Investbank JSC

Annual Financial Statements

as at 31 December 2020

With Independent Auditor's Report

Audit Correct
AUDIT - CONSULTING - LAW

ECOVIS®

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

Pursuant to the requirements of the Independent Financial Audit Act in conjunction with Art. 10 of Regulation (EU) No. 537/2014, we further report the following information:

- Audit – Correct LTD and Ecovis Audit Bulgaria LTD were appointed as mandatory joint auditors of the financial statements of Investbank JSC for the year ended 31 December 2020 by the General Meeting of Shareholders held on 10 February 2020, for a period of one year.
- The audit of the financial statements for the year ended 31 December 2020 of the Bank represents the third year of continuous commitment to a statutory audit of this entity performed by Audit – Correct LTD and Ecovis Audit Bulgaria LTD.
- In support of our joint audit opinion, in the Key Audit Matters section, we have provided a description of the most essential risks assessed, a summary of the joint auditors' reply and important observations on these risks, where appropriate.
- We confirm that our joint audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank in accordance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We confirm that we have not provided the banned services outside the audit as specified in Art. 64 of the Independent Financial Audit Act.
- We confirm that in the performance of the audit we have retained our independence from the Bank.

March 25, 2021

For Audit Correct LTD
Auditing company

Rositsa Trichkova
Managing Partner
Registered auditor in charge of the audit

Audit Correct OOD
Sofia 1164, No. 12 Vishneva Str.
(+3592) 957 32 50, (+359) 898 9 7777 9
rosi.trichkova@abv.bg
www.auditcorrect.com

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 064
ОДИТ - КОРЕКТ ООД

For Ecovis Audit Bulgaria LTD
Auditing company

Georgi Trenchev
Managing Partner
Registered auditor in charge of the audit

Ecovis Audit Bulgaria LTD
Sofia 1404, No. 23 Tvardishki Prohod Str., floor 3, office 10
+359 958 60 40
georgi.trenchev@ecovis.bg

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 114
ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

STATEMENT OF FINANCIAL POSITION

Assets	Note	31 Dec 2020	31 Dec 2019
Cash and balances with central banks and other deposits on demand	15	**420,327**	**259,863**
Receivables from banks	16	**3,265**	**4,088**
Financial assets carried at fair value through profit or loss	17	**2,959**	**11,948**
Government securities		*2,959*	*11,948*
Loans and receivables	18	**875,469**	**716,678**
Loans and receivables from credit institutions		*1*	*16*
Loans and receivables other than those from credit institutions		*875,468*	*716,662*
Net investment in finance lease	19	**4,208**	**1,457**
Financial assets carried at fair value through other comprehensive income	20	**347,246**	**328,113**
Equity instruments		**21,420**	**22,117**
Debt securities		*325,826*	*305,996*
Financial assets carried at amortized cost, excluding loans and advances (debt securities)	21	**163,952**	**177,227**
Debt securities		*163,952*	*177,227*
Tangible assets		**147,130**	**145,670**
Property, plant and equipment	22.1	*22,365*	*24,526*
Investment properties	22.2	*124,765*	*121,144*
Intangible assets		**3,192**	**3,423**
Intangible assets	23	*3,192*	*3,423*
Non-current assets and decommissioning groups classified as held for sale	24	**11,114**	**14,249**
Other assets	25	**221,808**	**235,759**
including deferred tax assets	25.1	*2,998*	*3,013*
Total assets		2,200,670	1,898,475

STATEMENT OF FINANCIAL POSITION (continued)

Liabilities	Note	31 Dec 2020	31 Dec 2019
Deposits from credit institutions	26	12	-
Financial liabilities measured at amortized cost		1,947,300	1,704,365
Deposits other than those of credit institutions	27	*1,940,725*	*1,655,779*
Other financial liabilities	27.1	*6,575*	*9,170*
Bond loans	28		*39,416*
Other liabilities	29	6,750	6,016
including Provisions	29.1	958	902
Total liabilities		1,954,062	1,710,381
Equity			
Fixed capital		155,572	131,667
Reserves		91,036	56,427
including Retained earnings from past years		(28,233)	(30,322)
Current profit		2,200	2,089
Total equity	30	246,608	188,094
Total equity and liabilities		2,200,670	1,898,475

The notes on pages 8 to 86 constitute an integral part of these Annual Financial Statements.

Zdravka Ruseva
Executive Director

Maya Stancheva
Executive Director

Mladen Ivanov
Compiler

In accordance with Auditor's Report dated 25 March 2021:

Rositsa Trichkova
Registered Auditor, responsible for the engagement
Audit Correct OOD
Audit Company

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 064
ОДИТ - КОРЕКТ ООД

Georgi Trenchev
Registered Auditor, responsible for the engagement
Ecovis Audit Bulgaria LTD
Audit Company

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 114
ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

PROFIT AND LOSS STATEMENT *In BGN '000*	Note	2020	2019
Interest revenues		29,789	34,448
Interest expenses		(5,443)	(8,302)
Net interest income	6	24,346	**26,146**
Fee and commission revenues		27,323	31,166
Fee and commission expenses		(3,093)	(3,236)
Net fee and commission income	7	24,230	**27,930**
Net revenues on trading operations	8	1,784	1,950
Net result from investment securities (Net gains or losses on the write-off of financial assets and liabilities not carried at fair value through profit or loss)	9	1,310	2,226
Other operating revenues	10	4,986	2,922
Net exchange rate differences		173	62
Total operating revenues		56,829	**61,236**
		(55,928)	(72,361)
Administrative expenses	11	*(39,049)*	*(40,969)*
Losses on impairment of financial assets	12	*(16,879)*	*(31,392)*
Net result from remeasurement of investment property	13	1,248	14,682
Gain or loss before tax on current operations		2,149	3,557
Taxation (Tax expenses or revenues related to the gain or loss on current operations)	14	51	(1,468)
Profit or loss after taxation for the year		2,200	**2,089**

The notes on pages 8 to 86 constitute an integral part of these Annual Financial Statements.

Zdravka Ruseva
Executive Director

Maya Stancheva
Executive Director

Mladen Ivanov
Compiler

In accordance with Auditor's Report dated 25 March 2021:

Rositsa Trichkova
Registered Auditor, responsible for the engagement

Audit Correct OOD
Audit Company

Georgi Trenchev
Registered Auditor, responsible for the engagement

Ecovis Audit Bulgaria LTD
Audit Company

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 064 ОДИТ - КОРЕКТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 114 ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

STATEMENT OF COMPREHENSIVE INCOME
In BGN '000

	2020	2019
Profit/(Loss) after tax	2,200	2,089
Items that may not be subsequently reclassified to profit or loss:		
Actuarial gains and losses	25	(20)
Change in the fair value of equity instruments measured at fair value through other comprehensive income	-	31
Items that are or may be subsequently reclassified to profit or loss:		
Debt instruments measured at fair value through other comprehensive income	(4,865)	5,728
Change in the fair value of available-for-sale financial assets		
Other comprehensive income	(4,840)	5,739
Total comprehensive income	(2,640)	7,828

The notes on pages 8 to 86 constitute an integral part of these Annual Financial Statements.

Zdravka Ruseva
Executive Director

Maya Stancheva
Executive Director

Mladen Ivanov
Compiler

In accordance with Auditor's Report dated 25 March 2021:

Rositsa Trichkova
Registered Auditor, responsible for the engagement

Audit Correct OOD
Audit Company

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 064
ОДИТ - КОРЕКТ ООД

Georgi Trenchev
Registered Auditor, responsible for the engagement

Ecovis Audit Bulgaria LTD
Audit Company

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 114
ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

CASH FLOWS STATEMENT	Note	2020	2019
Net cash flow from operating activities			
Profit/(Loss) after tax		2,200	2,089
Impairment losses		16,879	30,739
Depreciation		5,010	4,915
Expense/(Revenue) on taxes		(51)	1,468
		24,038	39,211
Changes in operating assets			
(Increase)/Decrease in financial assets carried at fair value through profit or loss		8,989	(8,283)
Decrease in deposits provided to credit institutions		823	(767)
(Increase)/Decrease in loans and advances to customers		(174,631)	15,354
(Increase)/Decrease in net investment in finance lease		(2,751)	(663)
(Increase)/Decrease in non-current assets held for sale		3,135	(5,407)
(Increase)/Decrease in other assets		12,893	23,035
Changes in operating liabilities			
Increase/(Decrease) in deposits from credit institutions		12	(6)
Increase/(Decrease) in deposits from customers		282,351	(221,845)
Increase/(Decrease) in other liabilities		734	303
Taxes (paid)/recovered		51	(1,468)
Net cash flows from core operations		**155,644**	**(160,536)**
Cash flows from investment operations			
(Purchase)/Sale of property, plant, equipment and investment property		(6,239)	(55,305)
(Purchase)/Sale of investment in investment portfolio		26,570	(46,205)
Net cash flows from investment operations		**20,331**	**(101,510)**
Cash flows from financial operations			
Increase/(Decrease) in fixed capital		23,905	-
Increase/(Decrease) in hybrid debt-equity instrument			(9,820)
Increase/(Decrease) in bond loans		(39,416)	(24)
Net cash flows from financial operations		**(15,511)**	**(9,844)**
		160,464	**(271,890)**
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		**259,863**	**531,753**
Cash and cash equivalents at the end of the year	**32**	**420,327**	**259,863**

The notes on pages 8 to 86 constitute an integral part of these Annual Financial Statements.

Zdravka Ruseva
Executive Director

Maya Stancheva
Executive Director

Mladen Ivanov
Compiler

"ИНВЕСТБАНК" АД
ibank
София

In accordance with Auditor's Report dated 25 March 2021.

Rositsa Trichkova
Registered Auditor, responsible for the engagement
Audit Correct OOD
Audit Company

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 064
ОДИТ - КОРЕКТ ООД

Georgi Trenchev
Registered Auditor, responsible for the engagement

Ecovis Audit Bulgaria LTD
Audit Company

STATEMENT OF CHANGES IN EQUITY

In BGN '000	Note	Share capital	Statutory reserves	Retained earnings	Remeasurement reserve from financial assets carried at fair value through other comprehensive income	Remeasurement reserve of defined benefit plans	Total
Balance as at 1 January 2019		**121,667**	**63,090**	**(7,675)**	**(6,730)**	**(86)**	**170,266**
Total comprehensive income for the year							
Net profit for the year		-	-	2,089	-		2,089
Actuarial gains and losses		-	-	-	-	(20)	(20)
Other comprehensive income							
Remeasurement of financial assets carried at fair value through other comprehensive income		-	22,678	(22,647)	5,728		5,759
Total other comprehensive income		-	22,678	(22, 647)	5,728	(20)	5,759
Total comprehensive income for the year		-	**22,678**	**(20,558)**	**5,728**	**(20)**	**7,828**
Transactions with shareholders recognised in equity							
Increase in registered capital		10,000	-	-	-		10,000
Total transactions with shareholders recognised in equity		10,000	-	-	-		10,000
Balance as at 31 December 2019		**131,667**	**85,768**	**(28,233)**	**(1,002)**	**(106)**	**188,094**
Total comprehensive income for the year							
Net profit for the year		-	-	2,200	-		2,200
Actuarial gains and losses		-	-	-	-	25	25

Other comprehensive income							
Remeasurement of financial assets carried at fair value through other comprehensive income		-		-	(4,865)		32,385
Total other comprehensive income/(profit)		-			(4,865)	25	(4,640)
Total comprehensive income/(profit) for the year		-		2,200	(4,865)	25	(2,440)
Transactions with shareholders recognised in equity							
Increase in registered capital		23,905	37249	0	0	0	61,154
Total transactions with shareholders recognised in equity		23,905	37249	0	0	0	61,154
Equity as at 31 December 2020	31	155,572	123,017	(26,033)	(5,867)	(81)	246,608

The notes on pages 8 to 86 constitute an integral part of these Annual Financial Statements.

Zdravka Ruseva
Executive Director

Maya Stancheva
Executive Director

Mladen Ivanov
Compiler

"ИНВЕСТБАНК" АД
1bank
ЦЕНТРАЛНО УПРАВЛЕНИЕ · СОФИЯ

In accordance with Auditor's Report dated 25 March 2021:

Rositsa Trichkova
Registered Auditor, responsible for the engagement

Audit Correct OOD
Audit Company

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 064
ОДИТ - КОРЕКТ ООД

Georgi Trenchev
Registered Auditor, responsible for the engagement

Ecovis Audit Bulgaria LTD
Audit Company

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 114
ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

GENERAL INFORMATION

Investbank JSC is a joint-stock company with seat and registered office at 85 Bulgaria Blvd., Triaditsa District, Sofia, registered with the Commercial Register at the Registry Agency with UIC 831663282.

Investbank JSC is authorized to carry out all banking transactions on the territory of the country and abroad based on a full (universal) license issued by Bulgarian National Bank (BNB) allowing the implementation of all banking operations authorized by the Bulgarian legislation.

1. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

1.1. Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), adopted by the Commission of the European Union, which operate in the Republic of Bulgaria pursuant to the Accountancy Act.

The preparation of financial statements in accordance with IFRS uses certain material accounting estimates and requires the management to make assumptions in the process of applying the Bank's accounting policies. The items that require a higher degree of assessment and complexity or where the assumptions and estimates are significant for the financial statements are set out in the notes below.

1.2. These financial statements have been prepared on the going concern principle.

The Management of the Company considers that the Company is going concern and the financial statements of the Bank have been prepared on the going concern principle. The reporting year 2020 was marked by the emergence of the Covid-19 pandemic, which still continues globally.

In the first months of 2020, Covid-19 spread to a large number of countries and the number of infected began to grow dramatically. On 11 March 2020, after cases of infection with the new strain of coronavirus were registered in 114 countries, the World Health Organization (WHO) declared the Covid-19 epidemic to be a pandemic.

On 13 March 2020, at the request of the Government, the National Assembly declared a state of emergency in Bulgaria due to the coronavirus and began to take measures to reduce its spread. The anti-epidemic measures include restriction of mobility, cancellation of public events, closure of schools and shops, introduction of remote work.

These restrictions affect all enterprises in an extent that is difficult to assess and predict. Some enterprises have stopped working, some have limited their operations, others have introduced new products or distance selling. The crisis restructuring of businesses in most cases leads to reducing profits and generating losses. Legislative changes have been adopted to mitigate the adverse effects of the crisis, which include postponing deadlines for declaring and paying taxes and incentives to retain jobs.

The Bank assesses the risks posed by the crisis situation, as well as the measures taken by the Government and their impact on its operations:

- Extraordinary temporary procedures have been approved for facilitated consideration of renegotiations of loans to individuals and business customers, detailing the processes of renegotiation of credit exposures affected directly /or indirectly/ by the negative impact related to the spread of Covid-19. In order to ensure timely analysis and correct reporting of these exposures, the Banking Information System (BIS) has implemented and provided technical security with the necessary data.
- Investbank JSC has instructions for classification of modified loans (renegotiated and/or with restructuring measures) in compliance with Art. 47b of Regulation (EU) 575/2013. The analysis and assessment of the probability of insolvency (identification and classification of exposures with measures for restraint / restructured exposures) use all available information – financial condition, risk assessment and the customer's ability to repay the loan (adequacy of the projected net cash flows), degree of credit risk (phase under IFRS 9 and rating based on the adopted internal banking model), information from internal / external registers / sources, concentration of credit risk. Recognizing and analysing early warning signals is a daily and continuous process. In case the signals jeopardize the collection of the Bank's receivables, the responsible persons should take the necessary steps to

transfer the customer / customer group to problem management in order to timely and adequately manage these customers and prevent or reduce future losses or expenses for Bank's provisions.

- In connection with the negative effect on the economy and the business of the institution from the spread of Covid-19, Investbank JSC undertook timely actions for monitoring and analysis of the expected cash flows in accordance with the repayment plans and the actual receipts. For this purpose, as from Q1 2020, the Management Board is submitted summary information by segments regarding the implementation of the commitments according to the repayment plans and the actual funds received, and a scenario analysis was drawn up by quarters to the end of 2020 for the expected cash flows in stress conditions by applying haircuts. Only borrowers who regularly service their exposures (expected real cash flow) are analysed.
- Investbank JSC regularly assesses the macroeconomic situation in the country and in particular the impact of the crisis on the risks to the operations of the institution. The Bank analyses the impact of the crisis by sectors of the Bulgarian economy that are exposed to the most adverse impact on the credit quality and capital, such as Accommodation and Food Service Activities; Culture, Sports and Entertainment; Trade; Construction; etc.,
- In compliance with the approved "Policy for Assessment of Financial Instruments and Determination of the Amount of Required Impairment Pursuant to IFRS 9" Investbank JSC monthly assesses the credit risk and determines the amount of impairment. For the assessment of the credit exposures, Investbank JSC uses a model based on its own migration matrix (reflecting the actual customer behaviour), deriving therefrom the probabilities for passing to default (PD). The output data from the migration matrix are calibrated and correspond to the risk profile. The Bank's management is informed weekly of the current economic data on the financial markets through information submitted by the Liquidity and Market Management Directorate (weekly bulletin), as well as on the macroeconomic forecasts. The data from the Bulgarian Academy of Sciences (BAS) regarding the Updated Medium-Term Budget Forecast for the period 2021 - 2023 envisage maintaining the negative economic situation until the end of 2020, after which economic recovery and real growth are expected (for both the Bulgarian and the world economy) and reduction of unemployment rates.
- An integral part of the monitoring of credit exposures in Investbank JSC comprises the review of loan collateral.
- Throughout 2020 the Bank maintains high liquidity (over 2.5 times the required one).
- At the end of 2020 Investbank JSC achieved an increase in its annual result by 5.3% compared to the level of the previous year. At the same time, Investbank JSC, affected by the pandemic, reported a 7.2% decrease in operating revenues compared to 2019.

Pursuant to Decree of the Council of Ministers of the Republic of Bulgaria No. 215 of 27 March 2020, the funds from the capital increase of the Bulgarian Development Bank AD should be used for the implementation of measures to support the economy in connection with the Covid-19 epidemic, including issuance of portfolio guarantees to banks.
In 2020 Investbank JSC signed a financial agreement with the Bulgarian Development Bank AD under the Program for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the Covid-19 pandemic. The granted loans are fully covered by a portfolio guarantee issued by the Bulgarian Development Bank AD. As at 31 December 2020, Investbank JSC has granted 1160 loans amounting to BGN 4,955 thousand.
The second agreement was entered into by and between Investbank JSC and the Bulgarian Development Bank AD under a portfolio guarantee program to support the liquidity of micro, small and medium-sized enterprises affected by the emergency situation and the Covid-19 epidemic. As at 31 December 2020, Investbank JSC has granted 11 loans amounting to BGN 1,973 thousand.

Based on the analysis of the loan portfolio of Investbank JSC for the impact of the crisis caused by the pandemic and the forecast for recovery of the global and in particular the Bulgarian economy, the Bank considers that adequate and timely measures have been taken to control and manage risks and the accrued credit impairments are sufficient to cover the probable credit risks. In addition, the capital position of Investbank JSC was strengthened in 2020 and fully corresponds to the risk profile of the Bank. In a three-year horizon, sufficient buffers are available to fully cover the risks to which the Bank is exposed.

