58,604	64,872	-
Other financial assets	2,006	-	2,006	-	-	-
Total assets	1,563,283	360,269	42,703	287,638	553,624	319,049
Liabilities to banks	7,658	100	45	6,273	1,240	-
Liabilities to customers	1,431,754	1,077,639	77,987	219,196	51,282	5,650
Other financial liabilities	7,857	122	3,192	1,024	2,713	806
Total liabilities	1,447,269	1,077,861	81,224	226,493	55,235	6,456
Undrawn loan commitments and contingent commitments	169,229	89,300	12,288	45,185	21,871	585
31 December 2022						
	Carrying amount	Up to 1 month	1-3 months	3 months to 1 year	1 – 5 years	Over 5 years
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Cash and balances with the Central Bank	368,221	368,221	-	-	-	-
Receivables from banks	43,921	43,921	-	-	-	-
Loans and advances to customers	909,598	28,734	35,920	171,635	422,006	251,303
Securities at fair value through other comprehensive income	84,161	216	-	18,651	26,394	38,900
Securities at amortised cost	76,722	-	-	4,155	72,567	-
Other financial assets	2,029	-	2,029	-	-	-
Total assets	1,484,651	441,091	37,949	194,441	520,967	290,203
Liabilities to banks	5,012	-	32	1,992	2,988	-
Liabilities to customers	1,391,701	1,068,470	57,470	224,615	39,761	1,385
Other financial liabilities	9,581	122	4,916	1,024	2,713	806
Total liabilities	1,406,294	1,068,592	62,418	227,631	45,462	2,191

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Undrawn loan commitments and contingent commitments	190,140	93,283	1,934	29,205	65,696	22
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The consolidated financial assets and liabilities and the off-balance sheet commitments of the Group by remaining term to maturity determined against the contractual maturity as at the date of the consolidated statement of financial position are presented below. The table is prepared on the basis of undiscounted cash flows and the earliest date on which a payable becomes due for payment. The amounts include principal and interest for balance sheet items, and the undrawn loan commitments and contingent commitments are presented at the off-balance sheet amount of the commitment.

31 December 2023	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000	Total BGN '000
Cash and balances with the Central Bank	303,979	-	-	-	-	303,979
Receivables from banks	39,201	-	-	-	-	39,201
Loans and advances to customers	61,158	52,733	258,555	529,782	355,008	1,257,236
Securities at fair value through other comprehensive income	274	194	10,267	43,244	19,272	73,251
Securities at amortised cost	58	36	59,154	66,910	-	126,158
Other financial assets	-	2,006	-	-	-	2,006
Total assets	404,670	54,969	327,976	639,936	374,280	1,801,831
Liabilities to banks	100	65	6,379	1,299	-	7,843
Liabilities to customers	1,093,789	78,530	215,412	47,061	-	1,434,792
Other financial liabilities	120	9,197	900	2,046	571	12,834
Total liabilities	1,094,009	87,792	222,691	50,406	571	1,455,469
Undrawn loan commitments and contingent commitments	89,300	12,288	45,185	21,871	585	169,229
31 December 2022	Up to 1 month BGN '000	1-3 months BGN '000	3 months to 1 year BGN '000	1 – 5 years BGN '000	Over 5 years BGN '000	Total BGN '000
Cash and balances with the Central Bank	368,221	-	-	-	-	368,221
Receivables from banks	43,921	-	-	-	-	43,921
Loans and advances to customers	56,706	28,069	185,055	479,530	328,946	1,078,306
Securities at fair value through other comprehensive income	216	191	19,315	31,242	39,763	90,727
Securities at amortised cost	60	36	4,766	75,784	154	80,800
Other financial assets	-	2,029	-	-	-	2,029
Total assets	469,124	30,325	209,136	586,556	368,863	1,664,004
Liabilities to banks	-	35	2,098	3,189	-	5,322
Liabilities to customers	1,085,548	60,633	222,295	28,086	-	1,396,699
Other financial liabilities	130	6,050	1,066	2,718	816	10,784

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Total liabilities	1,085,678	66,718	225,459	33,993	816	1,412,805
Undrawn loan commitments and contingent commitments	93,283	1,934	29,205	65,696	22	190,140

3.4. Custody of assets

The Group is registered as an investment intermediary and carried out transactions on clients' behalf in accordance with Ordinance 38 of the Financial Supervision Commission (FSC). The Group has an approved policy with respect to trusted transactions on clients' behalf, developed in accordance with the requirements of Art. 28-31 of Ordinance 38 of the FSC.

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

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

3.5. Capital management

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

(1) Regulatory capital

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

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

The total capital adequacy ratio cannot be less than 16.25% (minimum total capital adequacy rate – 8%, capital safety buffer – 2.5%, systemic risk buffer – 3%, countercyclical capital buffer applicable to credit risk exposures in the Republic of Bulgaria – 2%, additional capital requirement from a supervisory review and evaluation process – 0.75%).

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Equity (capital base)	Basel III 31.12.2023 BGN '000	Basel III 31.12.2022 BGN '000
Common equity Tier 1 capital		
Equity instruments paid-in	90,064	90,064
Reserves	82,310	70,658
Accumulated other comprehensive income	(7,051)	(10,635)
Acceptable profit or loss	-	-
Decreases in Common equity Tier 1 capital:		
(-)Intangible assets	(4,568)	(4,555)
Other transitional adjustments to Common equity Tier 1 capital	(318)	(113)
(-)Insufficient coverage for non-performing exposures	(1)	-
Total	160,436	145,419
Tier 2 capital	-	-
Equity	160,436	145,419
Risk-weighted assets	31.12.2023 BGN '000	31.12.2022 BGN '000
<i>Risk-weighted balance sheet exposure</i>	753,593	728,564
<i>Risk-weighted off-balance sheet exposure</i>	49,188	57,323
Total risk-weighted assets for credit risk	802,781	785,887
Total exposures to position, currency and commodity risk	-	-
Total risk exposures to operational risk	82,075	70,963
Total risk exposures	884,856	856,850
Capital ratios	31.12.2023	31.12.2022
Total capital ratio	18.13%	16,95%
Tier I capital ratio	18.13%	16,95%

