

BULGARIAN DEVELOPMENT BANK

CODE OF CORPORATE GOVERNANCE

Preamble

This Code of Corporate Governance aims to establish the basic principles and rules on which the good corporate governance of Bulgarian Development Bank (the Bank) as well as of the companies of its group is based.

The Code of Corporate Governance takes into consideration the objectives of the Bank, the priorities in its activity laid down in article 2 and article 4 of the Bulgarian Development Bank Act as well as the Bank's specific status with more than 99.99994 % share interest of the state as the Bank's activity is regulated by a separate law.

While drafting this code the provisions of the Bulgarian, European and international law as well as the best internationally recognized practices of corporate governance have been taken into consideration.

An up-to-date version of the code is available on the bank's website at www.bdbank.bg.

Chapter One General Provisions

Article 1. (1) Defining a system of basic principles and rules on good governance aims to establish corporate standards which are of key importance for the effective management of Bulgarian Development Bank and for ensuring the protection of the rights and interests of the shareholders, customers and employees.

(2) This Code is part of the rules on management of the Bank under article 73, paragraph 1, item 1 and item 2 of the Credit Institutions Act and article 4, paragraph 1, item 1 and item 2 of Ordinance No. 10 of 24 April 2019 on the organization, governance and internal control of the banks.

(3) While drafting the rules on management Bulgarian Development Bank takes into account its size and internal organization, the nature, scale and complexity of the activity it carries out as well as the risks it is exposed to.

(4) For the purposes of paragraph 3 the Bank shall apply the criteria under item 19 of the Guidelines on internal governance (EBA/GL/2017/11) adopted by the European Banking Authority.

(5) The Code of Corporate Governance shall also apply accordingly to the Bulgarian Development Bank Group companies.

Article 2. (1) Bulgarian Development Bank shall apply the following principles of good corporate governance:

1. protection of the rights of shareholders and their equal treatment including by setting up conditions for their participation in the general meeting of shareholders and for making informed decisions;

2. transparency in order to ensure timely and accurate disclosure of all essential matters concerning the activity of the companies, including purposes, shareholding structure, group structure, composition and activity of the management bodies, persons holding key positions, internal control framework and others;

3. responsibility of the management bodies by building clear organizational structure, defining the responsibilities and the manner of decision making on all levels, carrying out effective supervision by the management bodies as well as providing information and accountability to the shareholders of the Bank and the companies;

4. lawfulness while carrying out the activity of the Bank and the companies and compliance with the applicable regulations and the good practices in the banking and financial sectors;

5. application of a Code of Professional Conduct;

6. avoidance of conflicts of interests;

7. introduction of systems for internal control and risk management which shall ensure compliance with the statutory requirements.

Article 3. This Code shall aid the accomplishment of the objectives and priorities of the Bank laid down in the Bulgarian Development Bank Act and its three-year strategy approved by the Council of Ministers.

Article 4. (1) Bulgarian Development Bank Group is a banking group focusing on small- and medium-sized enterprises. The group also participates in public and public-private projects or partnerships as well as in projects of strategic, national and/or regional importance.

(2) Bulgarian Development Bank Group aims to have a positive contribution to the public in all main segments in which it operates.

Chapter Two

Shareholding Structure and Activity of Bulgarian Development Bank

Article 5. (1) Bulgarian Development Bank AD¹ was founded on 11 March 1999 as a joint-stock company named “Nasarchitelna Banka²”.

(2) On 23 April 2008, the Bulgarian Development Bank Act regulating the Bank’s status and activities as well as its subsidiaries to be incorporated was passed.

Article 6. (1) The domicile of Bulgarian Development Bank is the city of Sofia, [postal code] 1000, District of Sredets, and its registered office is at 1 Dyakon Ignatij Street.

(2) Bulgarian Development Bank has no branches opened.

Article 7. (1) The Bulgarian State holds 99.99994 % of the capital of the Bulgarian Development Bank. The rights of the state at the general meeting of shareholders of the bank are exercised by the Minister of Economy.

(2) DSK Bank AD holds 0.00006 % of the capital of Bulgarian Development Bank.

Article 8. (1) Bulgarian Development Bank is a credit institution licensed to carry on banking activity under license No. Б 25 of 25 February 1999 updated by Order No. PΛ22-2272/16 November 2009 of Bulgarian National Bank.

(2) The scope of the license does not cover the issuance of bank payment cards and electronic money as well as the execution of payment operations via bank payment cards and e-money instruments.

(3) Bulgarian Development Bank shall also carry out operations as an investment intermediary.

Chapter Three

¹ A transliteration of Bulgarian abbreviation “АД” standing for a “joint-stock company” – *Translator’s Note*.