The strategic goal in the development of Investbank JSC is the establishment of a sustainable business model, allowing the formation of such an income structure that will allow for the internal generation of capital and increase of the market price of the shareholding while simultaneously pursuing a moderately conservative policy in adopting risk and maintaining an acceptable risk profile of the Bank's assets and liabilities.

Based on the prepared analyses and stress scenarios in case of deterioration of the situation, the Bank is characterised with very good liquidity and financial stability, and the obtained indicators prove that there is no threat for the future operations of the Bank as a going concern.

1.3. Sovereign debt

In 2020 the spread of the COVID-19 pandemic and the measures taken to control the infection had a significant negative effect on the economic dynamics globally. Both developed and developing economies were affected. While in China the negative effect was strongest in the first quarter, followed by a recovery in the economic activity, for many countries the highest decline was reported in April-June, when the strictest measures to date were imposed to restrict the spread of the virus.

In 2020 the Covid-19 pandemic led to an increase in the global debt, with the ratio between global debt and GDP being over 355%, according to the Institute of International Finance. The economic recovery remains incomplete and the short-term prospects are deteriorating in many parts of the world. As the global pandemic turns out to be untimely, the effects of the prolonged downturn it created has forced many entities to adapt to more permanent, structural changes instead of waiting for the end of the pandemic. This has turned into a slow and uneven economic recovery. The economic activity and employment are expected to continue to return to pre-pandemic levels in 2021, with global gross domestic product (GDP) growth projected from -4.3% in 2020 to 6.6% in 2021. The strength of the recovery depends on both the capability tocontrol the infection and the government support. Premature withdrawal of government support measures could lead to rising bankruptcies and a new wave of non-performing loans. However, the prolonged reliance on state aid can create "systemic risks", including by encouraging the weakest and most indebted companies to take on more debt.

Sovereign debt of the Republic of Bulgaria (updated medium-term budget forecast for the period 2021-2023)

At the end of the first half of 2020, the nominal amount of the sovereign debt increased to BGN 23.1 billion compared to the level of BGN 22.0 billion reported at the end of 2019. The sovereign debt-to-GDP ratio was 19.5%, compared to 18.4% at the end of the previous year. Based on the expected implementation of the debt parameters by the end of the budget 2020, the sovereign debt is expected to reach about BGN 28.0 billion.

The government's sovereign debt management policy, in the dynamic situation due to the spread of Covid-19, for the next three years will be aimed at providing the necessary funds to refinance the debt in circulation, financing the planned state budget deficit and ensuring the stability of the fiscal reserve, at the optimal possible price and acceptable degree of risk. The efforts will be focused on providing opportunities for market-oriented financing, subject to annual debt limits.

The determination of the specific characteristics of the newly incurred debt will be in line with the current situation on the government securities market and the profile of debt in circulation, taking into account the possibilities for reducing the risk of refinancing the sovereign debt and extending its maturity structure.

It is planned to secure the debt financing of the budget by providing highly liquid debt instruments with an appropriate ratio of profitability/risk, positioned in different maturity segments, as well as by utilizing a government loan to finance socio-economic measures of the government to overcome the consequences of the pandemic caused by the spread of Covid-19 under the EU's temporary support instruments to mitigate the risks of unemployment in exceptional circumstances. With regard to the financing of investment projects and specific programs with state and state-guaranteedloans, the application of a conservative approach will continue.

Bulgaria's credit rating

Rating agency	Long-term rating	Outlook	Short-term rating
S&P Global rating	BBB	positive	A-2
Moody's Investors Service	Baa1	stable	P-2
Fitch	BBB	positive	F2

S&P Global Rating includes the following arguments in its justification as at 27 November 2020:

"Bulgaria's GDP is expected to shrink by 4.5% in 2020. The domestic demand remains more stable than expected and mitigates the sharp decline in external demand. In general, Bulgaria entered the health crisis from a relatively strong external and fiscal position, which should allow a stable recovery in the coming years, supported by significant inflows of EU funds. There is fiscal space, as the prudent fiscal policies in recent years have kept net sovereign debt below 15% of GDP so far. The external vulnerabilities are manageable after years of external net debt reduction due to recurring surpluses on current and capital accounts, also supported by the inflow of EU funds. At the same time, the Bulgarian Lev (BGN) is included in ERM II and Bulgaria joined the EU Banking Union in July 2020. Although the current currency board provides support for the economic stability, the external ratings are also factors in limiting monetary policy volatility. At the same time, the ratings are still limited by the country's moderate GDP per capita globally and the remaining structural institutional barriers.

In parallel with the measures to curb the spread of the virus, the authorities have also released fiscal support to mitigate the economic impact. The most important fiscal measures include a comprehensive wage support scheme (estimated at about 0.8% of GDP); several salary increases for key employees; additional healthcare costs; and direct fiscal support and tax reduction for the severely affected sectors, such as accommodation and food service activities. Other government measures include increasing funding for public sector financial institutions, such as the Bulgarian Development Bank and the Fund of Funds, which aim to promote lending to the private sector, especially the small and medium-sized enterprises. The Bulgarian National Bank (BNB) has determined that commercial banks capitalize the full amount of their profits in the banking system and reduce the external exposure in order to increase liquidity. In addition, the BNB cancelled the planned increase in the countercyclical capital buffer rate. These macroprudential adjustments came amid a private moratorium on bank loan payments initiated by the Association of Bulgarian Banks, which was approved by the BNB.

A relatively stable economic recovery is expected. The economy will benefit from the growing external demand as the country's most important trading partners are expected to recover in 2021. Despite the tightening of the labour market, the external competitiveness has been maintained, strongly positioning Bulgaria for further export growth. Labour costs in Bulgaria remain the lowest in the EU despite the years of strong nominal wage growth. In the five years before the pandemic, Bulgaria's growth was strong, averaging 3.6% in real terms, and not accompanied by macroeconomic imbalances. Bulgaria's recovery will also be supported by the adoption of significant EU funding under the various programs of the EU Multiannual Financial Framework 2014-2020 and 2021-2027, as well as by additional EU support schemes, such as the Mechanism for Recovery and Sustainability. Bulgaria can meet the conditions for the absorption of EU funds totalling nearly EUR 30 billion for the period up to 2027, which represents nearly 50% of the GDP before the pandemic. This figure also includes nearly EUR 700 million of readily available funds under the REACT-EU program, aimed at mitigating the economic effects of the pandemic. It may be difficult to absorb the full amount of funds over the next few years, but the level of absorption must be high.

In the medium term, the demographic data are thought to hamper the potential growth as the workforce continues to shrink due to ageing and emigration. At this stage, it is not expected that the return of Bulgarian workers after the pandemic may change this trend. These challenges highlight the need to pursue the structural reforms, for example through measures aimed at skills mismatches, improving the business environment, stimulating income growth and ultimately helping to slow down the net emigration.

Bulgaria's progress in some areas has already been recognized in recent years, for example under the European Commission's 2019 Cooperation and Verification Mechanism. ERM II and the Bank's accession to the EU this year also underscore Bulgaria's legislative efforts to strengthen the macroprudential supervision, the insolvency proceedings, the management of state-owned enterprises, the supervision on the non-banking sector and anti-money laundering measures.

Bulgaria is expected to maintain its overall prudent fiscal policy despite the temporary deficit of the state sector which is projected at about 5% of GDP in 2020. The deficit is the result of lower tax revenues due to the economic contraction, as well as significant support measures. The deficits are expected to remain at a similar level in 2021, before narrowing to less than 2% of GDP in 2023. The projected rapid recovery means that the economy is unlikely to require a sustained fiscal stimulus in the coming years. At the same time, Bulgaria has set very reliable records of strict fiscal governance, not least encouraged by the currency board, which has led to government surpluses over the past four years. The government is expected to return to this fiscal position after the pandemic."

The international rating agency S&P Global Ratings raised the outlook for Sofia's credit rating from stable to positive.

The long-term credit rating of the capital is BBB- and is in the group of "investment ratings". This helps to attract cheaper financial resources for the implementation of the capital program of the capital.

1.4. Functional and reporting currency

These financial statements are presented in Bulgarian Lev (BGN) rounded to the nearest thousand. Bulgarian Lev is the functional and reporting currency of Investbank JSC.

1.5. Presentation of financial statements

The financial statements have been prepared in accordance with the fair value principle for derivative financial instruments, financial assets carried at fair value through profit or loss, and assets carried at fair value through other comprehensive income. Other financial assets and liabilities, as well as non-financial assets and liabilities, are carried at amortized or historical cost.

1.6. Use of estimates and assumptions

The preparation of financial statements in compliance with IFRS requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

1.7. New standards, interpretations and amendments in force since 1 January 2020

1.7.1. New standards in force since 1 January 2020

The Company applies the following new standards, amendments and interpretations, which came into force this year and are as follows:

IAS 1 and IAS 8 (amended) - Definition of Materiality, in force since 1 January 2020, adopted by the EU

The purpose of the amendments is to use the same definition of materiality within the International Financial Reporting Standards and the Conceptual Framework for Financial Reporting. According to the amendments:

- the vague presentation of the essential information or the mixing of essential information with non-essential information has the same effect as the omission of important information or its incorrect presentation. The entities decide which information is material in the context of the financial statements as a whole; and
- “the main users of general purpose financial statements" are those to whom the financial statements are directed and include "existing and potential investors, lenders and other creditors" who must rely on general purpose financial statements for much of the financial information they need.

Amendments to the references to the Conceptual Framework for Financial Reporting in force since 1 January 2020, adopted by the EU

The IASB has issued a revised conceptual framework which will enter into force immediately. No framework leads to amendments in any of the existing accounting standards. However, the undertakings that rely on the conceptual framework in determining their accounting policies for transactions, events or conditions of operation that are not specifically addressedin a specific accounting standard will be able to apply the revised framework as from 1 January 2020. The undertakings will need to assess whether their accounting policies are still appropriate under the revised conceptual framework. The main amendments are:

- to achieve the goal of financial reporting, it focuses on the role of the management which should serve the main users of the statements
- it reiterates the precautionary principle as a necessary component to achieve a neutral presentation of the information
- it defines which is the reporting undertaking, possibly being a separate legal entity or part of the undertaking
- the definitions of asset and liability are revised
- the recognition of assets and liabilities removes the condition of probability of inflows or outflows of economic benefits and supplements the write-off guidelines
- additional guidance is provided on the different assessment bases and
- profit or loss is defined as a key indicator of the undertaking's operations and it is recommended that revenues and expenses from other comprehensive income be recycled through profit or loss when this increases the appropriateness or reliability of the financial statements.

IFRS 3 (amended) - Definition of a Business, in force since 1 January 2020, adopted by the EU

The amended definition of an economic activity requires the acquisition to include inputs and a substantial process that together significantly contribute to the ability to create output. The definition of "output" is amended to focus on goods and services provided to customers that generate investment income and other income. The definition excludes returns in the form of lower costs and other economic benefits. The amendments are likely to result in more acquisitions classified as asset acquisitions.

Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019), in force since 1 January 2020, adopted by the EU

The proposed amendments include elements reflecting the new disclosure requirements introduced by the amendments toIFRS 9, IAS 39 and IFRS 7.

Amendments to IFRS 16 Covid-19-Related Rent Concessions in force since 1 June 2020, adopted by the EU

The amendments only apply to lessees under leases who have benefited from reduced rent payments or rent holidays for a certain period of time as a result of the Covid-19 coronavirus pandemic. In this case, lessees may not consider the reduced rent payment or rent holidays for the periods up to or before 30 June 2021 as a modification of the lease, regardless of whether the rents have subsequently been increased after 30 June 2021.

1.7.2. Standards, amendments and interpretations not yet entered into force and not adopted for early application by the Company

As at the date of approval of these financial statements, new standards, amendments and interpretations to existing standards have been published but have not entered into force or adopted by the EU for the financial year beginning on 1 January 2020 and have not been applied from an earlier date by the Company. The Management expects all standards and amendments to be adopted in the Company's accounting policies for the first period beginning after the date of their entry into force.

Information on those standards and amendments that have an impact on the Company's financial statements is presented below.

Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current, in force since 1 January 2023, not yet adopted by the EU

The amendments to the classification of liabilities as current or non-current only affect the presentation of liabilities in the statement of financial position - not the amount or timing of recognition of assets, liabilities, revenues or expenses or the information that companies disclose about these items. The amendments aim to clarify the following:

- the classification of liabilities as current or non-current should be based on the existing entitlements at the end of the reporting period and the wording of the texts in all relevant paragraphs should be aligned to clarify the "entitlement" to defer settlement of liabilities by at least twelve months and should explicitly state that only available entitlements "at the end of the reporting period" should affect the classification of liabilities;
- the classification is not affected by the company's expectations as to whether it will exercise its entitlement to defer settlement of liabilities; and
- the settlement of liabilities can be implemented by transferring cash, equity instruments, other assets or services to the counterparty.

Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, in force since 1 January 2022, not yet adopted by the EU

- IAS 3 Business Combinations - Update of References to the Conceptual Framework with amendments to IFRS 3 Business Combinations that update an outdated reference in IFRS 3 without substantially changing the reporting requirements.
- IAS 16 Property, Plant and Equipment - Proceeds before Intended Use amends the standard to prohibit the deduction from the value of property, plant and equipment of any proceeds from the sale of manufacturedproducts, before bringing this asset to the location and condition necessary for its operation in the manner prescribed by the management. Instead, an entity recognizes proceeds from the sale of such products and the expenses on their production in profit or loss.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets - Onerous Contracts—Cost of Fulfilling a Contract specified that "costs of fulfilling a contract" include "costs that are directly attributable to the contract". Costs that are directly attributable to a contract may be either additional costs for the performance of that contract or an allocation of other costs that are directly attributable to the performance of the contracts.

Annual Improvements -2020, in force since 1 January 2016, not yet adopted by the EU

- IFRS 1 First-time Adoption of International Financial Reporting Standards - the amendment allows a subsidiary that applies paragraph D16 (a) of IFRS 1 to assess cumulative differences in applying IFRSs for the first time using the valuesreported in the consolidated financial statements of its parent-company, based on the date of transition tothe IFRS of the parent-company.
- IFRS 9 Financial Instruments - The amendment clarifies which fees an entity includes when applying the 10% test referred in paragraph B3.3.6 of IFRS 9 when assessing whether to write off a financial liability. An entity only includes fees paid or received between the borrower and the lender, including fees paid or received either by the entity or by the lender, on behalf of the other.
- IFRS 16 Leases - the amendment to IFRS 16 removes from the illustrative examples the one of the lessor's recovery of improvements to leased assets to eliminate any potential confusion regarding the treatment of lease incentives that may arise due to the way lease incentives are illustrated in this example.
- IAS 41 Agriculture - the amendment removes the requirement in paragraph 22 of IAS 41 for the entities to exclude tax cash flows when measuring the fair value of a biological asset using the present value method. This amendmentwill ensure compliance with the requirements of IFRS 13.

Amendments to IFRS 4 Insurance Contracts - Deferral of Effective Date of IFRS 9, in force since 1 January 2021, not yet adopted by the EU

The effective date of the initial application of IFRS 17 is deferred by two years, the standard becomes effective for annualperiods beginning on or after 1 January 2023 and changes the date of the expiry of the temporary exemption in IFRS 4 Insurance Contracts for the application of IFRS 9 Financial Instruments so that insurance companies are required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2, in force since 1 January 2021, not yet adopted by the EU

The proposed amendments address issues that could affect financial reporting following the interest rate benchmark reform, including its replacement by alternative reference interest rates. Phase 2 of the draft addresses issues related to the replacement of interest rate indices, which in turn would affect financial reporting when an existing interest rate index is repealed or replaced with another.

IFRS 14 Regulatory Deferral Accounts, effective from 1 January 2016, not yet adopted by the EU

IFRS 14 Regulatory Deferral Accounts permits an entity which is a first-time adopter of IFRSs to continue to recognize amounts related to regulated prices in accordance with its previous GAAP when applying IFRSs. In order to improve the reporting comparability of companies that already apply IFRSs and do not recognize such amounts, the standard requires separate presentation of the effect of the regulated prices.

IFRS 17 Insurance Contracts, effective from 1 January 2021, not yet adopted by the EU

IFRS 17 replaces IFRS 4 Insurance Contracts. It requires the application of an ongoing valuation model, according to which estimates are reviewed during each reporting period. Contracts are valued using:

- discounted cash flows with weighted probabilities;
- explicit risk adjustment, and
- allowance for contracted services, representing the unrealized gain on the contract which is recognized as income during the coverage period.

The standard allows a choice in recognizing changes in the discount rate either in profit or loss or in other comprehensive income.

The new rules will affect the financial statements and key indicators of all companies that issue insurance contracts.

1.8. Effect of the application of IFRS 16 Lease (in the comparative period of the financial statements)

IFRS 16 Leases enters into effect for annual periods beginning on or after 1 January 2019. The new standard recognizes an asset (right to use the rented item) and a financial liability for the rental payments. The only exceptions are short-term and low-value leases

Investbank JSC has applied the standard since the date of its mandatory adoption on 1 January 2019. The Bank applied the simplified transitional approach and did not recalculate the comparative amounts for the year before the first adoption.

The Bank applies the policy of not reporting low-value asset lease contracts under IFRS 16.

The effect on the statement of financial position as at 1 January 2019 involves the reporting of assets with a right of use in the amount of BGN 11,153 thousand, which are presented in the item Long-term Tangible Assets, as well as their corresponding liabilities - Payables under Lease Contracts of the same amount. presented in the statement as Other Financial Liabilities. As a result of IFRS 16, the income statement as at 31 December 2020 reported additional depreciation expenses in the amount of BGN 2,329 thousand (for year 2019: BGN 2,388 thousand) and interest expenses related to lease contracts in the amount of BGN 248 thousand (for year 2019: BGN 381 thousand).

2. BASIC PRINCIPLES OF THE ACCOUNTING POLICY

2.1. Interest revenue and expense recognition

Interest revenue and expense are recognized in the statement of profit or loss for all interest bearing assets and liabilitieson an accrual basis using the effective interest rate method.

The effective interest rate (EIR) is the size of interest that accurately discounts the estimated future cash flows (including any fees and other margins or deductions) for the expected life of the financial asset to its gross carrying amount and to the amortized cost of the financial liability.

When calculating the effective interest rate, the Bank estimates future cash flows, taking into account all contractual termsof the financial instrument without the future loan losses. The calculation of the effective interest rate includes all commissions received or paid, and discounts or premiums that form an integral part of the effective interest rate.

Interest revenue is calculated by applying the effective interest rate to the gross value of the financial asset, except for impaired assets for which the effective interest rate is applied to the amortized cost of the financial asset.

2.2. Foreign currency operations

The financial statements are presented in BGN, which is the functional currency for the representations made by the Bank.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising from the translation are recognized in the profit or loss statement.

Cash assets and liabilities denominated in foreign currencies are recognized in the functional currency at the closing exchange rate as at the date of preparation of the statement of financial position. The exchange rate difference arising from monetary positions is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for the effective interest rate and the payments during the period and the amortized cost in foreign currency converted at the exchange rate as at the end of the period.