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

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	2023	2022
	BGN '000	BGN '000
Interest income		
Loans and advances to customers	54,976	34,272
Securities at amortised cost	1,770	870
Securities at fair value through other comprehensive income	795	1,060
Deposits with banks	9,391	872
Other liabilities	-	3
	<u>66,932</u>	<u>37,077</u>
Interest expense		
Deposits from customers	(2,812)	(1,129)
Assets	(164)	(712)
Deposits from banks	(252)	(453)
Interest on leases	(34)	(32)
	<u>(3,262)</u>	<u>(2,326)</u>
Net interest income	<u><u>63,670</u></u>	<u><u>34,751</u></u>

5. NET FEE AND COMMISSION INCOME*Net fee and commission income includes:*

	2023	2022
	BGN '000	BGN '000
Fee and commission income		
Cash operations and money transfers	4,876	4,383
Communication fees	3,684	3,619
Customers' accounts fees	329	649
Fees and commissions on loans	3,363	2,831
Bank guarantees and letters of credit	240	225
Other	108	1,175
	<u>12,600</u>	<u>12,882</u>

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	2023	2022
	BGN '000	BGN '000
Fee and commission expense		
Electronic debit card fees	(1,769)	(1,530)
Nostro accounts in other banks	(299)	(276)
Cash clearance	(29)	(38)
Securities transactions	(49)	(68)
Other	(37)	(48)
	<u>(2,183)</u>	<u>(1,960)</u>
Net fee and commission income	<u>10,417</u>	<u>10,922</u>

6. NET TRADING INCOME

Net trading income includes:

	2023	2022
	BGN '000	BGN '000
Net gain on foreign currency assets and liabilities	14	2,662
Net gain on foreign currency transactions	2,762	1,975
	<u>2,776</u>	<u>4,637</u>

7. NET GAIN OR LOSS ON IMPAIRMENT OF FINANCIAL ASSETS

The net loss of impairment of financial assets includes:

	2023	2022
	BGN '000	BGN '000
<i>Impairment of loans and advances granted</i>	9,075	7,535
<i>Reversed impairment of loans and advances granted</i>	(7,741)	(7,415)
Net loss on impairment of expected credit losses on loans and advances granted	<u>1,334</u>	<u>120</u>
Net loss/ (gain) on impairment of expected credit losses on nostro accounts and interbank deposits	<u>206</u>	<u>(6)</u>
Net (gain)/loss on impairment of expected credit losses on securities at fair value through other comprehensive income	(64)	(26)
Net (gain)/loss on impairment of expected credit losses on securities at amortised cost	(1)	-
Net loss on impairment of expected credit losses on other financial assets	36	(45)

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<u>1,511</u>	<u>43</u>
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The net loss on impairment of credit losses from loans and advances to customers is as follows:

	2023	2022
	BGN '000	BGN '000
Impairment of expected credit losses from loans on an individual basis (specific), net	3,265	2,020
Impairment of expected credit losses from loans related by common credit risk on a portfolio basis (collective), net	(1,931)	(1,900)
	<u>1,334</u>	<u>120</u>

8. OTHER OPERATING INCOME

The Group's other operating income includes:

	2023	2022
	BGN '000	BGN '000
Rental income from investment properties	105	116
Revenue from sales on non-financial services	518	370
<i>Proceeds from sales of investment property</i>	<i>2,823</i>	<i>4,344</i>
<i>Carrying amount of the investment property sold</i>	<i>(1,897)</i>	<i>(3,427)</i>
Gain on sales of investment property	926	917
<i>Proceeds from sales of other assets</i>	<i>4,101</i>	<i>3,050</i>
<i>Carrying amount of other assets sold</i>	<i>(3,821)</i>	<i>(1,240)</i>
Gain on sales of other assets	280	1,810
<i>Proceeds from sale of properties and equipment</i>	<i>-</i>	<i>-</i>
<i>Carrying amount of properties and equipment</i>	<i>-</i>	<i>-</i>
Profit from the sale of properties and equipment	-	-
<i>Gain on sales of assets held for sale</i>	<i>44</i>	<i>589</i>
<i>Carrying amount of assets held for sale</i>	<i>(22)</i>	<i>(451)</i>
Profit from the sale of assets held for sale	22	138
Other operating income	1,293	2,401
	<u>3,144</u>	<u>5,752</u>

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Administrative operating expenses include:	2023	2022
	BGN '000	BGN '000
Personnel expenses	18,593	15,233
Depreciation and amortisation expense	3,968	3,842
Other administrative and operating expenses	12,940	12,146
	35,501	31,221
<i>Personnel expenses include:</i>	2023	2022
	BGN '000	BGN '000
Current wages and salaries	15,231	12,700
Social security/health insurance contributions	2,777	2,093
Accruals for long-term retirement benefit obligations	105	87
Accruals for unused paid leaves	480	353
Total	18,593	15,233
<i>Other administrative and operating expenses include:</i>	2023	2022
	BGN '000	BGN'000
Rentals	217	206
Other taxes and charges	2,235	2,482
Annual contribution to the Bulgarian Deposit Insurance Fund	1,776	1,651
Communications and IT services	2,742	2,508
Security and cash collection services	1,043	1,025
Materials	882	1,097
Consulting, audit and legal services	863	620
Maintenance of office, office equipment, vehicles	541	490
Advertising and representation events	705	486
Insurance	131	120
Business trips	71	45
Membership fees	59	49
Other expenses	762	884
Office cleaning	298	276
SMS notification	235	168
Sponsorship and donation	155	12
Valuation services	105	63
Provisions in a court case	120	(36)
Total	12,940	12,146

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

The amounts accrued in 2023 for the services provided by the registered auditors for a mandatory joint independent financial audit are BGN 167 thousand excluding VAT.