² A transliteration of Bulgarian phrase “Насърчителна банка” meaning “encouragement bank” – *Translator’s Note*.

Management of Bulgarian Development Bank

Article 9. (1) The bodies of Bulgarian Development Bank are:

1. General Meeting of Shareholders;
2. Supervisory Board;
3. Management Board.

(2) This code shall not introduce any new rules, obligations and responsibilities of the bodies of Bulgarian Development Bank.

Article 10. The specific powers of the general meeting of shareholders are determined by the Bulgarian Development Bank Act, the Credit Institutions Act, the statutory acts on the implementation thereof, the Commerce Act and the Bank's by-laws.

Article 11. The specific powers of the Supervisory Board are determined by the Bulgarian Development Bank Act, the Credit Institutions Act, the statutory acts on the implementation thereof, the Commerce Act, the Bank's by-laws, the Operating Rules of the Supervisory Board of Bulgarian Development Bank AD, other applicable internal banking statutory documents and the resolutions adopted under article 236 of the Commerce Act.

Article 12. The specific powers of the Management Board are determined by the Bulgarian Development Bank Act, the Credit Institutions Act, the statutory acts on the implementation thereof, the Commerce Act, the Bank's by-laws, the Operating Rules of the Management Board of Bulgarian Development Bank AD, other applicable internal banking statutory documents and the resolutions adopted under article 236 of the Commerce Act.

Article 13. Bulgarian Development Bank shall be jointly represented by two executive directors or by at least one executive director and one authorized signatory [prokura-holder]= They may not assign the overall management and representation of the Bank to one person but they may authorize employees of the Bank or third parties to carry out individual actions.

Article 14. (1) There are advisory bodies established at the Bank that assist the operations of its management bodies as follows:

1. Audit Committee;
2. Risk Management Committee;
3. Remuneration Committee;
4. Selection Committee;
5. Assets and Liabilities Management Committee;
6. Depreciations and Provisions Committee.

(2) The organization of the operations of the bodies under paragraph 1 are regulated by individual internal banking statutory documents.

Article 15. Bulgarian Development Bank applies a policy of diversity with respect to the composition of the management and controlling bodies and the committees thereat, and strictly complies with the applicable requirements for assessment of the suitability of the members of the management body and the persons holding key positions.

Article 16. The persons holding key positions at the Bank are:

1. Head of Planning, Analysis and Regulations Department;
2. Head of Group's Internal Audit Department;
3. Head of Risk Department;
4. Head of Compliance Department.

Chapter Four

Organizational Structure of Bulgarian Development Bank

Article 17. The organizational structure of the Bank is one of precisely defined, transparent and consistent levels of responsibilities as it is built based on the principle of separation of functions.

Article 18. (1) There are three main groups of units established at the Bank: business units, functional units and controlling units.

(2) Each unit is directly subordinate to a separate executive director in charge of the respective specialized area, and the Group's Internal Audit is subordinate to the Supervisory Board.

(3) The organizational structure of the Bank ensures sufficient number of units that guarantee the performance of its functions.

Chapter Five

Structure of Bulgarian Development Bank Group. Activity and Management of Subsidiaries

Article 19. (1) For the purposes of this code the companies of BDB Group are: Bulgarian Development Bank AD, National Guarantee Fund EAD³, Microfinancing Institution Jobs EAD, Capital Investments Fund AD, BDB Leasing EAD and BDB Factoring EAD.

(2) Bulgarian Development Bank is the sole owner of the capital of National Guarantee Fund EAD, Microfinancing Institution Jobs EAD, BDB Leasing EAD and BDB Factoring EAD.

(3) Bulgarian Development Bank and National Guarantee Fund EAD own one hundred percent of the capital of Capital Investments Fund AD.

Article 20. The objects of business of National Guarantee Fund EAD are to issue guarantees to supplement the security interest under loans to small- and medium-sized enterprises, to offer other products to small- and medium-sized enterprises as a guarantee for participation in tenders, a good performance guarantee, an advance payment guarantee, a guarantee for repayment of exporter's credit and others; to issue a guarantee to supplement the security interest under loans to small- and medium-sized enterprises engaging in research and development operations and for the incorporation of such products and research developments into the industry; to engage in other operations not prohibited by the law.

Article 21. The objects of business of Microfinancing Institution Jobs EAD are to carry out activity on financing of micro and small enterprises, including but not limited to, granting credits, acquiring from third parties and leasing industrial equipment, motorcars and other vehicles as well as other things (finance lease), purchase and sale and import of such things, consulting services, trade representation and intermediation for domestic and foreign natural persons and legal entities operating in the country as well as any other activity not prohibited by the law.