Non-monetary assets and liabilities denominated in foreign currencies, which are carried at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are carried at fair value are converted into the reporting currency at the exchange rate valid as at the date of initial acquisition and at the exchange rate as at which the fair value has been determined.

2.3. Fee and commission revenues and expenses

Fee and commission revenues consist mainly of money transfer fees in BGN and in foreign currency, cash transactions, electronic payment services and credit facilities, and in general are recognized upon accrual or on the date of the transaction.

Fee and commission revenues and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fee and commission revenues and expenses on financial services of the Bank are recognized through profit or loss whenthe relevant service has been performed.

2.4. Financial instruments

IFRS 9 Financial Instruments entered into force on 1 January 2018, replacing IAS 39 Financial Instruments: Recognition and Measurement.

2.4.1 Classification of financial assets

IFRS 9 introduces a new approach to the financial assets based on the combination of the asset cash flow characteristics and the business model used for their management.

As of 1 January 2018, the Bank classifies and reports its financial assets in any of the following categories, which replaced the IAS 39 classification categories previously applied:

- Financial assets measured at amortized cost
- Financial assets measured at fair value through other comprehensive income
- Financial assets measured at fair value through profit or loss

2.4.2. Impairment of financial assets

Investbank JSC uses the general, three-level impairment approach that reflects the change in the credit quality of the financial instruments since its initial recognition. The amount of the expected credit losses recognized as an allowance for impairment depends on the credit risk of the instrument on its initial recognition and on the change in the credit risk in the subsequent reporting periods.

The analysis of the changes in the credit quality of the financial assets compared to their initial recording determines their risk classification in three main phases as well as the subsequent recognition of impairment:

- Phase 1 (regular exposures) – classifies financial assets without indication of an increase in credit risk compared to the initial measurement. All credit exposures at this stage are in progress, there is no event directly related to possible portfolio losses and therefore the Bank depreciates assets on a portfolio (collective) basis. The Bank recognizes 12-month expected credit losses for Phase 1 classified financial assets.
- Phase 2 - Impairments are calculated on the basis of the expected credit losses over the entire life of the instrument, weighed against the likelihood of default. The impairment is on a portfolio (collective) basis (events have occurred that could lead to possible portfolio losses). The transition from Phase 1 to Phase 2 is associated with a relative change in credit risk (transition from low risk to high risk) or where the delay in the agreed payments exceeds 30 days.
- Phase 3 – classifies financial assets with a significant increase in credit risk and objective evidence of impairment / basis for incurring losses (defaulted exposures). Impairments are calculated on the basis of expected credit losses for the remaining life of the instrument on an individual basis. In this phase, assets with objective evidence of credit impairment are classified, with credit losses expected for each asset, interest and/or principal overdue for more than 90 days, and/or enforcement legal action taken to collect the amounts due. The exposures are non-performing and the Bank considers that it is unlikely that the debtor will fully repay its obligations without taking steps to enforced collateral.

2.4.3. Estimation of expected credit losses

Credit losses are considered an integral part of the lending process, which is why, depending on the borrower's credit quality, the Bank calculates and accrues impairment for credit risk even when the financial instrument is initially recognized. The expected credit losses should have a direct impact on the value of the agreed interest rate process, i.e. there is a direct dependence on pricing.

The estimation of the expected credit loss and the calculation of impairment losses on loans is made on the basis of the Bank's Policy for assessment of risk provisions and determining the amount of the impairment required.

2.4.4. Write-off of financial instruments

Write-off of financial assets

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the contractual rights over the cash flows from the financial asset have expired; or
- the contractual rights to receive cash flows from the financial asset are transferred, or the contractual rights to receive cash flows from the financial asset have been retained, but a contractual obligation has been assumed to pay all the collected cash flows, without significant delay, to a third party in a transfer transaction whereby:

(a) The Bank has substantially transferred all the risks and benefits of the ownership of the financial asset, or

(b) The Bank has neither transferred nor retained substantially all the risks and benefits of the ownership of the financial asset, but is has retained the control over it.

Write-off of financial liabilities

The Bank derecognizes a financial liability when and only when it is repaid; i.e. when:

- the liability is settled
- the liability period has expired
- the liability specified in the contract has been cancelled or removed

The difference, at the time of the write-off, between the carrying amount of the financial liability settled or transferred to another party and the consideration paid for the settlement, including non-monetary assets and liabilities transferred and assumed, is recognized in the current profit or loss.

The accounting treatment of financial liabilities remains largely unchanged from that required by IAS 39 and the Bank has not changed its classification of financial liabilities to date.

2.5. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash deposited with the Central Bank and receivables form banks with original maturities of three months or less.

2.6. Financial lease receivables

A lease contract is considered to be a finance lease when substantially all of the risks and rewards incidental to ownership of the leased asset are transferred from the lessor to the lessee by the agreement. Typical indicators that the Bank assesses when determining whether substantially all of the risks and rewards are transferred include: the present value of the minimum lease payments that the lessee is required to make in relation to the fair value of the leased asset at the inception of the lease; the duration of the lease in relation to the economic life of the leased asset; and whether the lessee will obtain title of ownership over the leased asset at the end of the finance lease period.

All other lease agreements whereby the risks and rewards incidental to ownership of the leased asset are not transferred from the lessor to the lessee, are classified as operating lease agreements.

2.7. Securities borrowing and lending agreements, repurchase transactions

Investments lent under securities lending arrangements are recognized in the statement of financial position and are measured in accordance with the accounting policy applied for assets held for trading or assets available for sale, as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to banks or other customers. Investments borrowed under securities borrowing agreements are not recognized as Bank's assets. Cash collateral placements in respect of securities borrowed are recognized as loans and advances to banks or other customers. Revenues and expenses arising from the securities borrowing and lending transactions are recognized on an accrual basis over the period of the transactions and are included in interest revenue or expense. The retained amount paid by the customer, excluding VAT, is recognized as revenue from rent.

Repurchase agreements

The Bank enters into purchases/(sales) of investments under sell/buy-back agreements substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to sell them back at a future date are not recognized in the statement of financial position.

The amounts paid are reported as loans to banks or other customers. The receivables are recognized as collateralized by the underlying security. Investments sold under buy-back agreements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy applied as assets held for trading or assets available for sale, as appropriate. The proceeds from the sale of the investments are reported as liabilities to banks or other customers.

2.8. Borrowed funds

Deposits from banks, customers and subordinated liabilities are financial instruments representing Bank's borrowed funds, payable on demand or after a fixed period and bearing agreed interest and are recorded in the statement of financial position at their depreciated cost after applying the effective interest rate method.

2.9. Investment property

The Bank holds investment property either to earn rental income or for capital gains. Investment property is measured at its acquisition cost. Transaction costs are included in the initial measurement. Upon the initial recognition, investment property is remeasured using the fair value model. The change in the fair value is recognized in profit or loss in the period in which it occurs. The fair value of the assets classified as investment property is determined by independent external valuers with recognized professional qualifications and experience.

2.10. Property, plant and equipment

Property, plant and equipment are presented in the statement of financial position at their acquisition cost less the accumulated depreciation.

Depreciation is accrued on a straight line basis at prescribed rates designed to fully derecognize the cost of the assets over their expected useful lives. The following are the annual depreciation rates used:

Assets	**%**
▪ Buildings	4
▪ Plant and equipment	30
▪ Computer, related peripheral equipment and mobiles	15
▪ Fixtures and fittings	15
▪ Transport means	25

Assets with right of use are depreciated according to the term of the lease contract.

2.11. Intangible assets

The intangible assets acquired by the Bank are reported at their acquisition cost less the accumulated depreciation. Amortization is calculated on a straight-line basis over the expected useful life of the asset. The following are the annual depreciation rates used:

Asset	%
▪ Computer software and rights	50
▪ Other intangible assets - reconstruction of rented buildings	30
▪ Other intangible assets	15

2.12. Assets acquired from loan collateral

The classification of loan collateral assets acquired by the Bank is based on the intentions of the Bank's management for the future benefits of the asset. The decision on classification/reclassification of assets acquired from loan collateral is made by the Bank's Management.

Depending on their purpose, the assets acquired as loan collateral are classified as follows:

- **Investment property** - assets for rental revenues or capital gains;
- **Inventories** - presented in the balance sheet item "Other assets". This category includes assets acquired from loan collateral that the Bank will not use in its ordinary course of business and are not investment property held for sale within a period of more than 12 months.
- **Non-current assets held for sale** - the Bank recognizes in this group only property for which the Management has started an intensive search for a buyer and the negotiations for sale are in an advanced phase

Non-current assets held for sale are measured at the lower of the carrying amount and the fair value less the selling costs.

Assets classified as non-current assets held for sale are not subject to depreciation.

- **Property, plant and equipment** - assets that the Bank believes will be used in its ordinary course of business.

The Bank remeasures the assets acquired from loan collateral at least once annually based on the market valuation prepared by an independent licensed appraiser.

Change in classification - reclassification is made when there is a change in the use of the asset.

2.13. Taxation

The profit tax for the period includes current and deferred taxes. Current tax comprises tax payable calculated on the basis of the expected taxable profit for the period, using the effective tax rate or the tax rate applicable on the date of the statement of the financial position, and any adjustment of the tax payable for previous years.

Deferred tax assets

Deferred tax is calculated on the basis of the tax rates that are expected to apply for the periods when the asset is realized or the liability is settled. The effect of any changes in tax rates on the deferred tax is reported in the statement of profit or loss, except to the extent that it relates to items previously charged or credited directly to the equity.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The carrying amount of the deferred tax assets is reviewed at each subsequent reporting / balance sheet date and should be reduced to the extent that it is probable that sufficient taxable profit will be realized. Any such reduction is reversed to the extent that it again becomes probable that sufficient taxable profit will be available.

In order to calculate the amount of deferred taxes as at 31 December 2020, the Bank uses the tax rate applicable for year 2020- 10% (year 2019 - 10%).

2.14. Personnel revenues

Defined benefit plans for post-employment benefits are plans where:

- The Bank is obliged to provide the agreed benefit to current and future employees (staff);
- The pension (retirement benefit) is based on a formula that is not based solely on the contributions made, and the Bank retains the risk that these contributions may not be sufficient to pay the pensions thereafter (cost of income = present value of earned income entitlement)). Complex calculations are required, with influence of multiple variables factors such as pre-retirement and average pay levels, etc.;
- The statistical actuarial investment risk (that the earnings will cost more than expected) is essentially borne by the Bank;
- The ultimate cost to the Bank as an employer is more difficult to predict.

The Bank has the obligation to pay certain amounts to each employee who retires with the Bank in accordance with the requirements of the Labour Code.

Termination benefits

Termination benefits are recognized as an expense when the Bank is committed demonstrably, without realistic possibility to withdrawal, to a formal detailed plant to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-Term Employee Remunerations

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. The Bank recognizes as an obligation the undiscounted amount of theestimated annual leave expense, expected to be paid out to employees in return of their service for current reporting period.

3. DISCLOSURE OF RISK MANAGEMENT POLICY

Introduction and overview

Risk management is based on a Risk Management Strategy that defines the Bank's target risk profile and risk appetite, i.e. the overall level of risk that the Bank is able to absorb within its risk-bearing capacity. The purpose is to limit the risk taken so that both the short-term and the long-term future of the Bank are not jeopardized. This is achieved by maintaining sustainable levels of risk coverage from a regulatory and economic point of view. Furthermore, the Strategy clearly defines the risk structure that is relevant to the business model and determines rules to address any significant concentration risks. Thus Investbank JSC aims to achieve a balanced portfolio mix by focusing on retail customers, on the one hand, and on corporate customers, on the other hand, so that the concentration of risk is maintained within the established limits detailed in the Concentration Risk Management Rules (Limit Framework).

Investbank JSC manages its risk exposures in accordance with the regulatory requirements for capital adequacy. The capitaland capital components must be maintained in accordance with the minimum required ratios in accordance with Regulation (EU) No 575/2013 and the additionally calculated capital requirements in the framework of the Internal Capital Adequacy Analysis (ICAA) so that to:

- comply with the regulatory requirements for adequacy within the normal course of business;
- provide sufficient capital buffer to handle stress conditions without compromising business continuity;
- limit the development of extremely high concentrations of credit or other types of risk.

In all areas of occurrence and manifestation of risks, Investbank JSC uses effective means for their management. The methods, organizational rules and information systems used make it possible to identify risks in a timely manner and to implement adequate measures to limit them, including early identification of the significant risks to which the Bank is exposed.

Risk organization and management

In order to carry out adequate risk management, the Bank has established and operates the following management bodies (in compliance with Guidelines of EBA/GL/2017 of 21 March 2018), which are related to the processes of provision, monitoring, evaluation / measurement and control of risk and whose decisions affect the level of risk:

The Supervisory Board of Investbank JSC approves and periodically reviews the adopted strategies and policies for taking, managing, monitoring and mitigating the risks to which the Bank is exposed or may be exposed, including the risks arising from the macroeconomic environment.

The Management Board actively participates in and ensures the allocation of sufficient resources to manage all material risks under Regulation (EU) No 575/2013, including asset valuation processes and the use of external credit ratings and internal models related to those risks.

The executive directors organize the work on the overall implementation of the adopted strategy and exercise direct control over the compliance with the accepted limits for the activities for which they are responsible; make decisions for personnel, material-technical, procedural-methodical, software and other provision of the risk management activities in the Bank; create optimal conditions for raising the qualification of the employees.

The Risk Management Board assigns the preparation and adopts the Risk Management Strategy, the Risk Management Policy and the Bank's Lending Policy. It exercises ongoing control on the Bank's capital adequacy and strictly supervises the application of the Financial Instruments Assessment Policy using the established principles for reporting financial assets, in accordance with IFRS 9. It performs a periodic review of risk exposures and the amount of provisions formed in accordance with the methodological framework for recognizing losses on credit exposures. It offers solutions related to the management of the quality of risk exposures, and in the case of established deviations or breaches of the approved limits, proposes specific measures for their elimination.

The Assets and Liabilities Management Committee is a collective, permanent body supporting the operation of the Management Board. It is responsible for the management and control of liquidity in compliance with the current regulatory and internal policies and rules for liquidity management in Investbank JSC and performs constant analysis of the liquidity position in order to identify any possible liquidity crisis in a timely manner, optimize asset and liability structure, and prepare plans and measures to handle potential crisis trends in order to guarantee the Bank's solvency by reasonably balancing risk and profitability. It approves changes in the Tariff for the conditions, interest rates, fees and commissions of the Bank and the interest rate policy, including interest conditions on deposit, payment and credit products.

Risk Management Policy

The Risk Management Policy of Investbank JSC regulates the main framework of the risk management activity and is consistent with the effective regulatory and legal requirements, aiming at achieving an optimal “return/risk” ratio and preservation of the share capital. The Bank pursues a unified and coherent risk management policy, which corresponds to the level of development and is consistent with its size. Risk management is a process in which the development of existing risks is investigated, analysed and monitored, in order to avoid them or to reduce the negative effect of their possible occurrence.

Investbank JSC's risk management policy is aimed to identify, analyse, measure and control the risks to which the Bank is exposed. It is based on the core principles for effective banking supervision of the Basel Committee on Banking Supervision, the BNB's regulatory requirements, and the internal banking regulatory framework. The activities for risk identifying, monitoring, managing and limiting their negative manifestation are regulated in the adopted internal regulatory documents
- policy, rules and procedures, which have been adopted by the Management Board and approved by the Supervisory Board of Investbank JSC and are subject to regular review in order to reflect the changes in regulations, market conditions, products and services offered, etc. They specify the procedures for the overall risk management process:

- risk identification (establishment) (by type of risk and/or business units);
- risk measurement – quantified with respect to the required capital or thresholds set;
- risk management (risk tolerance) – a system of limits, pre-thresholds, and adequacy of the capital position management processes;
- risk monitoring and control – a centralized approach for monitoring of set limits and/or selected key ratios;
- risk reporting - through daily, weekly, monthly and quarterly risk-related reports.

Principles and goals for managing the risks borne by the Bank

- implementation of clearly defined rules and decision-making processes in risk-taking and strict application of the "four eyes" principle;
- risk management is completely independent of the Bank's business activities, both functionally and organizationally;
- the basis of management of the most essential risk for Investbank JSC - the credit risk - is the analysis of the customer' risk profile, which enables the Bank to pre-select its customers;

- limiting the possibility of large, unexpected, unpredictable losses, as well as the concentration of the risk borne by the Bank through the use of certain risk tolerance values (limits);
- periodic review of the principles and processes in place at the Bank for their application in order to adapt to the ever-changing market and competitive environment.
- limiting the possibility of large, unexpected, unpredictable losses, as well as the concentration of the risk borne by the Bank, application of clearly defined risk tolerance values (limits);
- periodic review of the principles and processes in place at the Bank for their application in order to adapt to the ever-changing market and competitive environment.

The credit risk management is based on the adopted lending policy, rules for competences and workflow organization with respect to loan transactions, rules of credit risk concentration management, credit risk monitoring system and limits framework, collateral policy and problem loan exposure management and ongoing monitoring rules.

Investbank JSC has adopted and adheres to a Lending Policy which regulates:

- establishing and applying strict lending procedures;
- maintaining a proper loan administration;
- constant process of credit risk monitoring, measuring and controlling.

Due to the inherent risks of lending process in general, the Bank has developed procedures for ongoing analysis and monitoring of the quality of credit exposures. A system of limitations that defines thresholds by size, products (in the retail segment), by sectors (in the corporate segment) or a selected risk indicator has been developed and implemented in order to maintain the credit risk within reasonable limits and to ensure the balance of risk, profitability, impairment losses and liquidity. For credit risk assessment, models are applied to assess the creditworthiness of individuals (scoring system) and legal entities (rating system) by determining the internal rating of borrowers.

Basic principles in credit risk management in Investbank JSC:

- credit risk-taking (including any extension or substantial change in terms, collateral or clauses leading to an increase in credit risk) requires the approval of the relevant persons / bodies with delegated powers to take credit decisions;
- double control ("four eyes" principle) is applied when approving all credit transactions without exception. It is subject to the approval of the business unit and the risk unit;
- "No risk without limit" - the conclusion of a new transaction without an approved limit is not allowed;
- taking credit risk within the set limits only;
- credit decisions are always based on credit offers / requests;
- non-admission of credit limit approval without scoring / rating;
- continuous management of credit risks and periodic /at least annually/ review of credit limits and ratings of borrowers;

The primary objective of **liquidity risk management** is to ensure that the Bank can meet in a timely manner its payables (commitments) at a reasonable price and with minimal risk. Sufficient liquidity access should be maintained at all times (LDP - liquidity potential) in order to ensure that Investbank can service its debt and refinance at any time. Liquidity Coverage Potential quantifies the amount and timing for possible liquid fundraising, thus measuring the ability of the Bank to cover the traditional liquidity risk.

The focus of the liquidity risk management is to prevent liquidity shortages. In the event of a shortage, liquidity shall have priority over return in the hierarchy of objectives. An additional objective is to maintain at all times the required supervisory liquidity ratios.