In 2023, the Bank's group charged amounts for other services provided by the registered auditors are BGN 45 thousand excluding VAT.

The amounts accrued in 2022 for the services provided by the registered auditors for a mandatory joint independent financial audit are BGN 144 thousand. excluding VAT.

In 2022, the Bank charged amounts for other services provided by the registered auditors were 6 thousand excluding VAT.

The engagement letters for independent financial audit for 2023 and for agreed upon procedures according to the requirements of Art. 76, para. 7, item 1 and para. 8 of the Law on Credit Institutions and Art. 5 of Ordinance 14 of the BNB of February 4, 2010 on the content of the audit report for supervisory purposes, regarding the organization of the internal control systems of D Commerce Bank AD for the year ending on December 31, 2023, were signed at the end of 2023.

10. INCOME TAX EXPENSE

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

	2023	2022
	BGN'000	BGN'000
Current income tax expense for the year – 10% (2022: 10 %)	(5,295)	(2,476)
Origination and reversal of temporary differences	974	(14)
Total income tax expense carried to the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year)	(4,321)	(2,490)

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	2023 BGN'000	2022 BGN'000
<u>Reconciliation of income tax expense applicable to the accounting profit or loss</u>		
Accounting profit for the year	42,989	24,785
Income tax – 10% (2022: 10%)	(4,342)	(2,476)
<i>From unrecognised amounts as per tax returns related to:</i>		
increases - BGN 414 thousand (2022: BGN 140 thousand)	(34)	(15)
decreases – BGN 560 thousand (2022: BGN 10 thousand)	55	1
Total income tax expense carried to the consolidated statement of profit or loss and other comprehensive income (within profit or loss for the year)	(4,321)	(2,490)

11. OTHER COMPREHENSIVE INCOME

<i>Other comprehensive income includes:</i>	2023 BGN '000	2022 BGN '000
Net change in the fair value of financial assets at fair value through other comprehensive income		
<i>Gains/(Losses) incurred during the year</i>	3,649	(11,521)
	3,649	(11,521)
Net change in the allowance for expected credit losses from debt securities at fair value through other comprehensive income	(64)	(25)
Remeasurement of liabilities under defined benefit pension plans (<i>Note 27</i>)	5	(9)
	3,590	(11,555)
Income tax relating to items of other comprehensive income	-	-
Total comprehensive income for the year	3,590	(11,555)

12. CASH AND BALANCES WITH THE CENTRAL BANK

<i>Cash and balances with the Central Bank include:</i>	31.12.2023 BGN '000	31.12.2022 BGN '000
Cash on hand (<i>Note 29</i>)	27,081	28,103
Balances with the Central Bank (<i>Note 29</i>), including:	276,898	340,118
<i>Current account</i>	131,122	227,028
<i>Minimum required reserve in BGN</i>	145,776	113,090

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

13. RECEIVABLES FROM BANKS

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Term deposits	32,174	20,741
Current accounts and demand deposits	7,038	23,201
<i>Local banks</i>	1,155	3,581
<i>Foreign banks</i>	5,883	19,620
Expected credit losses	(11)	(21)
	39,201	43,921

As at 31 December 2023 and 31 December 2022, receivables from banks are classified in Stage 1. Expected credit losses have been calculated on an individual basis (*Note 7*).

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

	2023	2022
	BGN'000	BGN'000
Balance at 1 January	(21)	(27)
Increase in the impairment of expected credit losses recognised within profit or loss for the year	(321)	(584)
Decrease (reversal) of the impairment of expected credit losses recognised within profit or loss for the year	331	590
Balance at 31 December	(11)	(21)

14. LOANS AND ADVANCES TO CUSTOMERS

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Loans	1,016,784	907,311
Receivables under finance leases	32,115	23,751
	<u>1,048,899</u>	<u>931,062</u>
<i>Allowance for credit losses</i>	(22,754)	(21,464)
	<u><u>1,026,145</u></u>	<u><u>909,598</u></u>

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

Customer type	31.12.2023	31.12.2022
	BGN '000	BGN '000
Enterprises	814,926	732,808
Individuals		
- consumer loans	82,318	68,534
- mortgages	141,559	121,838
Total individuals	<u>223,877</u>	<u>190,372</u>
Agricultural producers	<u>10,096</u>	<u>7,882</u>
	<u><u>1,048,899</u></u>	<u><u>931,062</u></u>

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

	Stage 1	Stage 2	Stage 3	2023	2022
	(collective	(collective	(individual		
	impairment	impairment)	impairment)		
)				
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
Balance at 1 January	<u>(4,451)</u>	<u>(4,187)</u>	<u>(12,826)</u>	<u>(21,464)</u>	<u>(21,463)</u>
Impairment accrued	(2,408)	(1,661)	(5,006)	(9,075)	(7,535)
Reversed impairment	2,646	3,745	1,281	7,672	7,415
Written-off	-	-	113	113	119
Balance at 31 December	<u><u>(4,213)</u></u>	<u><u>(2,103)</u></u>	<u><u>(16,438)</u></u>	<u><u>(22,754)</u></u>	<u><u>(21,464)</u></u>

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Credit losses on an individual basis	16,438	12,864
Credit losses on a portfolio basis	6,316	8,600
	<u>22,754</u>	<u>21,464</u>

Leases

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

Net investment in finance leases	31.12.2023	31.12.2022
	BGN '000	BGN '000
Gross investment in finance leases	40,183	30,411
Unearned finance income	(7,587)	(6,244)
Net minimum lease payments	<u>32,596</u>	<u>24,167</u>
Impairment of credit losses	(481)	(416)
Net investment in finance leases	<u>32,115</u>	<u>23,751</u>