Article 22. The objects of business of Capital Investments Fund AD are to participate in the capital of small- and medium-sized enterprises; to provide consulting services regarding the capital structure of small- and medium-sized enterprises, advice and services regarding transformation of enterprises under article 261 of the Commerce Act; consulting services

³ A transliteration of Bulgarian abbreviation "EAD" standing for a "wholly-owned joint-stock company" – *Translator's Note.*

regarding investments; consulting services regarding management of pools of securities of small- and medium-sized enterprises; 5. other activities not explicitly prohibited by the law.

Article 23. The objects of business of BDB Leasing EAD are to carry on finance lease, to grant loans with funds not raised by way of receiving deposits or other repayable funds from the public and all activities that are supplementary to and serve leasing and lending.

Article 24. The objects of business of BDB Factoring EAD are to carry out transactions of transferring one-off or periodic receivables arising out of supplies of goods or provision of services (factoring), to grant loans by with funds not raised by way of receiving deposits or other repayable funds from the public and all activities that are supplementary to and serve factoring and lending.

Article 25. (1) The bodies of the subsidiaries are:

1. Sole owner of the capital / general meeting of shareholders;
2. Board of Directors.

(2) The specific powers of the sole owner of the capital / general meeting of shareholders and the Board of Directors are determined by the Bulgarian Development Bank Act, the Commerce Act, and the by-laws of the respective company, the Operating Rules of the Board of Directors and other applicable internal statutory documents on Group- or on company level as well as the resolutions adopted under article 236 of the Commerce Act.

(3) The Board of Directors of each subsidiary shall immediately notify Bulgarian Development Bank of all circumstances of material significance for the company.

Chapter Five Internal Control

Article 26. The internal control in Bulgarian Development Bank Group is a constant process carried out by the management bodies and by the persons engaged in internal controlling functions.

Article 27. (1) The elements of internal control are the systems for:

1. management control;
2. risk control;
3. accountability and information; and
4. internal audit.

(2) The first three elements of the system for internal control fall within the competence and powers of the respective management bodies.

(3) The fourth element of the internal control is the responsibility of the Group's Internal Audit.

Article 28. (1) The internal control at the Bank shall be organized as an independent assessment activity for the lawfulness of the banking transactions being carried out and shall be effected by monitoring and inspection of the financial, accounting and other operations being carried out by it as well as by the way in which the powers of the officials are being exercised when making management decisions.

(2) The system for internal control at the Bank shall be governed by the requirement for economy, efficiency and reasonable sufficiency.

(3) The internal control shall be simultaneously carried out as preventive, day-to-day and follow-up control of the positions of the Bank and its individual processes, operations and transactions.

Article 29. (1) Internal Audit Department shall carry out the internal audit in Bulgarian Development Bank Group as follow-up (by observations, inspections and assessments of operations, activities and processes having been carried out), and in certain cases, as preventive one for the sake of consulting regarding the internal statutory framework, the operating organization and procedures at the Bank and its subsidiaries.

Article 30. Risk Department shall provide independent information, analyses and experts' assessment of the risks and shall submit an overall review of all risks to the management body. The unit shall carry out operations related to identification, management, measurement, control and reporting of the risks, stress tests, monitoring of limits and reporting their fulfillment in accordance with the approved escalation procedures and shall also provide opinions on risk management-related proposals and decisions in terms of their compliance with the Bank's risk tolerance.

Article 31. Compliance Department shall identify and measure the risk related to the statutory compliance the Bank is or might be exposed to; carry out regular assessment of the changes to the statutory acts and delegated legislation applicable to the Bank, and the impact they have on the activity; consult the management and controlling bodies of the Bank when adopting measures for achievement of compliance with the applicable laws, rules, provisions and standards and prepare an assessment of the impact of the changes to the statutory and regulatory requirements on the activity of the bank; make an inspection of the compliance of all new products and new procedures with the law and the applicable statutory acts; report as regards the risk associated with the statutory compliance of the management and controlling bodies; cooperate and exchange information with the risk management structural unit as regards the risk associated with the statutory compliance and the management thereof.

FINAL PROVISIONS

§ 1. The Code of Corporate Governance is adopted on the grounds of article 73, paragraph 1, item 1 and item 2 of the Credit Institutions Act, article 4, paragraph 1, item 1 and item 2 of Ordinance No. 10 of 24 April 2019 on the organization, governance and internal control of the banks and the Guidelines on internal governance (EBA/GL/2017/11) adopted by the European Banking Authority.

§ 2. This Code was adopted by the Management Board of Bulgarian Development Bank under Minutes No. 101 of 24 November 2020 and shall come into force as from the date when adopted.

§ 3. This Code shall be periodically updated in accordance with the best internationally recognized practices of corporate governance.

§ 4. This Code shall be published on the website of Bulgarian Development Bank.