Market risk management - the internal rules define the basic principles in the risk management process and cover:

- goals and principles of market risk management;
- approaches for identification, measurement, analysis, minimization, determination of acceptable levels / limits for market risk, monitoring and control;
- distribution of responsibilities between the units and bodies in the Bank in the management of market risk;
- provision of information security, reporting and other information in connection with market risk management;
- procedure for monitoring and control in market risk management;
- disclosure of market risk management information.

The main goal in market risk management is to maintain the risks assumed by the Bank at a level that is in line with the strategic goals / plan of the Bank, ensuring maximum security of assets while minimizing possible losses, observing the principle of maximum and timely notification to the management in managing and achieving the strategic goals / plan of Investbank JSC.

Operational risk management - the internal rules regulate the principles, methods and organization of the activities that ensure the effective management of the operational risk in Investbank JSC. The main focus is on recognizing the operational risks in time and mitigate their effects, as well as on preventing their recurrence in the future, while increasingthe rate of voluntary reporting of occurring operational risk related events.

The process of operational risk management involves the simultaneous operation of the following main components:

- Methods and tools used to identify and manage operational risks;
- Mechanisms for limiting, eliminating and preventing identified operational risks and losses;
- Operational risk management network with clearly defined risk management tasks and responsibility structure;
- Operational risk reports providing information to the Management, the shareholders and the supervisory authority;

➢ ***(a) Credit risk***

The nature of credit risk - it is the potential risk for revenue and capital arising from the inability of the counterparty to a financial transaction to implement its contractual obligations in due time and in full volume. The significant risk subtypesin this case are:

- ✓ Counterparty risk – the inability or unwillingness of the customer / counterparty to settle its liabilities to the Bank in full volume on the agreed date;
- ✓ Concentration risk – consequence of poor diversification of portfolios by sector, industry, size or other risk indicators. Consequence of the existence of large exposures to related parties or a group of counterparties with similar characteristics whose probability of default is due to common factors – sector, market, suppliers, customers, etc.;
- ✓ Settlement risk – this is the risk that a third party may not be able to meet its obligations on the agreed date or make a payment later than this date for reasons other than bankruptcy;
- ✓ Risk of collateral – results from the type of the collateral received, the degree of liquidity, the volatility of its value, and the control exercised over it.

Occurrence of credit risk - the performance of lending and investment activities, in which actual, potential or future receivables are formed in respect of business partners, borrowers or debtors.

The table below summarizes the credit risk exposure:

Minimum credit risk exposure	**Loans and receivables from other customers, including net investments in finance lease**		**Loans and receivables from banks, including the Central Bank**		**Investment in securities carried at fair value**		**Off-balance sheet commitments**	
In BGN '000	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**	**31 Dec 2020**	**31 Dec 2019**
Carrying amount	875,469	716,678	369,883	221,552	350,205	340,061	64,539	46,621
Contingent liabilities	132,813	98,374	-	-	-	-	-	-
Total:	**1,008,282**	**815,052**	**369,883**	**221,552**	**350,205**	**340,061**	**64,539**	**46,621**

Credit risk is the main risk to which the Bank is exposed and covers 91.4% of the total amount of risk exposures (TRE) as at 31 December 2020. The main volume of counterparty credit risk occurs with the Bank's business customers, while the volume of counterparty risk from operations with banking and non-banking financial institutions is relatively limited.

Credit risk measurement

Credit risk is measured by determining the creditworthiness of counterparties on the basis of financial quantitative and qualitative indicators by credit risk analysts possessing the necessary professional qualifications and experience to evaluate and measure credit risk.

Since 1 January 2018 Investbank JSC has reported its financial assets in accordance with the requirements of International Financial Reporting Standard (IFRS) 9 - Financial Instruments (Regulation (EU) 2016/2067 of the European Commission). Risk exposures are measured at their occurrence, and the provisioning is based on a model of expected credit losses and is forward-looking, unlike IAS 39 Financial Instruments, where recognition and measurement was based on a loss-incurred model.

Initial recognition - the Bank presents a financial asset in its statement of financial position when it becomes a party to the contractual terms of this instrument. On initial recognition, the Liquidity and Investment Services Directorate classifies investments in debt or equity financial instruments (bonds and shares) and the Risk Control, Credit Risk Management and Sales and Coordination of Branch Network Directorates for loans and receivables based on two conditions:

(a) the Bank's business model (approach) for managing the financial asset;

(b) the characteristics of the contractual cash flows of the financial asset.

The financial asset is measured at amortized cost if the instrument is held to maturity for the purpose of obtaining the contractual cash flows, which are only principal payments and interest on the outstanding principal amount - determined by the cash flow test (solely payments of principal and interest (SPPI) test). In order to perform the test, cash flows must include the time value of money (consideration for past time only), credit and/or liquidity risk allowance, expense allowance and profit margin. The sale of assets held for the purpose of collecting contractual cash flows aimed at managing credit risk concentration without increasing credit risk are compatible with the business model if sales are infrequent and their value is not significant.

A financial asset is measured at fair value through other comprehensive income if the business model is aimed to collect both contractual cash flows and sales of financial assets. According to the contractual terms of the financial asset at specific dates cash flows arise, which are only principal payments and interest on the outstanding amount of the principal. The purpose of this business model is to manage day-to-day liquidity needs and maintain interest yields. With this business model, sales of financial assets are expected to occur more frequently and with greater value.

A financial asset is measured at fair value through profit or loss if it is not held within the above two business models. Active sale and purchase of assets from this portfolio is expected. The management of a financial instrument is for the purpose of realizing cash flows from the sale of assets, not the collection of the contractual cash flows.

Investbank JSC measures its financial assets (investments in equity instruments) at fair value. For investments held for trading, the gain or loss on the change in fair value is recognized in the statement of profit or loss (SPL), and all other investments in equity instruments are presented in other comprehensive income (OCI).

Approach for impairment of financial assets – Investbank JSC uses the general, three-level impairment approach that reflects the change in the credit quality of the financial instruments since its initial recognition. The amount of the expected credit losses recognized as an allowance for impairment depends on the credit risk of the instrument on its initial recognition and on the change in the credit risk in the subsequent reporting periods.

All financial assets are categorized into three phases (stages) that take into account credit risk deterioration, with provided specific requirements for each stage, according to which at each reporting date estimation is made about the phase to which the respective asset relates. In determining the amount of credit losses, the value of money over time is taken into account using the effective interest rate determined at the initial recognition of the instrument.

In 2018, a system for assessing the creditworthiness of the customers at Investbank JSC was introduced, including the Scoring System for Individuals and the Rating System for Legal Entities. In addition, a subsystem for credit risk assessment and expected credit losses has been developed in accordance with IFRS 9 Financial Instruments.

The credit risk assessment for legal entities is obtained on the basis of a set of indicators, divided into three main groups (financial risk, business risk and general risk), participating with different weightings in the overall final rating, which forms the customer's rating. The scale applied by the Bank is with 7+1 stages in accordance with Regulation 575.

The credit risk assessment for individuals is the customer's assessment prepared on the basis of the risk profile and the compliance of the credit transaction with the standard product parameters. A set of criteria, each of which has a digital score, is applied to determine the risk and prepare the customer's profile, the sum of which forms the overall score of the customer

The internal rules and procedures developed and applied for the organization of the different types of activities and the responsibilities, powers, control and security mechanisms defined make sure that the risks underlying the banking activity are securely mitigated. Credit risk assumption is based on a centralized approach based on credit proposals and opinions when approving each transaction.

The amounts shown in the table below (loans and advances to customers) represent the maximum accounting loss that would be recognized as at the date of the financial statements if counterparties failed completely to perform their contractual obligations.

Loan portfolio structure, excluding financial lease transactions

In BGN '000	**Amount before impairment**		**Impairment**		**Carrying amount**	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Individually impaired						
Phase 3	188,628	234,121	49,396	62,132	139,232	171,989
Total individually impaired	188,628	234,121	49,396	62,132	139,232	171,989
Collectively impaired						
Phase 1	213,296	158,204	1,399	763	211,897	157,441
Phase 2	14,276	8,540	193	131	14,083	8,409
Total collectively impaired	**227,572**	**166,744**	**1,592**	**894**	**225,980**	**165,850**
Overdue, but not impaired						
Phase 1	10,695	326,543	-	-	10,695	326,543
Phase 2	8,014	31,112	-	-	8,014	31,112
Total overdue, unimpaired	**18,709**	**357,655**	**-**	**-**	**18,709**	**357,655**
Individually unimpaired						
Phase 1	454,524	11,832	-	-	454,524	11,832
Phase 2	37,024	9,352	-	-	37,024	9,352
Total individually unimpaired	**491,548**	**21,184**	**-**	**-**	**491,548**	**21,184**
Total	**926,457**	**779,704**	**50,988**	**63,026**	**875,469**	**716,678**

Structure of financial lease transactions

In BGN '000	Amount before impairment		Impairment		Carrying amount	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
Individually impaired						
Phase 3	1,406	1,457	3		1,403	1,457
Total individually impaired	1,406	1,457	3		1,403	1,457
Overdue, but not impaired						
Phase 1	798	-	-	-	798	-
Total overdue, unimpaired	**798**	**-**	**-**	**-**	**798**	**-**
Individually unimpaired						
Phase 1	2,007		-	-	2,007	
Total individually unimpaired	**2,007**		**-**	**-**	**2,007**	
Total	**4,211**	**1,457**	**3**	**-**	**4208**	**1,457**

The table below shows the gross amount of total loans and advances to customers extended by type of collateral:

Types of collateral on loans and lease

Type of collateral	Classified exposures		Regular and not impaired	
	2020	**2019**	**2020**	**2019**
Mortgage	74,456	119,662	135,112	148,221
Cash deposits and government securities	30,429	30,003	491,033	301,101
Other collateral*	83,882	85,654	88,516	73,007
Unsecured	20,773	21,443	6,468	2,071
Total	**209,540**	**256,762**	**721,129**	**524,400**

*Bulgarian Export Insurance Agency insurance, pledge on receivables, pledge on assets and guarantees.

The table below shows the ***fair value of all collaterals provided to the Bank, divided into groups depending on the risk exposures:***

	2020	**2019**
Individually impaired		
Qualifying collateral	189,341	236,398
Other collateral	890,715	1,006,329
Collectively impaired		
Qualifying collateral	143,716	80,175

Other collateral	1,238,546	934,211
Overdue, but not impaired		
Qualifying collateral	39,413	44,849
Other collateral	61,132	91,447
Not impaired individually /Regular/		
Qualifying collateral	813,325	719,854
Other collateral	3,076,564	2,085,655

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

(a) Credit risk, continued

Residential mortgage lending

The table below shows the loan exposure of mortgages to individuals in accordance with the Loan-to-value ratio (LTV). LTV is calculated as a ratio between the gross loan value and the market value of the collateral. The collateral assessment is exclusive of future expenses for the acquisition and realization of the collateral.

In BGN '000	**31 Dec 2020**	**31 Dec 2019**
Loan to value (LTV) based on the market value		
LTV ≤ 50 %	77,749	32,416
50 % < LTV ≤ 70 %	5,226	54,192
70 % < LTV ≤ 90 %	886	58,029
90 % < LTV ≤ 100 %	575	2,655
100 % > LTV	2,199	40,593
Total	**86,635**	**187,885**

The table below shows the concentration of risk exposure by economic sectors (excluding individuals on housing mortgages and consumer loans):

Industry	*Total exposure 2020*	*Relative share 2020*	*Total exposure 2019*	*Relative share 2019*
Administrative and support activities	2,719	0.35%	2,978	0.47%
Extractive industry	970	0.12%	1,188	0.19%
Water supply; sewerage, waste management and remediation activities	19,028	2.43%	17,722	2.79%
Other activities	596	0.08%	1,049	0.17%
General government	7,495	0.96%	6,214	0.98%
Culture, sport and entertainment	10,179	1.30%	2,483	0.39%
Education	981	0.13%	240	0.04%
Real estate operations	73,774	9.41%	73,335	11.54%

Manufacturing	83,443	10.64%	70,472	11.09%
Electricity, gas, steam and air conditioning supply	93,955	11.98%	51,772	8.15%
Professional, scientific and technical activities	7,881	1.01%	3,668	0.58%
Agriculture, forestry and fishing	91,895	11.72%	91,180	14.35%
Construction	62,132	7.92%	81,105	12.77%
Creation and distribution of information and creative products; telecommunications	423	0.05%	876	0.14%
Transport; warehousing and postal services	27,761	3.54%	9,793	1.54%
Trade; repair of cars and motorcycles	154,555	19.71%	129,746	20.42%
Financial and insurance activities	99,424	12.68%	42,134	6.63%
Accommodation and food service activities	43,962	5.61%	46,131	7.26%
Health and social work	3,006	0.38%	3,185	0.50%
Total amount	**784,179**	**100.00%**	**635,271**	**100.00%**

The Bank introduces internal limits by industries in order to control the concentration in a specific industry. The approval of new credit limits is suspended for all industries that have reached or exceeded the specified risk thresholds. Exceptions are allowed only after approval by the Management Board. In order to prevent the limits being exceeded, the Bank controls the absorption of the limits through a clearly defined process, including monthly control and monitoring of the industry limits. The report is submitted to the Risk Management Board (RMB) and the information on the free limit is sent to the Business Units.

The implementation of Art. 45 of the Credit Institutions Act, in conjunction with Art. 392 of Regulation (EU) No 575/2013 requires the Bank to observe the legal restrictions in relation to decision-making for large exposures (exposures equal to or exceeding 10% of the Bank's capital basis) formed to one person or economically related persons. Business and Risk units involved in the proposal and acceptance of exposures are responsible to monitor the compliance with the legal limits concerning large exposures, their formation and accountability.

The Bank carefully monitors and manages the sovereign debt credit risk which leads to a good overall quality of the government securities portfolio. In 2020, the Bank diversified its portfolio of government securities by investing in three new central governments of European Union member-states.

The table below shows the carrying amount of the portfolio by country as at 31 December 2020 and 31 December 2019. Assets are presented without any possible impairment.

In BGN '000	Bulgaria	Germany	Spain	Italy	Luxembourg	Ireland	USA	France	Slovenia	Poland	Total
31 Dec 2020											
Trading portfolio*	2,959	-	-	-	-	-	-	-			2,959
Investment portfolio *-at fair value*	227,317	19,454	42,435	55,076	10,962	14,249	30,044	60,546	12,695	38,420	511,198
Total	**230,276**	**19,454**	**42,435**	**55,076**	**10,962**	**14,249**	**30,044**	**60,546**	**12,695**	**38,420**	**514,157**

In BGN '000	Bulgaria	Germany	Spain	Italy	Luxembo	Romania	USA	France			Total

urg

31 Dec 2019									
Trading portfolio*	1,948					10,000	-		11,948
Investment portfolio									
-at fair value	223,194	19,469	63,107	96,677	10,962	-	31,619	60,312	505,340
Total	**225,142**	**19,469**	**63,107**	**96,677**	**10,962**	**10,000**	**31,619**	**60,312**	**517,288**

*** With the introduction of IFRS 9 from 1 January 2018, the trading portfolio was renamed to portfolio at fair value through profit or loss (FVTPL)**

The following is the trade portfolio exposures (FVTPL - through profit or loss) by credit quality based on ratings (in accordance with the credit quality grades of Standard & Poor's):

In BGN '000	**2020**	**2019**
Government securities BBB	2,959	11,948
Total	**2,959**	**11,948**

The table below shows the assets in the Bank's trade portfolio (FVTPL - through profit or loss) and the investments by maturity and country of incorporation of the issuer.

Maturity structure of investments by country of the issuer as at 31 December 2020 (by residual maturity): *In BGN '000*	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Financial assets carried at fair value through profit or loss							
Government securities							
Bulgaria		1,502		1,457			2,959
Total	**-**	**1,502**	**-**	**1,457**	**-**	**-**	**2,959**
Financial assets carried at fair value through other comprehensive income							
Government securities							
Bulgaria			15,916	136,217	58,735		210,868
Spain			-	24,898	17,537		42,435
France			-	7,010	-		7,010
Ireland			-	-	14,249		14,249

Slovenia			-	-	12,695		12,695
Poland			-	-	38,420		38,420
Corporate equity instruments							
Bulgaria						6,047	6,047
USA					2,193	2,218	4,411
Luxembourg						10,962	10,962
Corporate debt instruments							0
Bulgaria					149		149
Total	**-**	**-**	**15,916**	**168,125**	**143,978**	**19,227**	**347,246**
Total financial assets	**-**	**1,502**	**15,916**	**169,582**	**143,978**	**19,227**	**350,205**

Maturity structure of investments by country of the issuer as at 31 December 2019 (by residual maturity): *In BGN '000*	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Financial assets carried at fair value through profit or loss							
Government securities							
Bulgaria	-	-	-	1,948	-	-	1,948
Romania	-	-	-	10,000	-	-	10,000
Total	**-**	**-**	**-**	**11,948**	**-**	**-**	**11,948**
Financial assets carried at fair value through other comprehensive income							
Government securities							
Bulgaria	-	5,211	9,044	156,068	35,832	-	206,155
Spain	-	-	-	-	63,107	-	63,107
Italy	-	-	-	29,583	-	-	29,583
Romania	-	-	-		-	-	-
France	-	-	-	7,001	-	-	7,001
USA	-	-	-	-	-	-	-
Corporate equity instruments							
Bulgaria	-	-	-	-	-	6,932	6,932
USA	-	-	-	-	-	4,223	4,223
Luxembourg	-	-	-	-	-	10,962	10,962
Corporate debt instruments							
Bulgaria	-	-	-	-	150	-	150
Total	-	5,211	9,044	192,652	99,089	22,117	328,113
Total financial assets	**-**	**5,211**	**9,044**	**204,600**	**99,089**	**22,117**	**340,061**

Credit risk mitigation tools

The Credit Risk Management Policy of Investbank JSC requires taking credit risk with counterparties whose cash flow is sufficient for the timely and complete servicing of the cash liabilities taken. In order to limit the risk of possible limited or incomplete solvency, the Bank requires the counterparties to provide appropriate collateral. This collateral may take the form of tangible assets or payment obligations assumed by third parties, which limit the risk of default on the liabilities taken. In practice, collateral is an alternative source of funds to cover payment obligations in the event of default. However, the provision of collateral does not imply exemption from the obligation to analyse and evaluate the solvency of the Bank's counterparties, i.e. their ability to meet their payment obligations on a timely basis.

The collaterals accepted can be classified in the following two categories:

• financial and other collateral such as cash deposit, securities (shares and bonds), tangible assets such as machinery, equipment, vehicles, as well as real estate, real property rights, etc.;

• guarantees provided by third parties, such as bank guarantees, sureties, letters of credit, insurance contracts, insurance of export insurance agencies, etc.