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Net investment in finance leases		
Maturity of up to 1 year	-	2,554
Maturity of 1 to 5 years	19,064	12,332
Maturity of more than 5 year	13,051	8,865

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Total gross carrying amount of the ten largest exposures to customers*	257,572	260,096
Percentage of the amount of gross loans and off-balance sheet commitments (<i>Note 30</i>)	21.55%	23.52%

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

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CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
15. SECURITIES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The securities at fair value through other comprehensive income as at 31 December 2023, presented by original maturity, are as follows:

	Nominal amount	Fair value	Interest rate (coupon)	Effective interest rate	Maturity
	31.12.2023 BGN '000	31.12.2023 BGN '000	31.12.2023 BGN '000	31.12.2023 BGN '000	31.12.2023 BGN '000
Government bonds – Republic of Bulgaria					
Medium-term bonds denominated in EUR	3,912	3,929	2.95%	0.79%	September 2024
Long-term bonds denominated in EUR	52,690	48,707	0.375% - 3.00%	0.21% - 0.48%	March 2027 - September 2030
	56,602	52,636			
Corporate bonds					
Medium-term bonds denominated in euro	9,779	9,685	-	3.07%	June 2025
Corporate Shares					
Shares denominated in BGN	20	240	-	-	-
Shares denominated in euro	-	34	-	-	-
	20	274			
Government bonds – Romania					
Short-term bonds denominated in EUR	5,868	5,881	-	-	October 2024
Total	72,269	68,476			
	Nominal amount	Fair value	Interest rate (coupon)	Effective interest rate	Maturity
	31.12.2022 BGN '000	31.12.2022 BGN '000	31.12.2022 BGN '000	31.12.2022 BGN '000	31.12.2022 BGN '000
Government bonds – Republic of Bulgaria					
Medium-term bonds denominated in EUR	3,912	3,944	2.95%	0.79%	September 2024
Long-term bonds denominated in EUR	52,690	46,390	0.375% - 3.00%	0.21% - 0.79%	March 2027 - September 2030
	56,602	50,334			
Government bonds – Republic of Turkey					
Medium-term bonds denominated in EUR	9,779	10,100	4.125%	3.62%	April 2023
Government bonds – Romania					
Short-term bonds denominated in EUR	6,845	6,737	1-2.875%	0.15%- 0.23%	December 2023- December 2024
Medium-term bonds denominated in EUR	5,868	5,809	1-2.875%	0.15%- 0.23%	-
	12,713	12,546			
Corporate sharess					
Shares denominated in BGN	20	182	-	-	-
Shares denominated in EUR	-	34	-	-	-
	20	216			
Corporate bonds					
Medium-term bonds denominated in EUR	1,662	1,812	6.00 %	4.69%	April 2023
Long-term bonds denominated in EUR	9,779	9,153	3.50%	3.07%	June 2025
	11,441	10,965			

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Total 90,555 84,161

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

	2023	2022
	BGN'000	BGN'000
Balance at 1 January	84,161	105,104
Increase (additions)	-	-
Decreases (disposals and/or maturity)	(18,795)	(7,398)
Net impact of revaluation to fair value	4,055	(12,705)
Change in interest accrued	(945)	(840)
Balance at 31 December	68,476	84,161

As at 31 December 2023 and 31 December 2022 the debt securities at fair value through other comprehensive income are classified in Stage 1. Expected credit losses have been determined on an individual basis (*Note 7*).

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

	2023	2022
	BGN'000	BGN'000
Balance at 1 January	(148)	(174)
Increase in the impairment of credit losses from debt instruments, recognised within other comprehensive income	(61)	(8)
Decrease (reversal) of the impairment of credit losses from debt instruments, recognised within other comprehensive income	159	34
Balance at 31 December	(50)	(148)

As at 31 December 2023, the Group has blocked securities pledged as collateral of budget accounts, with carrying amount BGN 52,636 thousand (31 December 2022: BGN 50,331 thousand).

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CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023
16. SECURITIES AT AMORTISED COST

As at 31 December 2023, the carrying amount of debt securities at amortised cost includes:

	Nominal amount	Gross carrying amount	Expected credit loss	Amortised cost	Fair value	Interest rate (coupon)	Effective interest rate	maturity
	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023	31.12.2023
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
<i>Government bonds</i>								
Government bonds – Republic of Bulgaria – in BGN	60,000	58,635	(46)	58,589	58,085	0.01% - 2.25%	0.15%-4.18%	January 2025- July 2026
Government bonds – Republic of Bulgaria – in EUR	15,762	16,386	(13)	16,374	15,635	2.625 % - 2.95 %	0.75 % -1.33%	September 2024-March 2027
Government bonds – Republic of Turkey – in EUR	48,896	48,513	-	48,513	48,538	-	3.22%-3.71%	January 2024- May 2024
	124,658	123,534	(59)	123,476	122,258			

	Nominal amount	Gross carrying amount	Expected credit loss	Amortised cost	Fair value	Interest rate (coupon)	Effective interest rate	maturity
	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022	31.12.2022
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
<i>Government bonds</i>								
Government bonds – Republic of Bulgaria – in BGN	62,115	60,162	-	60,162	58,351	0.01% - 4.00%	0.15%-4.18%	July 2023- July 2026
Government bonds – Republic of Bulgaria – in EUR	13,691	14,568	-	14,568	13,506	2.625 % - 2.95 %	0.75 % -1.03%	September 2024-March 2027
Government bonds – Republic of Turkey – in EUR	1,956	2,015	(23)	1,992	1,962	4.125 %	3.91%	April 2023
	77,762	76,745	(23)	76,722	73,819			

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

	2023	2022
	BGN'000	BGN'000
Balance at 1 January	76,722	67,035
Acquired in the year	50,459	32,593
Matured in the year	(4,182)	(22,841)
Change in the impairment of credit losses	(36)	-
Change in current interest	513	(65)
Balance at 31 December	123,476	76,722

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

	2023	2022
	BGN'000	BGN'000
Balance at 1 January	(23)	(23)
Increase in the impairment of credit losses on debt securities at amortised cost	(61)	(1)
Decrease (reversal) in the impairment of credit losses on debt securities at amortised cost	25	1
Balance at 31 December	(59)	(23)

As at 31 December 2023, investment stated at amortised cost at a total amount of BGN 74,963 thousand (31 December 2022: BGN 74,730 thousand) are blocked as collateral of budget funds.