Additional information on credit risk and impairment

Review of impairment

31 Dec 2020	**Increases due to occurrence and acquisition**	**Changes due to change in credit risk (net)**	**Total for the current year**
Impairment of financial assets	**-**	***(51,246)***	***(51,246)***
Debt securities	-	(255)	*(255)*
Loans and advances	-	*(50,991)*	*(50,991)*
Provisions	**-**	***254***	***254***
Commitments and guarantees	-	*254*	*254*
Impairment of non-financial assets	**-**	***704***	***704***
Other	-	*704*	*704*

Movement of adjustments and provisions for credit losses

31 Dec 2020	**Opening Balance 01/01/2020**	Decrease of the adjustments due to write-off	Increases due to occurrence and acquisition	Changes due to change in credit risk (net)	**Balance at the end of the period**

Impairment of financial assets					
Debt securities	(275)	-	-	20	(255)
Loans and advances	(63,027)	27,833		(15,797)	(50,991)
Provisions					
Commitments and guarantees	215	-	1	38	254

31 Dec 2019	Opening Balance 31/12/2017	Effect of initial application of IFRS 9 which concerns impairment losses.	**Opening Balance 01/01/2018**	Decrease of the adjustments due to write-off	Increases due to occurrence and acquisition	Changes due to change in credit risk (net)	**Balance at the end of the period**
Impairment of financial assets							
Debt securities	(257)	-	(257)	(18)	(275)		(293)
Loans and advances	(86,618)	54,336	(32,282)	(30,745)	(63,027)		(93,772)
Provisions							
Commitments and guarantees	74	*0*	74	141	215		356

Credit exposure and collateral

	31 Dec 2020 Maximum credit exposure	**31 Dec 2019** Maximum credit exposure
Equity instruments	21,420	22,117
Debt instruments	492,737	495,171
Loans and advances	875,469	716,678
Unutilized credit commitments	64,539	46,621
Total	**1,454,165**	**1,280,587**

Security held as per the credit register

	31 Dec 2020 / 31 Dec 2019	
	Fair value of the security held	Fair value of the security held
Financial assets	6,452,752	5,198,918

Loans and advances	6,452,752	5,198,918

Security obtained for possession during the period

	31 Dec 2020	31 Dec 2019
Non-current assets held for sale, acquired, including reclassified	6,514	14,145
Total	**6,514**	**14,145**

Limiting the impact of the economic crisis stemming from Covid-19

Investbank JSC actively participates in the individual programs for support of the individuals and companies affected by the crisis. To this end, clear rules / extraordinary temporary procedures have been approved for facilitated consideration of renegotiations of loans to individuals and business customers, detailing the processes of renegotiation of credit exposures affected directly or indirectly by the negative impact related to the spread of the coronavirus (Covid-19).

Investbank JSC has taken preventive measures to preserve the quality of the portfolio in the aggravated economic environment, contacting the customers experiencing difficulties in repayment following the first day of delay. Reports are submitted monthly to the Risk Management Board and the Management Board for loans extended to legal entities that are overdue for more than a day and to individuals overdue for more than 30 days with information on the reasons for the delay and actions taken to ensure the performance. The analysis performed by sectors of borrowers in Investbank JSC does not show a significant change in the quality of individual industries due to the economic crisis stemming from the Covid-19 pandemic, while the share of non-performing exposures to individuals decreased in 2020.

With the introduction of the State of Emergency in Bulgaria, Investbank JSC has prepared effective procedures to handle renegotiations, allowing timely differentiation of borrowers with temporary difficulties caused by the effects of Covid-19 from those with permanent difficulties. During the negotiations on the private moratorium, the Bank continued to strictly observe its position towards each borrower in view of the possibilities for permanent loss of business and cash flow from the main activity of the borrower. The presence of early warning signals is effectively monitored in order to identify in a timely manner the probability that borrowers may be unable to service their liabilities, including by exposures subject to a moratorium, through the introduced rules for credit limit monitoring, identification of deteriorated / problematic exposures.

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

➢ *(b) Liquidity risk*

The main objective of liquidity management is to ensure optimal liquidity while balancing the inflows and outflows of cash flow to ensure the day-to-day implementation of the Bank's obligations. Liquidity management is performed in accordance with the rules and methodology for liquidity buffers determining and monitoring.

The principles and internal rules are based on:

- Appropriate structuring of the business portfolio;
- Ensuring stable financing;
- Balancing short-term cash flow and maintaining a sound financial position.

Liquidity risk management is divided into two functional areas: liquidity management and liquidity risk control. Liquidity management is implemented from an operational and strategic point of view by the Liquidity and Investment Services Directorate. Liquidity risk control is performed by the Risk Control Directorate.

The Bank's liquidity status is visualized by means of a three-level colour scale and provides a summary of the Bank's liquidity position. With regard to the system of limits and early warning indicators, the status draws the attention to the increasing liquidity risks over time. The main measures to prevent the deterioration of the liquidity position are taken by the Liquidity and Investment Services Directorate.

- Normal situation - green:

All liquidity indicators are within the limit and there are no indications of circumstances threatening the Bank's liquidity position.

- Risk situation - yellow (early warning level):

The solvency of the Bank or its access to the necessary financing is not directly threatened, but certain risk parameters or indicators exceed the acceptable levels. The increasing costs of refinancing or liquidity shortages include the risk of financial losses. There is an increased risk of an emergency liquidity situation. Measures are required to strengthen the liquidity position or to eliminate further deterioration, respectively.

- Dangerous situation - orange (liquidity crisis level):

There is a significant risk that the Bank may become insolvent or unable to raise the necessary financing, which could result in significant financial loss through forced liquidation or increased financing costs.

The Liquidity Management Plan in Adverse Events and the Liquid Crisis scenario should enter into force. Prompt steps should be taken, effectively and in the short term, to improve the liquidity position, supported by a sound communication policy. Providing the necessary liquidity and reducing risks take priority over profitability aspects.

- Emergency situation - red:

Limit status that can only be reached by manually changing the limit level. The solvency of the Bank is directly endangered. In order to ensure the survival of the Bank, liquidity is temporarily a major factor in decision making. Liquidity Management Plan in Adverse Events is triggered.

The main methodological tool for liquidity risk monitoring and reporting is the liquidity mismatch analysis based on original (contractual) maturities, supplemented with simulations of possible transactions (future cash flow modelling) in order to properly define the actual expected cash flow. Liquidity risk is managed based on the comparison between the maximum cumulative outflow and the potential for its liquidity coverage that can be realized within a short timeframe through the liquidity report. The different economic assumptions are modelled by separate stress scenarios.

The Risk Control Directorate prepares an analysis of a stress scenario (calculation) for measuring the liquidity risk under aggravated stress conditions (combined scenario). This scenario includes a combination of a severe general market and liquidity crisis and a severe individual banking crisis, with the Stress scenario modelled in separate currencies (BGN, EUR, USD and all others in total), as well as in total for all currencies in the Bank.

Specific product assumptions when allocating cash inflows and outflows are detailed in the Liquidity Modelling Handbook.

Liquidity ratios under Regulation (EU) 575/2013 (LCR & NSFR).

- Liquidity Coverage Ratio (LCR) is a short-term liquidity measure designed to ensure a sufficiently high level of liquid assets needed to survive a significant stress scenario over a period of 1 month. The purpose of this ratio is toensure that the Bank maintains an adequate level of unblocked (not pledged) high-quality liquid assets that can be converted into cash to cover the required liquidity over a period of 30 calendar days under a much more severe liquidity stress scenario.

$$\frac{\textbf{Available high-quality assets}}{\textbf{Total net cash outflows over the next 30 calendar days}} \geq \mathbf{100\%}$$

Therefore, the value of the available high-quality assets must be at least equal to the total net cash flow for the next 30 calendar days.

Date	Dec 2019	Dec 2020
LCR	444%	286%

- Net Stable Funding Ratio (NSFR) is a ratio aimed to support flexibility over a longer time horizon by creating additional incentives for banks to fund their operations using more stable sources of funding on an ongoing basis. The ratio with one-year time horizon was designed to provide a robust maturity structure for assets and liabilities and to avoid concentrating highly liquid assets only within the 1-month zone (defined by LCR) by providing those outside the 30-day period.

$$\frac{\textbf{Availability of stable funding}}{\textbf{Required amount of stable funding}} \geq \mathbf{100\%}$$

Date	Dec 2019	Dec 2020
NSFR	186%	178%

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

(b) Liquidity risk, continued

The Bank's assets and liabilities analysed for the remaining period are as follows:

31 December 2020

In BGN '000	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Assets							
Cash, balances with central banks and other deposits on demand	420,327	-	-	-	-	-	420,327
Receivables from banks	-		-	-	-	3,265	3,265
Financial assets carried at fair value through profit or loss	-	1,502	-	1,457	-	-	2,959
Loans and advances to customers	26,788	6,587	229,556	162,719	449,819	-	875,469
Net investment in finance lease	-	-	1,404	-	2,804	-	4,208
Financial assets carried at fair value through other comprehensive income	-	-	15,916	168,125	143,978	19,227	347,246
Debt securities carried at amortised cost	-	-	55,076	72,551	36,325	-	163,952
Property, plant, equipment and investment property	-	-	-	-	-	147,130	147,130
Intangible assets	-	-	-	-	-	3,192	3,192
Non-current assets held for sale	-	-	-	-	-	11,114	11,114
Other assets	-	-	-	-	-	221,808	221,808
Total assets	447,115	8,089	301,952	404,852	632,926	405,736	2,200,670

Liabilities

Deposits from credit institutions	-	-	-	-	-	12	12
Deposits from customers	344,269	179,263	552,560	87,903	737	775,993	1,940,725
Other financial liabilities, including:	2	21	116	5,397	1,040	0	6,575
Payables on financial lease contracts		21	30				51
Payables on operating lease contracts under IFRS 16	2	0	86	5,397	1,040	0	6,524
Bond loans							0
Hybrid debt-equity instrument							0
Other liabilities	6,750						6750
Total liabilities	351023	179326	552822	98696	2816	775954	1960638
Difference in maturity of assets and liabilities	96091	-171237	-250870	306156	630110	-370218	240033
Cumulative difference	96091	-75146	-326015	-19860	610250	240033	
	2	21	116	5,397	1,040	0	6,575
Off-balance sheet commitments	(192,327)	(12,050)	(40,980)	(51,426)	(22,976)		
Cumulative difference including off-balance sheet commitments	(96,231)	(87,149)	(366,717)	(60,214)	600,425		

13 **3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED**

14 *(b) Liquidity risk, continued*

31 December 2019

In BGN '000	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Assets							
Cash, balances with central banks and other deposits on demand	259,863	-	-	-	-	-	259,863
Receivables from banks	-		-	-	-	4,088	4,088
Financial assets carried at fair value through profit or loss	-	-	-	11,948	-	-	11,948
Loans and advances to customers	21767	5,635	179,629	135,506	374,141	-	716,678
Net investment in finance lease	-	-	-	1,457	-	-	1,457
Financial assets carried at fair value through other comprehensive income	-	5,211	9,044	192,652	99,089	22,117	328,113
Debt securities carried at amortised cost	-	-	-	86,563	90,664	-	177,227
Property, plant, equipment and investment property	-	-	-	-	-	145,670	145,670
Intangible assets	-	-	-	-	-	3,423	3,423
Non-current assets held for sale	-	-	-	-	-	14,249	14,249
Other assets	-	-	-	-	-	235,759	235,759
Total assets	281,630	10,846	188,673	428,126	563,894	425,306	1,898,475

Liabilities							
Deposits from credit institutions	-	-	-	-	-	-	-
Deposits from customers	903,436	171,966	477,848	102,346	183	-	1,664,949
Other financial liabilities, including:	-	2	216	6,468	2,484	-	9,170
Payables on financial lease contracts	-	-	80	262	61	-	403
Payables on operating lease contracts under IFRS 16	-	2	136	6,206	2,423	-	8,767
Bond loans	181	30	-	-	-	39,205	39,416
Hybrid debt-equity instrument	-	-	-	-	-	-	-
Other liabilities	6,016	-	-	-	-	-	6,016
Total liabilities	909,633	171,998	478,064	108,814	2,667	39,205	1,710,381
Difference in maturity of assets and liabilities	(628,003)	(161,152)	(289,391)	319,312	561,227	386,101	188,094
Cumulative difference	(628,003)	(789,155)	(1,078,546)	(759,234)	(198,007)	188,094	
Off-balance sheet commitments	(217,893)	(4,967)	(18,133)	(70,562)	(14,517)		
Cumulative difference including off-balance sheet commitments	(845,896)	(794,122)	(1,096,679)	(829,796)	(212,524)		

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

- *(c) Market risk*

Trading in financial instruments gives rise to market risk, which represents the risk of their possible impairment as a result of changes in market conditions. The impairment of financial instruments in the Bank's trading portfolio results in the formation of losses that affect the revenue on its trading operations.

Market risk is monitored and controlled through a strictly established limit system consisting of limits for currency andinterest rate risk.

(i) Interest rate risk

It represents the current or potential risk to revenue and capital arising from adverse changes in interest rates, as a result of unforeseen and unfavourable for the Bank interest rate changes leading to a significant decrease in the margin. Interest rate risk exists when there is an imbalance in the maturity structure of interest-sensitive assets and liabilities. The Risk Management Policy aims at optimizing net interest revenues and reaching market interest rate levels consistent with the Bank's business strategies.

As at 31 December 2020 and 31 December 2019 both interest-bearing assets and liabilities are with fixed interest rates and have similar maturities and repricing dates.

The weighted average interest rate on interest-bearing assets as at 31 December 2020 is 1.97 % (year 2019: 2.89%), and for interest-sensitive liabilities, it is 0.34% (year 2019: 0.40%).

The following table shows the Bank's positions in terms of residual maturity of interest-bearing assets and liabilities as at the date of the preparation of the financial statements.

31 December 2020				**Fixed interest rate instruments**				
In BGN '000	**Total**	**Non-interest bearing instruments**	**Floating rate instruments**	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Assets								
Cash, balances with central banks and other deposits on demand	420,327	409,312	-	11,015	-	-	-	-
Receivables from banks	3,265	3,265	-	-	-	-	-	-
Financial assets carried at fair value through profit or loss	2,959	-	-	-	1,502	-	1,457	-
Loans and advances to customers	875,469	89,898	654,411	432	1,226	13,241	25,396	90,865
Net investment in finance lease	4,208	-	-	-	-	1,404	-	2,804
Financial assets carried at fair value through other comprehensive income	347,246	19,227	-	-	-	15,916	168,125	143,978
Debt securities carried at amortised cost	163,952	-	-	-	-	55,076	72,551	36,325
Property, plant, equipment	147,130	147,130	-	-	-	-	-	-

and investment property								
Intangible assets	3,192	3,192	-	-	-	-	-	-
Non-current assets held for sale	11,114	11,114	-	-	-	-	-	-
Other assets	221,808	221,808	-	-	-	-	-	-
Total assets	2,200,670	904,946	654,411	11,447	2,728	85,637	267,529	273,972
Liabilities								
Deposits from credit institutions	12	-	-	12	-	-	-	-
Deposits from customers	1,940,725	806,634	-	318,090	177,200	550,273	87,903	625
Other financial liabilities, including:	6,575	-	-	2	21	116	5,396	1,040
Payables on financial lease contracts	51	-	-	-	21	30	-	-
Payables on operating lease contracts under IFRS 16	6,524	-	-	2	-	86	5,396	1,040
Bond loans	-	-	-	-	-	-	-	-
Hybrid debt-equity instrument	-	-	-	-	-	-	-	-
Other liabilities	6,750	6,750	-	-	-	-	-	-
Total liabilities	1,954,062	813,384	-	318,104	177,221	550,389	93,299	1,665
Cumulative interest gap	246,608	76,481	654,411	(291,576)	(174,493)	(466,156)	175,634	272,307

31 December 2019				**Fixed interest rate instruments**				
In BGN '000	**Total**	**Non-interest bearing instruments**	**Floating rate instruments**	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Assets								
Cash, balances with central banks and other deposits on demand	259,863	233,767	-	26,096	-	-	-	-
Receivables from banks	4,088	4,088	-	-	-	-	-	-
Financial assets carried at fair value through profit or loss	11,948	-	-	-	-	-	11,948	-
Loans and advances to customers	716,678	20,581	522,886	12,583	275	32,902	30,517	96,934
Net investment in finance lease	1,457	-	-	-	-	-	1457	-
Financial assets carried at fair value through other comprehensive income	328,113	22,117	-	-	5,211	9,044	192,652	99,089

Debt securities carried at amortised cost	177,227	-	-	-	-	-	86,563	90,664

Property, plant, equipment and investment property	145,670	145,670	-	-	-	-	-	-
Intangible assets	3,423	3,423	-	-	-	-	-	-
Non-current assets held for sale	14,249	14,249	-	-	-	-	-	-
Other assets	235,759	235,759	-	-	-	-	-	-
Total assets	1,898,475	679,654	522,886	38,679	5,486	41,946	323,137	286,687
Liabilities								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Deposits from customers	1,655,779	647,669	-	255,767	171966	477,848	102,346	183
Other financial liabilities, including:	9,170	-	-	-	2	216	6,468	2,484
Payables on financial lease contracts	403	-	-	-	-	80	262	61
Payables on operating lease contracts under IFRS 16	8,767	-	-	-	2	136	6,206	2,423
Bond loans	39,416	-	-	181	30	-	-	39,205
Hybrid debt-equity instrument	-	-	-	-	-	-	-	-
Other liabilities	6,016	6,016	-	-	-	-	-	-
Total liabilities	1,710,381	653,685	-	255,948	171,996	478,064	108,814	41,872
Cumulative interest gap	188,094	26,969	522,886	(217,269)	(166,512)	(436,118)	214,323	244,815

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(i) Interest rate risk, continued

Sensitivity analysis – interest rate risk

The main method used by the Bank to monitor and assess the interest rate risk is based on a GAP analysis, which distributes interest-bearing assets and liabilities by maturity bands. The method measures the potential loss resulting from projected changes in market interest rates in the case of a parallel shift in interest rates. The stress tests are performed according to a scenario with 200 bps in parallel shifting of yield curves by individual currencies and for all currencies in total.

The calculated potential effect of the stress test in December 2020 represents 2.02% of the Bank's capital base, which is well below the specified risk ratio for interest rate risk exposure of 20% and shows a relatively low level of the Bank's exposure to interest rate risk:

- amendment of the net interest income due to increase in current interest rates of the Bank by +200 bps in the amount of - BGN 4.8 million, and in case of decrease in the current interest rates of the Bank by -200 bps in the amount of + BGN 4.8 million. The negative effect of the 200 bps increase is due to the significant liquid balances in accounts with financial institutions and BNB.

Investbank JSC calculates the capital requirements for market risk by applying the standardized approach, which includes calculation of the capital requirements for position, currency and commodity risk. Position risk is the risk of change in prices of debt and equity instruments in the trading portfolio and includes two components - specific position risk and common position risk. The specific position risk is the risk of change in prices of the instruments created by the issuer,

while the common position risk is the risk of changing interest rates. As at 31 December 2020, the Bank's fair value portfolio through the profit or loss (trading portfolio) only includes government guaranteed Bulgarian securities. The carrying amount of the fair value portfolio through profit or loss amounts to BGN 2.9 million.
Along with the standardized market risk assessment approach in the trading portfolio, the Bank also applies the Value at Risk (VaR) method - a parametric and historical stress-test model for calculating VaR (using specialized software). The market risk assessment of the portfolio is determined by the calculated VaR showing the loss in the value that at a certain degree of probability will not be exceeded for a specific time horizon. VaR is calculated based on the variability of different risk parameters and takes into account the correlation of the parameters and calculates the change in the portfolio value compared to its current market value. The method used for calculation of VaR is "Monte Carlo Simulation", based on a standard scenario, one day holding period, 99% confidence level, and 2.33 standard deviation.

The allocation of the securities portfolio - shares and bonds by their risk weight, exclusive of capital discounts, is as follows:

31 Dec 2020	Weight pursuant to Regulation 575	Amount in BGN '000	Relative share	Weighted amount in BGN '000
debt	0%	482,334.92	93.81%	-
debt	20%	-	-	-
debt	50%	-	-	-
debt	100%	-	-	-
corporation	100%	10,402.14	2.02%	10,402.14
Shares	100%	21,402.05	4.17%	21,420.05
TOTAL for counterparty's risk		**514,157**		**31,822**

The interest rate risk positions are managed by the Liquidity and Investment Services Directorate, which uses securities, receivables from banks, deposits from banks to manage the overall position of the Bank.

(ii) Currency risk

It represents the risk of negative changes in the value of the positions in foreign currency arising from changes in the exchange rate. The Bank is not exposed to currency risk through transactions in financial instruments denominated in EUR. Following the introduction of the Currency Board in the Republic of Bulgaria, the Bulgarian Lev is pegged to the Euro and the movements in the exchange rates of the BGN to currencies other than the EUR affect the revenue.

The control at the Bank is carried out in accordance with the established position limits for the open currency position for each individual currency, as well as the limit for the total net open currency position. As to currency risk, it is considered insignificant as at any moment there is an open currency position under 2% of the capital base. Currency risk management is defined as a limit - the maximum allowable stop loss to avoid a speculative open position, the amount of a single open speculative position and the term for its closure. The amount of open currency positions is being daily monitored and controlled, as well as the compliance with established limits.

31 December 2020
In BGN '000

	BGN	EUR	Other currency	Total
Assets				
Cash, balances with central banks and other deposits on demand	120,602	280,776	18949	420,327
Receivables from banks	63	2,633	569	3,265
Financial assets held for trading	1,502	1,457	-	2,959
Loans and advances to customers	365,584	491,011	18,874	875,469
Net investment in finance lease	2,804	1,404	-	4,208
Financial assets carried at fair value through other comprehensive income	22,112	320,723	4,411	347,246
Debt securities carried at amortised cost	10,253	128,066	25,633	163,952
Property, plant, equipment and investment property	147,130	-	-	147,130
Intangible assets	3,192	-	-	3,192
Non-current assets held for sale	11,114	-	-	11,114
Other assets	221,505	303	-	221,808
Total assets	905861	1226373	68436	2,200,670
Liabilities				
Deposits from credit institutions	8	4	-	12
Deposits from customers	1,214,906	657,395	68,424	1,940,725
Other financial liabilities, including:	6,524	51	-	6,575
Payables on financial lease contracts	-	51	-	51
Payables on operating lease contracts under IFRS 16	6,524	-	-	6,524
Bond loans	-	-	-	-
Hybrid debt instrument	-	-	-	-
Other liabilities	6,285	440	25	6,750
Total liabilities	1,227,723	657,890	68,449	1,954,062
Net position	(321862)	568483	-13	246,608

31 December 2019
In BGN '000

	BGN	EUR	Other currency	Total
Assets				
Cash, balances with central banks and other deposits on demand	205,739	19,220	34,904	259,863
Receivables from banks	67	3,411	610	4,088
Financial assets held for trading	1,508	10,440	-	11,948
Loans and advances to customers	316,553	399,585	540	716,678
Net investment in finance lease	-	1,457	-	1,457
Financial assets carried at fair value through other comprehensive income	38,044	285,847	4,222	328,113
Debt securities carried at amortised cost	9,956	139,874	27,397	177,227

Property, plant, equipment and investment property	145,670	-	-	145,670
Intangible assets	3,423	-	-	3,423
Non-current assets held for sale	14,249	-	-	14,249
Other assets	235,502	257	-	235,759
Total assets	784,191	875,776	238,508	1,898,475
Liabilities				
Deposits from credit institutions	-	-	-	-
Deposits from customers	1,015,135	573,136	67,508	1,655,779
Other financial liabilities, including:	2,009	7,161	-	9,170
Payables on financial lease contracts	-	403	-	403
Payables on operating lease contracts under IFRS 16	2,009	6,758	-	8,767
Bond loans	39,416	-	-	39,416
Hybrid debt instrument	-	-	-	-
Other liabilities	5,659	299	58	6,016
Total liabilities	1,062,219	580,596	67,566	1,710,381
Net position	(278,028)	295,180	170,942	188,094

➢ *(d) Operational risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. Operational events are events leading to negative financial result, additional expenses and deviation from expected outcome, caused by errors or malfunctioning in systems, people, processes. The loss from an operational event is the financial effect related to the occurrence of operational events and is subject to disclosure in the Bank's financial statements, including unrealized gains. Investbank JSC has introduced appropriate mechanisms and requirements to implement the current standards of operational risk management and control. The main focus is on identifying the operational risks in a timely manner in order to minimize the potential negative impacts and prevent them from recurring in the future. This is also achieved by increasing the proportion of voluntary reporting of occurrences related to operational risk.

- The loss from an operational event may take the form of: assets impairment – direct write-off or decrease in the carrying amount of financial assets as a result of theft, fraud or breach of internal regulations; external expenses – related to litigation, expert's appraisals on operational events; regulatory actions against the Bank – penalties, fines, employee benefits paid, compensations to customers or third parties; loss of right for counter-claim/recourse as a result of failed deals; suffered loss or damage on tangible assets, etc.
- Investbank JSC calculates its capital requirements for operational risk using the basic indicator method by multiplying the average gross annual income by 0.15. The average gross income is formed by the sum of the positive values of net interest and net non-interest income, averaged over the last three calendar years based on audited figures. The annual gross income for each year is calculated before deduction of impairment losses and operating expenses. The calculation of gross annual income is exclusive of income from sale of securities in the Bank's portfolio, irregular and extraordinary income and insurance benefits received.
- At the same time, the Bank uses a two-dimensional model to accurately define and evaluate the operational events and to subsequently apply advanced models:

  - The first dimension aims at precise distribution of operational events that lead to loss, arranged by risk category and trigger event. The Bank uses seven major risk categories and twenty sub-categories.
  - The second dimension complies with Basel 3 requirements and classifies events (that incur losses or concern potential loss and unrealized gains only) by selected groups of activities (business lines).

- Investbank JSC maintains a database of operational events in order to provide sufficient detail and reliance in order to:
  - trace and detect events that incur loss, including events that affect numerous activities;
  - prepare reports for internal use regarding operational risk measurement and results from its management, including trends for loss and/or risk evaluation established by the data base;
  - develop new or improve existing control procedures.
- The Bank defines and observes basic key indicators causing operational risk:
  - human error – risk of fraud due to understated, non-existent or deficient control procedures, as well as unintentional mistakes due to ignorance of products, insufficient staff training, complexity of applicable proceduresand lack of experience, negligence, intentional, staff shortages;
  - information systems – use of incorrect models, incorrect data processing, use of erroneous data, use of system unsuitable for new products or introducing new data sources, levels of access to systems, data storage, breakdown in information and/or communication systems.
  - organization of activity – inappropriate structure and delegation of duties, lack of appropriate procedures, violation of processes, violation of policies and procedures.
  - external factors – misappropriation of assets, external fraud, intentional acts, natural disasters, etc.

With respect to the amount of losses resulting from operational events, the Internal Rules set a materiality threshold of BGN 400. The procedure and form of reporting as well as the necessary documents for the formation of the file of the operational event are set out.

4. DISCLOSURE OF EQUITY MANAGEMENT POLICY

(a) Equity management

The regulations of the package CRD IV are effective as of 1 January 2015, and through Regulation (EU) No 575/2013 on the prudential requirements for credit institutions and investment firms and Directive 2013/36 of the European Parliamentand of the Council on the access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms they transpose the new standards for bank capital - Basel III into the European law.

Regulatory capital

The Bank's equity for regulatory purposes consists of the sum of the following elements:

- Common Equity Tier I capital is formed by the shareholders' equity, premium reserves and retained earnings, the accumulated other comprehensive income and other reserves (if available to the Bank for unrestricted and immediateuse to cover risks) after applying the adjustments that are required under Articles 32 to 35 and the deductions under Article 36 of Regulation (EU) 575/2013;
- Tier I capital is the sum of Common Equity Tier I capital and Additional Tier 1 capital (hybrid instruments);
- Tier II capital: subordinated debt, net of regulatory adjustments relating to items that are included in the balance sheet capital or assets of the Bank, but treated differently to regulate capital adequacy. Depreciation of Tier II capital instruments - account should be taken of the extent to which Tier II capital instruments meet the requirements for Tier II capital elements over the last five years of the maturity of the instruments;
- The equity - the capital base of the institution consists of the sum of its Tier I capital and Tier II capital.

Pursuant to Art. 92 of Regulation (EU) 575/2013, the minimum required capital adequacy ratios are:

- Common Equity Tier I capital ratio (CET 1) – 4.5 %;
- Tier I capital ratio – 6%;
- Total capital adequacy ratio – 8%.

The Bank calculates the total capital adequacy ratio as a percentage ration between equity (regulatory capital) and risk- weighted assets for credit, market and operational risk.

Part Eight of Regulation (EU) 575/2013 - Disclosure by Institutions sets out the scope of information disclosure requirements, including for the capital buffers of banks and the terms and conditions of their formation are detailed in Chapter 4 of Directive 2013/23/EU. The purpose of regulation is to make the internal banking market function with increasing efficiency. The capital buffers are:

1. Preventive capital buffer
2. Anti-cycling capital buffer specific to each bank
3. Buffer for Global Systemic Significant Institution (GSSI)
4. Buffer for Other Systemic Significant Institution (OSSI)
5. Buffer for systemic risk

In addition to Common Equity Tier 1 capital held to meet the capital requirement, banks should maintain the additional capital buffers described above.

From the mentioned capital buffers, as at 31 December 2020 the Bank allocated capital for preventive capital buffer (2.5%) and buffer for systemic risk (3%) considering the total amount of the risk weighted assets for credit, market and operational risk. As of 10.2019, a requirement for an anti-cycling capital buffer of 0.5% of TRE has been introduced.

Equity indicators

Equity (capital base)	**2020**	**2019**
In BGN '000		
Common Equity Tier I capital	**239,246**	**220,704**
Repaid equity instruments	155,572	170,877
Reserves	123,018	85,768

Deductions from Common equity Tier I Capital:

Intangible assets	2,676	3,423
Accumulated other comprehensive income	36,668	32,518
Equity	**239,246**	**220,704**

The capital plan of the Bank has been developed in accordance with the objectives for development and the achievement of certain quantitative and qualitative indicators. The development of the plan takes into account the results of the periodic stress tests and the estimated changes in the economic environment.

The main points in the process of capital planning and maintaining consistent stable ratios may be summarized as follows:
- Quality initial assessment of business operations and, accordingly, proper definition and identification of operational risks;
- Implementation of effective control procedures in compliance with the regulatory framework and internal limits aimed at keeping the risk in the Bank's acceptable range;
- Timely assessment of all significant risks by calculating their impact on capital adequacy;
- Stress testing for evaluation of adverse, but plausible events on different business areas.

Capital ratios

	31 December -2020	**31 December -2019**
Total capital adequacy ratio	19.93%	19.55%
Common Equity Tier 1 capital ratio	19.93%	16.07%

The reported values for the amount of capital and capital adequacy as at 31 December 2020 are as follows:

Indicators	**BGN '000**
Common Equity Capital (CEC)	239,246
Common Equity Tier 1 Capital (CEC + Hybrid debt instruments issued)	239,246
Equity (capital base)	239,246

As at 31 December 2020, the capital surplus is estimated at:

Surplus (+) / Shortage (-) as at 31 December 2020 in BGN ‘000	Capital	After deducting the capital buffers
Surplus (+) / Deficit (-) of Common Equity Tier 1 Capital	185,219	115,161
Surplus (+) / Deficit (-) of Tier 1 Capital	167,209	97,152
Surplus (+) / Deficit (-) of the common equity	143,197	73,140

The Bank's risk profile as at 31 December 2020 is consistent with the moderately conservative policy for risk-taking adopted by Management. Credit risk accounted for the largest relative share of the risk matrix as at the reporting date (91.4% of RPE), followed by operational risk (8.6% of TRE).

Distribution of risk-weighted exposures of Investbank JSC as at 31 December 2020:

Total risk-weighted exposures, including:	**1,200,609**	**100.00%**
Credit risk, counterparty credit risk	1,097,934	91.45%
Position, currency and commodity risks	-	-
Operational risk	102,675	8.55%

As at 31 December 2020, the capital coverage of risk exposure of the Bank is as follows:

Capital coverage of the Bank's risk exposure in BGN ‘000		Total capital adequacy	Capital buffers			Total capital coverage
		Capital coverage 8%	Preventive capital buffer 2.5%	System risk buffer 3.0%	Anti-cyclic buffer 0.5%	
Total risk-weighted exposures, including:	1,200,609	96,049	30,015	34,279	5,763	166,106
Credit risk, counterparty credit risk	1,097,934	87,835	27,448	31,199	5,270	151,752
Position, currency and commodity risks	-	-	-	-	-	-
Operational risk	102,675	8,214	2,567	3,080	493	14,354

5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Fair value measurement

The fair value is an output price and is based on the assumption that the sales transaction will be realized either on the primary market for that asset or liability or, in the case of absence of primary market, on the most advantageous market for the asset or liability. Both the primary, and the most advantageous markets are those markets that the Bank necessarily has access to.

The measurement of the fair value is made from the assumptions and judgements that potential market participants would make when they would have to determine the price of the asset or liability concerned, assuming that they would act to achieve the best economic benefit for them. When measuring the fair value of non-financial assets, the baseline is always the assumption of what would be the best and most efficient use of the asset for market participants.

The Bank applies various measurement methods that would be appropriate to the specifics of the relevant conditions and for which it has sufficient input database, aiming to make the most use of the available publicly observable information and, respectively – to minimize the use of the unobservable information. The Bank mainly uses the market approach, the most commonly used valuation techniques being: direct and/or adjusted market prices, market analogues and discounted cash flows.

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments using the following valuation techniques:

Level 1: quoted (unadjusted) prices in active markets for similar assets or liabilities;

Level 2: other techniques for which all the input that has a material effect on the reported fair value is subject to monitoring either directly or indirectly;

Level 3: techniques that use input information that has a material effect on the reflected fair value that is not based on market data subject to monitoring.

For those assets and liabilities that are measured at fair value in the financial statements on a recurring basis, the Bank determines at each reporting date whether a transfer in the fair value hierarchy levels of a particular asset or liability is required, depending on the available and used input data at that time.

The Bank uses the expert services of external licensed appraisers to determine the fair valuesof the following assets and liabilities: real estate pledged as collateral in favour of the Bank, acquired or assigned to the Bank real estate for sale of collateral.

The measurement methods used include market comparison approach and income based approach.

(iii) Fair value measurement, continued

The following table summarizes the carrying amounts and the fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

Fair value hierarchy

as at 31 December 2020

In BGN '000	**Carrying amount**					**Fair value**				**Cumulative change in fair value before taxes**			
	Loans and Receivables	**Held for trading**	**Availab le for sale**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value													
Financial assets carried at fair value through other comprehensive income			347,246		347,246	333,980		13,266	347,246				-
Financial assets carried at fair value through profit or loss		2,959			2,959	2,959			2,959				-
Debt securities carried at amortised cost		163,952			163,952	153,699		10,253	163,952				-
	-	**166,911**	**347,246**	**-**	**514,157**	**490,638**	**-**	**23,519**	**514,157**	**-**	**-**	**-**	**-**
Financial assets not measured at fair value													
Cash on hand and in deposits with the Central Bank	420,327				420,327	420,327			420,327				
Receivables from banks	3,265				3,265	3,265			3,265				
Loans and advances to customers	875,469				875,469			887,024	887,024				
	1,299,061	**-**	**-**	**-**	**1,299,061**	**423,592**	**-**	**887,024**	**1,310,616**				
Financial liabilities not measured at fair value													
Deposits from credit institutions				12	12		12		12				
Deposits from customers				1,947,300	1,947,300		1,862,463	90,872	1,953,335				
Hybrid debt-equity instrument					-				-				
	-	**-**	**-**	**1,947,312**	**1,947,312**	**-**	**1,862,475**	**90,872**	**1,953,347**				

As at 31 December 2019	**Carrying amount**					**Fair value**				**Cumulative change in fair value before taxes**			
In BGN '000	**Loans and Receivables**	**Held for trading**	**Available for sale**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value													
Financial assets carried at fair value through other comprehensive income			328,113		328,113	315,135		12,978	328,113				-
Financial assets carried at fair value through profit or loss		11,948			11,948	11,948			11,948				-
Debt securities carried at amortised cost		177,227			177,227	167,271		9,956	177,227				-
	-	189,175	328,113	-	517,288	494,354	-	22,934	517,288	-	-	-	-
Financial assets not measured at fair value													
Cash on hand and in deposits with the Central Bank	259,863				259,863	259,863			259,863				
Receivables from banks	4,088				4,088	4,088			4,088				
Loans and advances to customers	716,678				716,678			748,285	748,285				
	980,629	-	-	-	980,629	263,951	-	748,285	1,012,236				
Financial liabilities not measured at fair value, measured at amortized cost													
Deposits from credit institutions					-				-				
Deposits from customers				1,704,365	1,704,365		1,580,241	105,158	1,685,400				
Hybrid debt-equity instrument					-				-				
	-	-	-	1,704,365	1,704,365	-	1,580,241	105,158	1,685,400				

6. NET INTEREST INCOME

In BGN '000	**31 Dec 2020**	**31 Dec 2019**
Interest revenues		
Deposits provided to credit institutions	*125*	715
Loans and advances from customers, including	**27,832**	**30,768**
Loans and advances from non-banking financial institutions	223	201
Loan and advances from budget spending units	294	241
Loans and advances from undertakings	19,034	22,933
Loans and advances from individuals and households	8,281	7,393
Net investment in finance lease	*231*	50
Financial assets carried at fair value through other comprehensive income	*239*	1,511
Financial assets carried at fair value through profit or loss	*51*	39
Debt securities carried at amortised cost, including	**1,311**	**1,365**
General government	1,011	1,065
Non-financial corporations	300	300
Total	**29,789**	**34,448**

In BGN '000	**31 Dec 2020**	**31 Dec 2019**
Interest expenses		
Deposits	**(5,167)**	**(6,341)**
Deposits from credit institutions	(201)	
Deposits from customers	(4,966)	(6,341)
Loans and advances	**(19)**	**(469)**
Central banks	(19)	(469)
Credit institutions		
Debt - equity (hybrid) instruments	**-**	**(817)**
Bond loans	**-**	**(278)**
Other liabilities	**(257)**	**(397)**
Total	**(5,443)**	**(8,302)**
Net interest revenues	**24,346**	**26,146**

Interest revenues as at 31 December 2020 account for a decrease of BGN 4,659 thousand compared to the previous year. The decrease in interest revenues on loans (including financial lease) compared to the same period of the previous yearis compounded, taking into account a decrease of BGN 2,755 thousand due to: lower average interest rate of the portfolio (respectively 3.78% as at 31 December 2019 and 3.38% for 2020), and the impact of the difference in the interest rates is BGN (3,394) thousand, despite the higher average volume of the portfolio for the period - the factor affects by BGN 639 thousand, and also due to the epidemic situation, which affected the collection and deferral of some liabilities.