17. INVESTMENT PROPERTY

	2023	2022
	BGN '000	BGN '000
<i>Book value</i>		
Balance at 1 January	16,356	20,765
Additions	176	198
Disposals	(5,842)	(4,607)
Balance at 31 December	10,690	16,356
<i>Depreciation and impairment loss</i>		
Balance at 1 January	1,432	2,077
Depreciation charge for the year	149	215
Disposals	(1,202)	(843)
Impairment	(59)	(17)
Balance at 31 December	320	1,432
Carrying amount at 1 January	14,924	18,688
Carrying amount at 31 December	10,370	14,924

This is a translation from Bulgarian of the Consolidated Financial Statements of D Commerce Bank Group for the year ended 31 December 2023.

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As at 31 December 2023, the fair value of investment property is BGN 15 460 thousand (2022: BGN 22 457 thousand) (*Note 2.25.2.2*).

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

	Land and building		Information equipment		Furniture and fixtures		Other		Assets in progress		Right-of-use assets		Total	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000	BGN '000
<i>Book value</i>														
Balance at 1 January	42,786	42,538	5,661	5,161	3,367	3,154	4,152	3,973	402	986	7,212	6,076	63,580	61,688
Additions	113	-	542	89	19	86	771	112	613	632	369	2,485	2,427	3,406
Disposals	-	-	(252)	(44)	(20)	(14)	(119)	(106)	(3)	-	(438)	(1,349)	(832)	(1,513)
Transfer	-	248	-	455	-	141	-	173	-	(1,216)	-	-	-	(199)
Balance at 31 December	42,899	42,786	5,951	5,661	3,366	3,367	4,804	4,152	1,012	402	7,143	7,212	65,175	63,580
<i>Depreciation and impairment loss</i>														
Balance at 1 January	4,262	3,623	4,622	4,292	2,968	2,877	3,547	3,456	5	5	2,332	2,185	17,736	16,438
Depreciation charge for the year	642	639	398	374	108	105	258	197	-	-	1,467	1,496	2,873	2,811
Disposals	-	-	(252)	(44)	(20)	(14)	(78)	(106)	-	-	(433)	(1,349)	(783)	(1,513)
Balance at 31 December	4,904	4,262	4,768	4,622	3,056	2,968	3,727	3,547	5	5	3,366	2,332	19,826	17,736
<i>Carrying amount</i>														
Carrying amount at 31 December	37,995	38,524	1,183	1,039	310	399	1,077	605	1,007	397	3,777	4,880	45,349	45,884
Carrying amount at 1 January	38,524	38,915	1,039	869	399	277	605	517	397	981	4,880	3,891	45,884	45,450

As at 31 December 2023, the Group's tangible fixed assets included: land amounting to BGN 2,464 thousand (31 December 2022: BGN 2,463 thousand) and buildings of carrying amount BGN 35,531 thousand (31 December 2022: BGN 36,064 thousand).

As at 31 December 2023, the property, plant and equipment include assets at book value BGN 9,850 thousand (31 December 2022: BGN 9,530 thousand), which have been fully depreciated but still in use in the Group's operations.

As at 31 December 2023, right-of-use assets are related to leases of office premises.

19. INTANGIBLE ASSETS

	Software and advances for software purchase	
	2023	2022
	BGN '000	BGN '000
<i>Book value</i>		
Balance at 1 January	7,805	6,140
Additions	957	1,810
Disposals	(112)	(145)
Balance at 31 December	8,650	7,805
<i>Amortisation and impairment loss</i>		
Balance at 1 January	3,250	2,579
Amortisation charge for the year	946	816
Disposals	(113)	(145)
Balance at 31 December	4,083	3,250
<i>Carrying amount at 1 January</i>	4,555	3,561
<i>Carrying amount at 31 December</i>	4,567	4,555

20. ASSETS HELD FOR SALE

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

	2023	2022
	BGN '000	BGN '000
At 1 January	22	78
Additions	-	414
Disposals	(22)	(470)
At 31 December	-	22

21. CURRENT TAX RECEIVABLES

Current tax receivables include:

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Value added tax	37	-
Corporate tax	-	477
Total	37	477

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<i>Other assets include:</i>	31.12.2023	31.12.2022
	BGN '000	BGN '000
<i>Assets acquired through collateral</i>	7,666	8,651
<i>Allowance for impairment</i>	(744)	(744)
	<u>6,922</u>	<u>7,907</u>
Guarantee deposits with suppliers	1,099	654
Prepayments	717	1,325
Other assets	2,019	18,475
Inventories	21,725	-
Total	<u>32,482</u>	<u>28,361</u>
<i>Including:</i>	31.12.2023	31.12.2022
	BGN '000	BGN '000
Non-financial assets	2,006	2,029
Financial assets	30,476	26,332
Total	<u>32,482</u>	<u>28,361</u>

23. LIABILITIES TO BANKS

Liabilities to banks represent funds attracted from banks and related mainly to credit lines with a carrying amount as at 31 December 2023: BGN 3,004 thousand (31 December 2022: BGN 4,997 thousand). Receivables under loans granted to Group clients under a BDB programme have been pledged in favour of BDB. The contractual conditions of *liabilities to banks* are as follows:

The agreed terms of the liabilities to banks are as follows:

	Amount	Currency	Maturity	31.12.2023	31.12.2022
				BGN '000	BGN '000
Bulgarian Development Bank AD	15,000	BGN '000	31.05.2025	3,004	4,997
Bulgarian Development Bank AD	1,500	EUR '000	20.5.2023	-	15
International Asset Bank AD	4,654	BGN '000	31.07.2024	4,654	-
Total				<u>7,658</u>	<u>5,012</u>

D COMMERCE BANK GROUP**CONSOLIDATED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023****Change in liabilities from financing activities**

The table below presents the reconciliation between the opening and closing balances in the consolidated statement of financial position for the liabilities from financing activities for the year ended 31 December 2023:

	1.1.2023	Principal Utilizations	Principal and interest paid	Bank loan payments	Accruals under the effective interest rate method	Other non-cash changes	31.12.2023
Liabilities to banks	5,012	5,038	(258)	(2,437)	303	-	7,658
Lease liabilities	4,905	-	(1,476)	-	34	371	3,834
Total liabilities from financing activities	9,917	5,038	(1,734)	(2,437)	337	371	11,531

	1.1.2022	Principal and interest paid	Bank loan payments	Accruals under the effective interest rate method	Other non-cash changes	31.12.2022
Liabilities to banks	7,488	(108)	(2,485)	117	-	5,012
Lease liabilities	3,918	-	(1,528)	32	2,483	4,905
Total liabilities from financing activities	11,406	(108)	(4,013)	149	2,483	9,917

24. LIABILITIES TO CUSTOMERS

	31.12.2023 BGN '000	31.12.2022 BGN '000
Individuals		
- term deposits	363,661	312,929
- saving accounts	105,820	107,525
- demand deposits	169,286	177,034
	638,767	597,488
Private entities and other financial institutions		
- term deposits	55,970	80,177
- demand deposits	737,017	714,036
	792,987	794,213
	1,431,754	1,391,701

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As at 31 December 2023, 2% of the total amounts due to customers (31 December 2022: 3%) represent funds of the sole owner – shareholder and parties related thereto.

Deposits from customers include customer deposits restricted by the Group: as collateral for loans and issued bank guarantees at the amount of BGN 26,961 thousand (31 December 2022: BGN 18,134 thousand), as well as accounts subject to special terms and conditions: accumulation accounts at the amount of BGN 720 thousand (31 December 2022: BGN 1,978 thousand).

25. CURRENT TAX LIABILITIES

Current tax liabilities include:

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Value added tax	-	221
Withholding tax	32	30
Corporate income tax	28	63
Final income tax	11	5
One-off taxes on expenses	1,244	19
Personal income tax	131	5
Value added tax	<u>1,446</u>	<u>338</u>

By the date of issuance of this report, audits and inspections have been carried out as follows:

- VAT audit – until 31.12.2023; inspection – for the period 01.01.2022 – 31.08.2023
- corporate tax until 31.12.2022
- Full tax audit – by 31.12.2009;
- National Social Security Institute – until 31.01.2015

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

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

	<i>temporary difference</i>	<i>tax</i>	<i>temporary difference</i>	<i>tax</i>
	<u>31.12.2023</u>	<u>31.12.2023</u>	<u>31.12.2022</u>	<u>31.12.2022</u>
	<u>BGN '000</u>	<u>BGN '000</u>	<u>BGN '000</u>	<u>BGN '000</u>
Property, equipment and investment property	(2,615)	(262)	(4,617)	(461)
Right-of-use of assets	(17)	(1)	14	1
Total deferred tax liabilities	(2,632)	(263)	(4,603)	(460)
Tax loss	340	34	200	20
Accruals for unused staff leave and bonuses	692	70	572	57
Long-term liabilities to staff upon retirement	648	65	588	60
Other assets (collateral acquired)	587	59	647	63
Other assets (inventories)	3,454	346	-	-
Provisions for lawsuits	182	18	204	20
Total deferred tax assets	5,903	592	2,211	222
Net assets under deferred income taxes	3,271	329	(2,392)	(240)

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

The change in the balance of deferred taxes for 2023 was as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>01.01.2023</i>	<i>Recognised in the current profit and loss</i>	<i>31.12.2023</i>
	BGN '000	BGN '000	BGN '000
Property, equipment and investment property	(461)	199	(262)
Accruals for paid leaves of personnel and bonuses	57	13	70
Long-term retirement benefit obligations	60	5	65
Tax loss	20	14	34
Other assets (acquired collaterals)	63	(4)	59
Other assets (inventories)	-	346	346
Court provisions	20	(2)	18
Right-of-use assets	1	(2)	(1)
Total	(240)	569	329

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The change in the balance of deferred taxes for 2022 was as follows:

<i>Deferred tax (liabilities)/ assets</i>	<i>01.01.2022</i>	<i>Recognised in the current profit and loss</i>	<i>31.12.2022</i>
	BGN '000	BGN '000	BGN '000
Property, equipment and investment property	(325)	(137)	(462)
Accruals for paid leaves of personnel and bonuses	50	9	59
Long-term retirement benefit obligations	55	8	60
Tax loss	25	2	27
Other assets (acquired collaterals)	66	(11)	55
Court provisions	19	1	20
Other	87	(87)	-
Right-of-use assets	2	-	2
Total	(21)	(215)	(239)

27. OTHER LIABILITIES

Other liabilities include:

	31.12.2023	31.12.2022
	BGN '000	BGN '000
<i>Lease liabilities</i>	3,834	2,215
Transfers in progress	1,473	28
Long-term retirement benefit obligations	649	130
Current liabilities to personnel and social security	700	625
<i>Guarantees on cession agreements and letters of credit</i>	506	595
Advances from the sale of assets acquired from collaterals	3	542
Prepaid credit account management fees	76	1,851
Other liabilities	2,424	4,905
	9,665	10,891
<i>Including:</i>		
	31.12.2023	31.12.2022
	BGN '000	BGN '000
Financial liabilities	7,857	9,581
Non-financial liabilities	1,808	1,310
	9,665	10,891

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The change in liabilities under lease agreements in 2023 is presented in the following table:

	2023	2022
	BGN '000	BGN'000
As of 1 January 2023	4,900	3,913
Acquired	675	3,537
Accrued interest for the period	34	32
Payments	(1,476)	(1,527)
Terminated	(299)	(1,055)
	<u>3,834</u>	<u>4,900</u>
As of 31 December 2023	3,834	4,900

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

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

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

For the purpose of establishing the amount of the liability as at 31 December 2023, the Group has assigned actuarial valuation by using the services of a certified actuary.

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

	2023	2022
	BGN '000	BGN '000
Present value of the obligation at 1 January	<u>595</u>	<u>540</u>
Interest cost	16	15
Current service cost	83	68
Payments made in the year	(40)	(37)
Gains or losses from remeasurement for the year	(5)	9
Present value of the obligation at 31 December	<u>649</u>	<u>595</u>

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

	2023	2022
	BGN '000	BGN '000
Current service cost	83	63
Interest cost	16	15
Components of defined benefit plan costs recognised in profit or loss <i>(Notes № 9)</i>	99	78
Remeasurement gains or losses on the retirement benefit obligations, including:		
<i>Actuarial losses arising from changes in financial assumptions</i>	(5)	9
<i>Actuarial (gains) arising from changes in demographic assumptions</i>	13	(29)
<i>Actuarial (gains)/losses arising from experience adjustments</i>	(33)	(11)
	15	49
Components of defined benefit plans cost recognised in other comprehensive income (Note 11)	(5)	9
Total	94	87

The following actuarial assumptions were used in calculating the value of the liabilities as at 31 December 2023:

- mortality rate – in accordance with the table issued by the National Statistics Institute for the total mortality rate of the population in Bulgaria for the period 2020 – 2022 (31 December 2022: 2019 – 2021);
- staff turnover rate – applied probability of leave prior to retirement of 7.50% per year (2022: 6.50%).
- discount factor – the rate applied is based on the effective annual interest rate 0.50% (31 December 2022: 0.50%). It is grounded on the market yield on the long-term government securities (of 10-year maturity). Considering that the average term to pensioning is longer than 11 years, the discount rate has been established through extrapolation;
- the assumption for the future level of the salaries is based on the information provided by Group's management and amounts to 3% annual growth for 2023 for the first three years and 2% for the remaining period (2022: 3%).

28. CAPITAL AND RESERVES***Share capital***

As at 31 December 2023, the registered share capital of D Commerce Bank AD amounts to BGN 90,064 thousand (31 December 2022: BGN 90,064 thousand), distributed in 90,064 (2022: 90,064) ordinary registered dematerialised voting shares with a par value of BGN 1,000 each.

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The share capital structure is as follows:

Shareholder	Shares held as at 31.12.2023	Percentage	Shares held as at 31.12.2022	Percentage
Fuat Guven	50,000	55.52%	50,000	55.52%
Fortera EAD	40,064	44.48%	40,064	44.48%
Total	90,064	100%	90,064	100%

In 2023 and 2022, there is no change in the Group's share capital.

Reserves

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Statutory reserves (Reserve Fund)	82,310	70,660
Reserve of financial assets at fair value through other comprehensive income	(7,051)	(10,636)
Total	75,259	60,024

Statutory reserves (Reserve Fund)

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

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

As at 31 December 2023, the *statutory reserves (Reserve Fund)* of the Group amount to BGN 82,310 thousand (31 December 2022: BGN 70,660 thousand) whereas the minimum amount required under the Commercial Act is reached.

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

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	2023	2022
	BGN '000	BGN '000
Balance at 1 January	70,660	51,853
Distribution of profit	18,650	18,807
Distributed dividend	(7,000)	-
Balance at 31 December	82,310	70,660

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

As at 31 December 2023, it amounts to BGN (7,051) thousand (31 December 2022: BGN 10,636 thousand).

The movements in the *reserve of financial assets at fair value through other comprehensive income* is as follows:

	2023	2022
	BGN '000	BGN '000
Balance at 1 January	(10,636)	910
(Losses)/Gains on remeasurement to fair value for the year	3,649	(11,521)
Net change in the impairment of expected credit losses from financial assets at fair value through other comprehensive income	(64)	(25)
Balance at 31 December	(7,051)	(10,636)

Retained earnings amount to BGN 38,565 thousand as at 31 December 2023 (31 December 2022: BGN 18,536 thousand).

The movements of *retained earnings* are as follows:

	2023	2022
	BGN '000	BGN '000
Balance at 1 January		
Net profit for the year	18,536	15,044
Distribution of profit to reserves	38,674	22,308
Actuarial losses from remeasurement	(18,650)	(18,807)
Balance at 31 December	5	(9)
Balance at 1 January	38,565	18,536

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

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Cash on hand (<i>Note 12</i>)		
Current accounts with the Central Bank	27,081	28,103
(<i>Note 12</i>)		
Minimum obligatory reserve (<i>Note 12</i>)	131,122	227,028
Receivables from banks with original maturity of up to 90 days (<i>Note 13</i>)	145,776	113,090
Cash and cash equivalents in the consolidated statement of cash flows	39,201	43,921
Cash on hand (<i>Note 12</i>)	343,180	412,142

30. CONTINGENT LIABILITIES AND COMMITMENTS*Financial guarantees and letters of credit*

The Group provides financial guarantees and letters of credit to guarantee the performance of its customers to third parties. These arrangements have fixed limits and are generally valid for a period of up to one year.