7. NET FEE AND COMMISSION REVENUES

In BGN '000	**31 Dec 2020**	**31 Dec 2019**
Fee and commission revenues		
Revenues on securities	207	2,718
Revenues on performing credit commitments	5,219	5,441
Revenues on fees for off-balance sheet commitments	826	910
Fees related to payment services	20,942	21,939
Other fees and commissions	129	158
Total	**27,323**	**31,166**
Fee and commission expenses		
Clearing and settlement fees	(2,556)	(2,532)
Other fees and commissions	(537)	(704)
Total	**(3,093)**	**(3,236)**
Net fee and commission revenues	**24,230**	**27,930**

In 2020 the Bank's net fee and commission revenues amount to BGN 24,230 thousand compared to BGN 27,930 thousand at the end of 2019. The introduction of Regulation (EU) 2019/518 on equalization of transfer fees in Bulgaria with those to EU and EEA countries has led to a significant reduction in banks' income from transfer operations. The introduction of a state of emergency (for the Republic of Bulgaria on 13 March 2020) should also be taken into account, which is a force majeure event worldwide and also has an impact on the Bank's activity.

8. NET REVENUES ON TRADING OPERATIONS

in BGN '000	**31 Dec 2020**	**31 Dec 2019**
Net gains or losses on operations in financial assets and liabilities carried at fair value through profit or loss	41	(23)
Revenues on changes in the fair value of financial assets carried at fair value through profit or loss	(48)	(13)
Net income on foreign currency operations	1,791	1,986
Net revenues on trading operations	**1,784**	**1,950**

9. NET RESULT FROM FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 Dec 2020	**31 Dec 2019**
Net gains / losses on operations in financial assets	(2,050)	(416)
Net change in the fair value of the financial assets	3,360	2,642
Total net result	**1,310**	**2,226**

10. OTHER OPERATING INCOME

In BGN '000	31 Dec 2020	31 Dec 2019
Other operating revenues		
Revenues on dividends, including:	110	98
Available-for-sale financial assets	110	98
Gain on other non-financial services provided	5	6
Revenues on sale of fixed assets and investment property	806	(271)
Revenues on sale of non-current held-for-sale assets, including collateral	841	826
Revenues on rentals of investment properties	1,074	1,064
Other revenues	2,150	1,199
Total other revenues on operations	**4,986**	**2,922**

At the end of 2020, the amount of other net revenues comes to BGN 4,986thousand, compared to BGN 2,922 thousand in 2019. The increase is mainly from revenues on the sale of fixed assets and investment property and otherrevenues.

11. ADMINISTRATIVE EXPENSES

In BGN '000	**2020**	**2019**
Expenses on staff, including:	(14,076)	(15,166)
Remuneration and salaries	(11,879)	(12,802)
Social security contributions	(2,197)	(2,364)
Depreciation expenses	(5,010)	(4,914)
Expenses on Bulgarian Deposit Insurance Fund and BRF	(7,645)	(7,130)
Expenses on taxes and fees	(3,383)	(3,565)
Expenses on rental of offices and other assets	(172)	(505)
Expenses on security guards	(1,650)	(1,413)
Expenses on communications	(1,330)	(1,135)
Other administrative expenses	(5,783)	(7,141)
Total administrative expenses	**(39,049)**	**(40,969)**

As at 31 December 2020, the total amount of administrative expenses amounted to BGN 39,049 thousand, which is by BGN 1,920 thousand lower than their level as at December 2019. As of 2019, the Bank applies IFRS 16 as a result of which a decrease in the administrative expenses has been recognized, whereby rental expenses are accounted for in depreciation expenses and interest expenses.

Other administrative expenses	**31 Dec 2020**	**31 Dec 2019**
Expenses on business trips	(60)	(167)
Expenses on expert assessment	(29)	(228)
Expenses on subscriptions	(4)	-
Expenses on vehicles	(279)	(261)
Expenses on ATM and POS	(115)	(185)

Expenses on considerations of the SB	(387)	(376)
Expenses on fines and penalties	(11)	(68)
Expenses on donations and sponsorship	(9)	(19)
Expenses on vehicle insurance	(73)	(105)
Expenses on insurance of other assets	(400)	(465)
Expenses on building insurance	(189)	(124)
Expenses on cash collections	(198)	(302)
Expenses on consultancy services	(45)	(280)
Expenses on materials	(1,005)	(869)
Expenses on training	(14)	(20)
Expenses on auditing	(528)	(135)
Expenses on written-off receivables, shortages and waste	(10)	(393)
Expenses on maintenance of other assets	(212)	(104)
Expenses on maintenance of buildings	(198)	(297)
Expenses on software support	(635)	(684)
Expenses on cleaning	(327)	(319)
Advertising expenses	(482)	(849)
Other expenses	(573)	(891)
Total	**(5,783)**	**(7,141)**

In 2020 the Bank reports expenses on independent financial audit and other services in the amount of BGN 528 thousand, which comprises remuneration for the joint auditors for the audit of the Annual Financial Statements in the amount of BGN 83 thousand, BGN 27 thousand for non-audit services of the joint auditors and BGN 418 thousand for non-audit services paid to auditors other than the joint auditors (for 2019: for independent financial audit - BGN 134 thousand and for other services - BGN 2 thousand).

12. LOSS ON IMPAIRMENT OF FINANCIAL ASSETS

in BGN '000	**31 Dec 2020**	**31 Dec 2019**
Provisions for impairment loss set aside	(36,545)	(43,659)
Provisions for impairment loss reintegrated	19,666	12,267
Total impairment loss	**(16,879)**	**(31,392)**

Structure of impairment loss	**31 Dec 2020**	**31 Dec 2019**
Impairment of loans and debt instruments carried at amortized cost	(15,835)	(30,739)
Impairment of financial guarantees	14	459
Provisions for lawsuits	(1,058)	(1,112)
Other		
Total	**(16,879)**	**(31,392)**

At the end of 2020, the Bank reported impairment loss in the amount of BGN 16,879 thousand, of which: impairment of loans and debt instruments carried at amortized cost in the amount of BGN (15,835) thousand, impairment of financial guarantees in the amount of BGN 14 thousand and provisions on lawsuits in the amount of BGN (1,058) thousand.

13. NET RESULT FROM REVALUATION OF INVESTMENT PROPERTY

	31 Dec 2020	**31 Dec 2019**
Net result from revaluation		
Revenues on revaluation	10,362	16,523
Expenses on revaluation	(9,114)	(1,841)
Net result from revaluation	**1,248**	**14,682**

For subsequent reporting of investment property, the Bank has selected the fair value model. In compliance with IFRS 40 Investment Property, this model provides that investment property, after initial recognition, should be evaluated and measured at fair value without accruing depreciation. Fair value measurement is carried out in accordance with IFRS 13 Fair Value Measurement. The fair value of investment property is updated annually by licensed independent external appraisers holding the required qualifications and experience.

14. TAXATION

	2020	**2019**
Expenses on current taxes		
Revenue / expense on movement in deferred taxes	51	(1,468)
Total tax expense	51	(1,468)

The Company has accumulated tax losses in the amount of BGN 41,684 thousand and is entitled to use these amounts to reduce the realized tax profits in the coming years.

	2020	**2019**
Profit before tax	2,149	3,557
Tax rate	10%	10%
Estimated income tax expense	**215**	**356**
Tax effect from:		
Adjustments for tax-exempt income:		
Increase of the financial performance for tax purposes	36,365	21,171
Adjustment for unrecognized expenses for tax purposes:		
Decrease of the financial performance for tax purposes	(38,514)	-32,916
Current income tax (expense)	**-**	**()-**
Deferred tax (expenses)/revenues:		
Temporary differences occurrence and reversal effect	51	(649)
Effect of changes to the accounting rules		
Expenses on income taxes	**51**	**(1,468)**

15. CASH, BALANCES WITH CENTRAL BANKS AND OTHER DEPOSITS ON DEMAND

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Cash and balances with central banks and other deposits on demand		
Cash on hand	45,830	31,368
Cash in transit	4,614	6,943
Current accounts with banks	7,498	12,812
Bank deposits	11,015	28,420
Cash balances with central banks	351,370	180,320
Total	**420,327**	**259,863**

As at 31 December 2020; respectively, as at 31 December 2019, the funds on accounts with BNB also include the amount, which represents the participation of Investbank JSC in the guarantee mechanism of the system processing card-related payment transactions - BORICA.

16. RECEIVABLES FROM BANKS

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Receivables from foreign banks	3,265	4,088
Total	**3,265**	**4,088**

As at 31 December 2020; respectively, as at 31 December 2019, the Bank has no receivables from banks in the country.

17. FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Government securities, including:	2,959	11,948
Short- and medium-term government securities denominated in BGN	1,502	1,508
Short- and medium-term government securities denominated in foreign currency	1,457	10,440
Total	**2,959**	**11,948**

The structure of financial assets carried at fair value through profit or loss as at 31 December 2020 includes government securities of the Republic of Bulgaria issued in BGN and in EUR. For 2019, government securities of the Republic of Bulgaria are included, issued in BGN and in EUR, as well as government securities of the Republic of Romania issued in EUR.

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by borrower

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Credit institutions	**1**	**16**
Other financial institutions		
- Loans and advances	**85,085**	**27,476**
- Assigned claims	76	196
Individuals (households)		
- Loans and advances	202,632	185,646
- Assigned claims	-	55
Budgetary enterprises	-	5,587
- Loans and advances	4,246	-
- Assigned claims	2,270	-
Private (non-financial) enterprises		
- Loans and advances	621,027	549,917
- Assigned claims	11,120	10,812
	926,457	**779,705**
Impairment loss	(50,988)	(63,027)
Total	**875,469**	**716,678**

(b) Impairment losses related to loans and advances to customers

In BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Balance as at 1 January	63,027	86,611
Accrued	34,947	41,921
Reintegrated	(19,149)	(11,170)
Written off	(27,837)	(54,335)
Balance as at 31 December	**50,988**	**63,027**

31 Dec 2020	Carrying amount	Gross carrying amount				Accumulated impairment			Accumulated partial write-offs	Accumulated full write-offs
		Assets without significant increase in credit risk after initial recognition (Phase 1)	of which: instruments with low credit risk	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)	Assets without significant increase in credit risk after initial recognition (Phase 1)	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)		
Loans and advances										
General government	6,380	6,516	6,516	-	-	(136)	-	-	-	
Credit institutions	1	1	1				-		-	
Other financial corporations	75,558	62,335	62,335		22,826		-	(9,603)	-	
Non-financial corporations	599,087	444,543	444,543	53,674	133,930	(879)	(165)	(32,016)	-	(23,654)
Households	194,443	165,121	165,121	5,640	31,871	(384)	(28)	(7,777)	-	(4,183)
Total	**875,469**	**678,516**	**678,516**	**59,314**	**188,627**	**(1,399)**	**(193)**	**(49,396)**	**-**	**(27,837)**

As of 1 January 2018, Investbank JSC accrues impairment expenses in accordance with IFRS 9 Financial Instruments that has entered into force, taking into account the impairment allowance for its financial assets carried at amortized cost - loans and debt instruments, financial guarantee contracts and other credit commitments.

19. NET INVESTMENT IN FINANCE LEASE

Net investment in finance lease is the gross investment in finance lease less the unrealized finance revenue and accrued impairment.

In BGN '000	**2020**	**2019**
Gross investment in finance lease	4,574	1,483
Impairment losses:		
Accrued	3	
Reintegrated	-	
Reintegrated		
Unrealized finance income	(363)	(26)
Net present values of investment in finance lease	**4,208**	**1,457**

Net investment in finance lease is allocated as follows:

in BGN '000	**2020**	**2019**
Lease receivables		
Lease receivables from legal entities	4,208	1,457
Lease receivables	**4,208**	**1,457**
Non-current lease receivables	1,404	1,457
Current lease receivables	2,804	
	4,208	**1,457**

	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**
31 December 2020				
Lease proceeds	1,425	3,149		4,571
Discounting	21	345		363
Net present values of investment in finance lease	**1,404**	**2,804**	**-**	**4,208**
31 December 2019				
Lease proceeds		1,483		1,483
Discounting		26		26
Net present values of investment in finance lease	**-**	**1,457**	**-**	**1,457**

20. FINANCIAL ASSETS CARRIED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

in BGN '000	Carrying amount as at 31 Dec 2020	Carrying amount as at 31 Dec 2019
Equity instruments	**21,420**	**22,117**
Other financial corporations	4,411	4,223
Non-financial corporations, including:	17,009	17,894
Stocks and shares in local companies	6,047	6,932
Stocks and shares in foreign companies	10,962	10,962
Debt securities	**325,826**	**305,996**
General government, including	325,677	305,846
Bulgarian government securities denominated in BGN	15,916	30,961
Bulgarian government securities denominated in foreign currency	194,952	175,195
Foreign government securities denominated in foreign currency	114,809	99,690
Government securities of non-financial corporations, including:	**149**	**150**
Debt instruments - Bulgarian issuers	149	150
Total	**347,246**	**328,113**

21. DEBT SECURITIES CARRIED AT AMORTISED COST

31 Dec 2020	Carrying amount	Gross carrying amount				Accumulated impairment		
		Assets without significant increase in credit risk after initial recognition (Phase 1)	of which: instruments with low credit risk	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)	Assets without significant increase in credit risk after initial recognition (Phase 1)	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)
Debt securities								
General government, including	153,699	153,843	153,843	-	-	(144)	-	-
Bulgarian government securities denominated in BGN	0							
Foreign government securities, denominated in EUR and USD	153,699	153,843	153,843			(144)		
Debt instruments - non-financial corporations, including:	10,253	10,364	10,364	-	-	(111)	-	-
Bulgarian issuers	10,253	10,364	10,364			(111)		
Foreign issuers	-							
Total	**163,952**	**164,207**	**164,207**	**-**	**-**	**(255)**	**-**	**-**

31 Dec 2019	**Carrying amount**	**Gross carrying amount**				**Accumulated impairment**		
		Assets without significant increase in credit risk after initial recognition (Phase 1)	**of which: instruments with low credit risk**	**Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)**	**Assets with credit impairment (Phase 3)**	**Assets without significant increase in credit risk after initial recognition (Phase 1)**	**Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)**	**Assets with credit impairmen t (Phase 3)**
Debt securities								
General government, including	167,271	167,438	167,438	-	-	(167)	-	-
Bulgarian government securities denominated in BGN	-							
Foreign government securities, denominated in EUR and USD	167,271	167,438	167,438			(167)		
Debt instruments - non-financial corporations, including:	9,956	10,064	10,064	-	-	(108)	-	-
Bulgarian issuers	9,956	10,064	10,064			(108)		
Foreign issuers	-							
Total	**177,227**	**177,502**	**177,502**	**-**	**-**	**(275)**	**-**	**-**

22. 1 PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment	Transport means	Fixtures and fittings	Other	Assets with right of use	Total carrying amount
Gross carrying amount							
Balance as at 1 January 2019	**21,270**	**13,801**	**3,454**	**2,556**	**1,827**	**11,153**	**54,061**
Newly acquired assets		1,060	50	30	13		**1,153**
Assets written-off	(5)	(1,248)	-	-	(1474)	-	**(2,727)**
Transfers	-	258	-	30	(287)	-	**1**
Balance as at 31 December 2019	**21,265**	**13,871**	**3,504**	**2,616**	**79**	**11,153**	**52,488**
Balance as at 1 January 2020	**21,265**	**13,871**	**3,504**	**2,616**	**79**	**11,153**	**52,488**
Newly acquired assets	59	2,044		30	10	203	2,346
Assets written-off		(3,501)	(543)	(76)		(122)	(4,242)
Transfers		(3)		(30)			(33)
Balance as at 31 December 2020	**21,324**	**12,411**	**2,961**	**2,540**	**89**	**11,234**	**50,559**
Depreciation							
Balance as at 1 January 2019	8,330	11,915	2,452	2,209	640	-	25,546
Assets written-off / transfers	(5)	(1,210)			(637)		(1,852)
Depreciation	**826**	**602**	**318**	**134**		**2,388**	**4,268**
Balance as at 31 December 2019	**9,151**	**11,307**	**2,770**	**2,343**	**3**	**2,388**	**27,962**
Balance as at 1 January 2020	**9,151**	**11,307**	**2,770**	**2,343**	**3**	**2,388**	**27,962**
Assets written-off		(3,496)	(543)	(73)			**(4,112)**
Depreciation	**826**	**749**	**310**	**126**	**4**	**2,329**	**4,344**
Balance as at 31 December 2020	**9,977**	**8,560**	**2,537**	**2,396**	**7**	**4,717**	**28,194**
Carrying amount as at 31 December 2019	**12,114**	**2,564**	**734**	**273**	**76**	**8,765**	**24,526**
Carrying amount as at 31 December 2020	**11,347**	**3,851**	**424**	**144**	**82**	**6,517**	**22,365**

22.2 INVESTMENT PROPERTY

Gross carrying amount	**Amount in BGN '000**
Balance as at 1 January 2019	78,145
Newly acquired assets:	
increase	6,578
transfers from inventories (transfers)	23,320
Assets written-off	(1,205)
Remeasurement	14,682
Balance as at 31 December 2019	**121,520**
Balance as at 1 January 2020	121,520
Newly acquired assets:	
increase	372
transfers from inventories (transfers)	(1,904)
Assets written-off	(5,209)
Remeasurement	10,362
Balance as at 31 December 2020	**125,141**

Depreciation	
Balance as at 1 January 2019	407
Assets written-off	(31)
Transfers	-
Balance as at 31 December 2019	**376**
Balance as at 1 January 2020	376
Assets written-off	-
Transfers	-
Balance as at 31 December 2020	**376**
Carrying amount as at 31 December 2019	**121,144**
Carrying amount as at 31 December 2020	**124,765**

23. INTANGIBLE ASSETS

	Patents, licenses, trademarks	Acquired software, software products	Other intangible assets	Total
	BGN '000	BGN '000	BGN '000	BGN '000
Gross carrying amount				
Balance as at 1 January 2019	**821**	**8,441**	**1,133**	**10,395**
Newly acquired assets, purchased	253	-	-	253
Assets written-off	-	-	-	
Balance as at 31 December 2019	**1,074**	**8,441**	**1,133**	**10,648**
Balance as at 1 January 2020	**1,074**	**8,441**	**1,133**	**10,648**
Newly acquired assets, purchased	53	384	4	441
Written off			**(33)**	**(33)**
Transfers	**(108)**	**108**	-	-
Balance as at 31 December 2020	**1,019**	**8,933**	**1,104**	**11,056**
Depreciation				
Balance as at 1 January 2019	679	5,454	468	6,601
Depreciation	32	485	107	624
Assets written-off	-	-	-	-
Balance as at 31 December 2019	**711**	**5,939**	**575**	**7,225**
Balance as at 1 January 2020	**711**	**5,939**	**575**	**7,225**
Depreciation	45	519	102	666
Assets written-off			(27)	(27)
Balance as at 31 December 2020	**756**	**6,458**	**650**	**7,864**
Carrying amount as at 31 December 2019	**363**	**2,502**	**558**	**3,423**
Carrying amount as at 31 December 2020	**263**	**2,475**	**454**	**3,192**

24. ASSETS HELD FOR SALE

In BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Balance as at 1 January	14,249	8,842
Reclassified	6,514	-
Acquired		14,145
Sold	(552)	(8,738)
Transferred revaluation		
Impairment	(9,096)	
Balance as at 31 December	11,115	14,249

	Carrying amount as at 31 Dec 2020	**Carrying amount as at 31 Dec 2019**
Non-current assets held for sale		
Property, plant and equipment	11,115	14,249
including Assets acquired as collateral	11,115	14,249
Total	**11,115**	**14,249**

Non-current assets held for sale as at 31 December 2020 amount to BGN 11,115 thousand. This item presents assets for which a sale procedure has been initiated.

25. OTHER ASSETS

	Carrying amount as at 31 Dec 2020	**Carrying amount as at 31 Dec 2019**
Other assets		
Estimates with customers	1,455	1,247
Assets acquired from collateral	207,090	218,283
Other estimates with other financial institutions	58	55
Materials	950	1,123
Deferred expenses	228	866
Tax assets, including:		
current tax assets	-	3,312
deferred tax assets	2,998	3,013
Other estimates and receivables	9,029	7,860
Total	**221,808**	**235,759**

In accordance with the Bank's Accounting Policy, assets acquired from loan collateral that the Bank does not intend to use in its core operations and are not investment property but are held for to be sold or completed for sale within a period of more than 12 months are presented in item "Other assets" under IAS 2 "Inventories". As at 31 December 2020 the assets acquired from collateral amount to BGN 207,090 thousand, of which: land in the amount of BGN 75,638 thousand, buildings under construction in the amount of BGN 28,781 thousand, buildings in the amount of BGN 89,378 thousand and other in the amount of BGN 13,293 thousand.

25.1. DEFERRED TAXES

Deferred tax liabilities (assets)	**31 December 2019**	**Effect of changes to the accounting rules**	**1 January 2020**	**Recognised in other comprehensive income**	**Recognised in profit or loss**	**31 December 2020**
			BGN '000	**BGN '000**	**BGN '000**	**BGN '000**
Assets	**3,013**	**0**	**3,013**	**0**	**(15)**	**2,998**
Unused leaves	22		22		(19)	3
Tax losses	2,933		2,933			2,933
Provisions for lawsuits, Art. 38 CITA	19		19			19
Other assets	39		39		4	43
Liabilities	**(2,440)**	**0**	**(2,440)**	**0**	**66**	**(2,374)**
Deferred tax from revaluation	(2,365)		(2,365)		66	(2,299)
Deferred tax liabilities of CB Victoria	(14)		(14)			(14)
Temporary difference under Art. 149 CITA	(61)		(61)			(61)
Total deferred assets and liabilities (offset)	**573**	**0**	**573**	**0**	**51**	**624**
Deferred tax assets	**3,013**		**3,013**			**2,998**
Deferred tax liabilities	**(2,440)**		**(2,440)**			**(2,374)**
Recognized as:						
Net deferred tax (assets)	**573**		**573**			**624**

26. DEPOSITS FROM CREDIT INSTITUTIONS

In BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Deposits, including:		
- in local currency	8	
-in foreign currency	4	-
Total	12	-

27. DEPOSITS FROM CUSTOMERS. OTHER FINANCIAL LIABILITIES

In BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Deposits, including:	**1,940,725**	**1,655,779**
Individuals	1,265,334	1,226,620
Institutions	675,391	429,159
Other financial liabilities, including:	6,575	9,170
Payables on financial lease contracts	51	403
Payables on operating lease contracts under IFRS 16	6,524	8,767
Total	**1,947,300**	**1,664,949**

	Carrying amount as at 31 Dec 2020	**Carrying amount as at 31 Dec 2019**
Deposits other than those of credit institutions	675,391	429,159
Current accounts / overnight deposits	*585,653*	*379,961*
Deposits with agreed maturity	*89,567*	*48,880*
Deposits refundable on notice	*171*	*318*
Total	**675,391**	**429,159**

Term of deposits	**31 Dec 2020**	**31 Dec 2019**
up to 1 month	512,191	502,562
1 to 3 months	163237	163,917
3 months to 1 year	502,282	458,247
1 year to 5 years	87,379	101,734
over 5 years	245	160
Total	**1,265,334**	**1,226,620**

Payables on operating lease contracts under IFRS 16

Age analysis of liabilities under lease contracts	**31 Dec 2020**	**31 Dec 2019**
- up to 1 year	2,589	2,343
- 1 to 5 years	3,935	6,424
- over 5 years	-	-
Total amount of undiscounted liabilities under lease contracts	**6,524**	**8,767**
Discount at 3.9%	376	634
Total amount of the present value of the liabilities under lease contracts	**6,900**	**9,401**
Current portion	2,780	2,619
Non-current portion	4,120	6,782
Total amount of the present value of the liabilities under lease contracts	**6,900**	**9,401**

28. BOND LOANS

In 2019 the Bank did not issue private debt securities. As at 31 December 2019, the structure of the debt securities issued by the Bank is the following:

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Bond loan with issue date 30 April 2013	-	30,289
Bond loan with issue date 31 May 2013	-	9,128
Total	**-**	**39,416**

Structure of bond loans

Issue date	**Currency**	**Interest rate**	**Nominal value in BGN**	**Accrued interest**	**Depreciation Fee**	**Total**
30 Apr 2013	BGN	4%	30,110,000	180,660	(2,000)	30,288,660
31 May 2013	BGN	4%	9,100,000	30,333	(2,501)	9,127,832
total			**39,210,000**	**210,993**	**(4,501)**	**39,416,492**

29. OTHER LIABILITIES

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Other liabilities		
Estimates with customers	2,114	2,001

Provisions	958	902
Staff-related payables	33	94
Estimates for taxes (tax liabilities)	3,614	2,982
Other	31	37
Total	**6,750**	**6,016**

29.1. PROVISIONS

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Provisions		
Pensions and other liabilities for payment of post-employment defined benefits	509	491
Unsettled legal issues and tax lawsuits	195	195
Commitments and guarantees	254	216
Total	**958**	**902**

30. EQUITY

(a) Share capital

As at 31 December 2020, the share capital of the Bank amounts to BGN 155,571,612 and is divided into 155,571,612 dematerialized registered shares with a par value of BGN 1 each.

- Increase of the capital of the Bank by BGN 21,944,445 by issuing new 21,944,445 ordinary registered voting shares, each with a par value of BGN 1 and an issue value of BGN 1.00 per share.
- Conducted procedure for replacement of equity instruments with higher-end equity instruments, with full and final repayment by a one-off contribution of the full bond loan formed under the two debt-equity hybrid instruments, included in the additional tier I capital of the Bank, in the total amount of BGN 39,210,000, and the amount received for the repayment of the loan principal, the Bondholder should subscribe, purchase and pay all 1,960,500 voting shares from the capital increase of Investbank JSC which is to be performed simultaneously with the repayment of the bond loan, at a single issue price of BGN 20 per share or total issue value of all shares in the increase amounting to BGN 39,210,000.
- Increase of the Bank's capital by BGN 1,960,500 by issuing new 1,960,500 ordinary registered voting shares, with a par value of BGN 1 each and a single issue value of BGN 20 per share or a total issue value of BGN 39,210,000 upon loss of the preferences of the shareholders under Art. 194 (1) of the Commerce Act and on the condition for the redemption of the shares from the increase by the Bondholder of the corporate bonds issued by Investbank JSC with the full amount of the principal of the bond loans on both issues, paid to it by theIssuing Bank at the repayment of the bond loans. The difference between the par and issue value of the new shares has been paid into the Reserve Fund.

(b) Reserves

• Statutory reserves

Statutory reserves are set aside in accordance with the requirements of the local legislation. Under the local legislation, the Bank is required to maintain equity which exceeds or is equal to the capital requirements for credit risk; position risk; currency risk and commodity risk; operational and other risks related to the Bank's operations.

• Retained earnings

The Bank presents as retained earnings all distributable reserves in excess of the statutory reserves under (b).

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Reserves		
Reserve Fund		
Premium reserve	65,583	28,333
Accumulated other comprehensive income	(5,949)	(1,108)
Retained earnings, including:	(26,033)	(28,233)
Other reserves	57,435	57,435
Total	**91,036**	**56,427**

31. CASH AND CASH EQUIVALENTS FOR THE PURPOSE OF THE CASH FLOW STATEMENT

in BGN '000	**Carrying amount as at 31 Dec 2020**	**Carrying amount as at 31 Dec 2019**
Cash on hand	**50,444**	**38,311**
Deposits with banks with original maturity of up to 3 months	18,513	41,232
Current accounts with the Central Bank	351,370	180,320
Total	**420,327**	**259,863**

The current account with the Central Bank is used for direct participation in the money market and the securities market and for settlement purposes. The Bank's minimal required reserves are part of the current account. For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand, current accounts, placements in other banks and current account with the Central Bank with original maturity of up to 3 months.

32. ASSETS PLEDGED AS COLLATERAL

The assets with encumbrances in 2020 are set out below:

31 December 2020	Assets with encumbrances					Assets free of encumbrances				
	Carrying amount of assets pledged as collateral			Fair value of assets pledged as collateral		Carrying amount of unencumbered assets			Fair value of unencumbered assets	
Assets	**Total**	**including: issued by other entities from the group**	**including: meeting the requirements of the central banks**	**Total**	**including: meeting the requirements of the central banks**	**Total**	**including: issued by other entities from the group**	**including: meeting the requirements of the central banks**	**Total**	**including: meeting the requirements of the central banks**
Loans on demand						358,868		358,868		
Equity instruments						21,420			21,420	
Debt securities	185,303		185,303	185,303	185,303	307,434		297,033	307,434	297,033
including: covered bonds										
including: asset-backed securities										
including: issued by general government	185,303		185,303	185,303	185,303	297,033		297,033	297,033	297,033
including: issued by financial corporations										
including: issued by non-financial corporations						10,401			10,401	
Loans and advances other than loans on demand						892,593				
including: mortgages						473,673				
Other assets	1,364					433,688				
Total:	**186,667**		**185,303**	**185,303**	**185,303**	**2,014,003**		**655,901**	**328,854**	**297,033**

As at 31 December 2020 the amount of blocked government securities for securing the borrowed funds in budget accounts is BGN 185,303 thousand.

32. ASSETS PLEDGED AS COLLATERAL, CONTINUED

The assets with encumbrances in 2019 are set out below:

31 December 2019	Assets with encumbrances					Assets free of encumbrances				
	Carrying amount of assets pledged as collateral			Fair value of assets pledged as collateral		Carrying amount of unencumbered assets			Fair value of unencumbered assets	
Assets	Total	including: issued by other entities from the group	including: meeting the requirements of the central banks	Total	including: meeting the requirements of the central banks	Total	including: issued by other entities from the group	including: meeting the requirements of the central banks	Total	including: meeting the requirements of the central banks
Loans on demand						193,132	-	193,132		
Equity instruments						22,117	-	-	22,117	-
Debt securities	144,150	-	144,150	144,150	144,150	351,021	-	340,915	351,021	340,915
including: covered bonds										
including: asset-backed securities										
including: issued by general government	144,150		144,150	144,150	144,150	340,915		340,915	340,915	340,915
including: issued by financial corporations										
including: issued by non-financial corporations						10,106			10,106	
Loans and advances other than loans on demand						749,229				
including: mortgages						452,621				
Other assets	1,414					437,412				
Total:	**145,564**	**-**	**144,150**	**144,150**	**144,150**	**1,752,911**	**-**	**534,047**	**373,138**	**340,915**

33. COMMITMENTS AND CONTINGENT LIABILITIES

Off-balance sheet commitments

The Bank provides financial guarantees and letters of credit to guarantee the commitments made by its customers to third parties. These agreements have fixed limits and generally extend for a period of up to one year. Expirations are not concentrated in any period.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts shown in the table for commitments assume that amounts are fully advanced. The amounts shown in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognized at the statement of financial position date if counterparties failed completely to perform as contracted.

In BGN '000	**31 Dec 2020**	**31 Dec 2019**
Bank guarantees and letters of credit		
- in BGN	62,752	62,835
-in foreign currency	17,196	12,005
Liabilities on unutilized credit commitments	64,539	46,621
Other commitments	175,272	204,611
Total off-balance sheet exposures	**319,759**	**326,072**

These commitments and contingent liabilities have off balance-sheet credit risk only because only organization fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments are expected to expire without the need to be advanced by the Bank. Therefore, the amounts do not represent expected future cash flows.

Structure of off-balance sheet exposures

	31 Dec 2020	**31 Dec 2019**
FINANCIAL GUARANTEES AND LETTERS OF CREDIT GRANTED	**79,947**	**74,840**
General government	27	2
Other financial corporations	50	10
Non-financial corporations	79,870	74,828
CREDIT COMMITMENTS	**64,539**	**46,621**
General government	1,050	854
Credit institutions	104	86
Other financial corporations	2,667	1,061
Non-financial corporations	52,323	37,898
Households	8,395	6,722
OTHER COMMITMENTS	**175,273**	**204,611**
Central bank	78,233	107,571

Other financial corporations		
Non-financial corporations	97,040	97,040
OFF-BALANCE SHEET EXPOSURES	**319,759**	**326,072**

31 Dec 2020	Nominal value of off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9			Provisions on off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9		
	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)
Financial guarantees provided	**79,947**	**-**	**-**	**118**	**-**	**-**
General government	27					
Other financial corporations	50					
non-financial corporations	79,870			118		
Credit commitments taken	**64,539**	**-**	**-**	**94**	**-**	**-**
General government	1,050					
Credit institutions	104					
Other financial corporations	2,667			73		
Non-financial corporations	52,323			21		
Households	8,395					
Other commitments	**175,273**	**-**	**-**	**41**	**-**	**-**
Central bank	78,233					
Other financial corporations	-					
non-financial corporations	97,040			41		
OFF-BALANCE SHEET EXPOSURES	319,759	-	-	253	-	-

31 Dec 2019	Nominal value of off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9			Provisions on off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9		
	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)
Financial guarantees provided	**74,840**	**-**	**-**	**174**	**-**	**-**
General government	2					
Other financial corporations	10					
non-financial corporations	74,828			174		
Credit commitments taken	**46,621**	**-**	**-**	**41**	**-**	**-**
General government	854					
Credit institutions	86			2		
Other financial corporations	1,061					
Non-financial corporations	37,898			22		
Households	6,722			17		
Other commitments	**204,611**	**-**	**-**	**-**	**-**	**-**
Central bank	107,571					
non-financial corporations	97,040					
OFF-BALANCE SHEET EXPOSURES	326,072	-	-	215	-	-

. RELATED PARTY TRANSACTIONS

Related parties	**Nature of the related party relationship**	**Type of transaction**	**Outstanding balance 31 Dec 2020**	**Outstanding balance 31 Dec 2019**
In BGN '000				
Festa Holding AD	Shareholders	1) Deposits given	1,376	6,069
		2) Loans and receivables	2	2
	Members of Management Board	1) Deposits given	162	119
		2) Loans received	431	524
	Members of Supervisory Board	1) Deposits given	5,463	5,073
		2) Loans received	-	78
	Other	1) Deposits granted and other payables	6,696	17,141
		2) Loans and receivables	19,498	26,529
		Total deposits and payables	13,697	
		Total loans and receivables	19,931	

Expenses and revenues resulting from transactions with related parties

Transaction amount	**31 Dec 2020** Shareholders	Members of Management Board	Members of Supervisory Board	Related parties under common control and other	**Total**
Expenses					
Interest expenses			16	20	36
Services Received	1463			1,081	2,544
Total expenses	**1,463**	**-**	**16**	**1101**	**2,580**
Incomes					
Interest revenues		12	1	496	509
Fee and commission revenues	1			133	134
Revenues from services					
Total revenues	**1**	**12**	**1**	**629**	**643**

The remunerations of the executive directors and the Management Board as at 31 December 2020 amount to BGN 489 thousand (year 2019: BGN 620 thousand) and those of the Supervisory Board amount to BGN 387 thousand (year 2019: BGN 376 thousand).

Income of key management personnel	**31 Dec 2020**	**31 Dec 2019**
Short-term employee remunerations		
Current remuneration expenses	876	996
Social expenses		
Social security expenses	23	19
Total	**899**	**1,015**

31 Dec 2020

Balances	Subsidiaries	Key management personnel and other management personnel	Owners	Related parties under common control and other related parties	**Total**
Assets: Loans and advances	12,139	462		7,290	19,981
Other receivables	38		2		40
Total assets	**12,175**	**462**	**2**	**7,290**	**19,931**
Liabilities: Deposits					
Deposits	3,229	7,974	1,376	1,108	13,687
Other liabilities				10	10
Total liabilities	**3,229**	**7,974**	**1,376**	**1,118**	**13,697**

35. OTHER STATUTORY DISCLOSURES

Pursuant to the requirements of Art. 70(6) of the Credit Institutions Act, banks should make certain quantitative and qualitative disclosures relating to key financial indicators and other indicators separately for their business in the Republic of Bulgaria and in other countries where the Bank has subsidiaries and/or branches. Investbank JSC is fully licensed to conduct banking business. In 2019 and 2018 the Bank has no subsidiaries or branches registered outside the territory of the Republic of Bulgaria. Summary of the required disclosures under the Credit Institutions Act and reference to the relevant notes in these financial statements or other reports required is as follows:

In BGN '000	**References to other Notes and statements**	**2020**	**2019**
Gross operating income	Notes 6, 7, 8, 9, and 10	56,829	61,236
Profit/ (Loss) before taxes	Statement of Profit and Loss	2,149	3,557
(Tax expenses or (-) revenues related to the gain or loss on current operations)	Appendix 14	51	(2,640)

Return on assets (%)	Annual Management Report	0.10	0.11
Equated number of employees employed under full-working-day contracts as at 31 December	Appendix 11	628	625

36. EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

1. By a decision under Minutes of Meeting dated 4 January 2021 of the Board of Directors of Festa Holding AD, Mr. Ivaylo Stoyanov was appointed and elected as a new representative - individual of the company as a member of the Supervisory Board of Investbank JSC, according to the preliminary approval of BNB with Decision of the BNB Governing Board No. BNB-107413 of 26 November 2020.

2. On 15 January 2021 Mrs. Maya Ivanova Stancheva was registered with the Commercial Register as a new Executive Director of Investbank JSC, who until this date was a member of the Management Board only.