The amounts of concluded agreements for undertaken commitments and contingent liabilities are presented in the table below:

	31.12.2023	31.12.2022
	BGN '000	BGN '000
Contingent liabilities		
Bank guarantees and letters of credit		
- in BGN	18,026	14,472
- in foreign currency	1,371	1,611
	19,397	16,083
Irrevocable commitments		
Undrawn amount of authorised loans		
- in BGN	106,742	148,527
- in foreign currency	43,090	25,530
	149,832	174,057
Contingent liabilities	169,229	190,140

As at 31 December 2023 and 31 December 2022, the amount of credit losses related to guarantees granted, letters of credit and irrevocable commitments is insignificant in its amount; therefore, it has not been carried to these consolidated financial statements.

Nature of instruments and credit risk

These commitments of contingent nature are bearers of off-balance sheet credit risk as only arrangement fees and provisions for potential losses are recognised in the statement of financial position until the commitments expire or are fulfilled. The amounts reflected in the table below with respect to guarantees represent the maximum accounting loss that would be recognised as at the date of the financial statements if the counterparties fail to discharge their contractual liabilities in full. Many of the contingent liabilities will expire without being paid fully or partially. Therefore, the amounts do not represent expected future cash flows. Collaterals held for the issuance of bank guarantees and letters of credit are 100% and represent mainly deposits restricted with the Group, mortgage of real estate, bank guarantees issued by other banks and promissory notes.

When conditions for enforcement of an issued guarantee occur, the Group assesses the possibilities for recourse to the counterparty and potential realisation of the collaterals provided.

Court proceedings

As at 31 December 2023, respectively as at 31 December 2022, there were no material legal claims against Group companies that might have a significant impact on the Group and/or its financial position.

31. RELATED PARTY TRANSACTIONS

The Group's related party and type of relation are as follows:

<i>Related parties</i>	<i>Type of relation</i>
Mr. Fiat Guven	Main shareholder
Fortera AD	Shareholder with significant influence
D Insurance Broker EOOD	Subsidiary
D Leasing EAD	Subsidiary
D Imoti EOOD	Subsidiary
D Park EOOD	Subsidiary
Emeralda Tekstil Sanay Dash Tidjaret Limited Shirketirest AD	Company under common control through main shareholder
Elkbel AD	Company under common control through main shareholder
Audatur AD	Company under common control through main shareholder
Shipka Fuat Guven – Turkey shop	Company under common control through main shareholder
Shipka Fuat Guven shop OOD	Company under common control through main shareholder
Emeralda EOOD	Company under common control through main shareholder
Trakiya-97 EOOD	Company under common control through main shareholder
Stil-93 OOD	Company under common control through main shareholder
Elefors OOD	Company under common control through main shareholder
Gama Invest AD	Company under common control through main shareholder
Kardzhali Tabak AD	Company under common control through main shareholder
Svilengrad – Gaz AD	Company under common control through main shareholder
Shipka Oil EOOD	Company under common control through main shareholder
Vasilevi Brothers OOD	Company under common control through main shareholder
Shipka Fuat Guven – Varna OOD	Company under common control through main shareholder
IvanchoV stan	Company under common control through main shareholder

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Ivanchov han Company under common control through main shareholder
 Borisov and Borisov law firm Key management personnel
 The individuals who are part of the key management personnel are disclosed in *Note 1.2*.

(a) Outstanding balances with related parties

Account type	Relation type	31.12.2023	31.12.2022
		BGN '000	BGN '000
Deposits, current and escrow accounts	Entity under a common control through a main shareholder	14,494	21,995
Deposits and current accounts	Shareholder	14,403	17,734
Deposits and current accounts	Key management personnel	1,705	1,498
		30,602	41,227
Loans granted	Entity under a common control through a main shareholder	2,719	3,042
Loans granted	Key management personnel	2,770	2,905
		5,489	5,947
Issued guarantees and letters of credit	Entity under a common control through a main shareholder	520	440

(b) Related party transactions

Income / expense	Relation type	2023	2022
		BGN '000	BGN '000
Interest income	Entity under a common control through a main shareholder	163	161
Interest income	Key management personnel	61	30
		224	191
Commissions income	Entity under a common control through a main shareholder	43	45
Commissions income	Key management personnel	1	1
Commissions income	Shareholder	1	1
		45	47
Interest expense	Entity under a common control through a main shareholder	11	17
Interest expense	Shareholder	8	1
Interest expense	Key management personnel	1	1
Interest income		20	19

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(c) Remuneration of key management personnel	2023	2022
	BGN '000	BGN '000
Remuneration of key management personnel	3,169	2,733

The members of the key personnel are disclosed in *Note 1*.

32.ADDITIONAL INFORMATION

Information for disclosure in accordance with the requirements of Article 70 (6) of the CIA.

The data provided for the Bank and its subsidiaries are as of December 31, 2023 and do not include consolidation eliminations:

Name of entity	D Commerce Bank AD	D Leasing EAD subsidiary*	D Imoti EOOD subsidiary*	D Zastrahovatelyen Broker EOOD subsidiary*	D Invest Park EOOD subsidiary*
Description of activity	Banking	Leasing	Real Estate Operations	Insurance Intermediation	Real Estate Operations
Headquarters	Sofia	Sofia	Sofia	Sofia	Sofia
Operating income	74,793	617	(234)	-	-
Number of employees	387	5	-	2	-
Profit/(loss) before tax	49,002	312	(97)	298	(49)
Tax charged	(4,886)	(31)	9	(30)	5
	2,66%	1,08%	(0,35)%	94,70%	(0,25%)
	none	none	none	none	none

**Subsidiary data are preliminary and unaudited*

33. EVENTS AFTER THE DATE OF THE CONSOLIDATED FINANCIAL STATEMENTS

No adjusting events or significant non-adjusting events occurred between the date of the consolidated financial statements and the date of their authorization for issue, except for the non-adjusting event described below.

On February 27, 2024, the Group 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.