



**ANNUAL MANAGEMENT REPORT OF INVESTBANK JSC
for year 2022
APPROVED ON 14 JANUARY 2023**

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INFORMATION ABOUT THE BANK

Scope of Business

Investbank JSC (the Bank) is a universal commercial bank holding a full license to provide banking services in the country and abroad. The main priority in its business is to provide complete servicing both to leading and small and medium-sized enterprises in various branches of the national economy, lending to companies under programs of the Bulgarian government, retail banking, operations on the domestic and international money and capital markets, asset management, assistance in the implementation of projects under operational programs, including lending, full banking services to municipalities, budget spending units, etc.

Incorporation

Investbank JSC (previous company names - Commercial Bank Investbank JSC, Commercial Bank Neftinvestbank JSC, International Orthodox Bank of Saint Nikola JSC) was established by decision of 16 December 1994 under company case No. 23891/1994, lot 21604, volume 261, reg. 1, page 130 as per the docket of Sofia City Court, for an indefinite term as a joint-stock company.

Banking license

Investbank JSC is a universal commercial bank fully licensed to provide banking services in the country and abroad, in local and foreign currency, as well as to perform all other transactions under Art.2(1) and (2) of the Credit Institutions Act.

Legal status and shareholder information

The registered (with the Commercial Register) share capital of Investbank JSC as at 31 December 2022 amounts to BGN 155,571,612, divided in 155,571,612 ordinary registered dematerialized voting shares, with a par value of 1 BGN each. The capital is fully paid in by the shareholders.

Address

The seat and the registered office of Investbank JSC is at 85 Bulgaria Blvd., Triaditsa District, Sofia Municipality, 1404 Sofia.

Shareholder structure

The shareholder structure of Investbank JSC as at 31 December 2022 is as follows:

No	Shareholder structure of Investbank	% shareholding
1	Festa Holding AD	55.75
2	Adil Said Ahmed Al Shanfari	28.04
3	Petya Ivanova Barakova-Slavova	10.55
4	Other natural persons and legal entities	5.66
	Total:	100.00

Governance

Investbank JSC has a two-tier management system, with a Supervisory Board and a Management Board. The members of the Supervisory Board (SB) are elected and dismissed by the General Meeting of Shareholders (GMS), which also determines their remuneration. The SB appoints and dismisses the members of the Management Board (MB) and determines their remuneration. The MB appoints the executive directors from among its members, and its decision is subject to approval by the SB.

- As at 31 December 2022, the composition of the Supervisory Board, as registered with the Commercial Register, is:
 - Petya Ivanova Barakova-Slavova – SB Chairperson;
 - Festa Holding AD – SB Member;
 - Martin Tsvetkov Bogdanov – SB Member.
- As at 31 December 20122 the composition of the Management Board, as registered with the Commercial Register, is:
 - Svetoslav Rumenov Milanov – MB Member and Executive Director;
 - Maya Ivanova Stancheva – MB Member and Executive Director;
 - Nedyo Yankov Tenev – MB Member.

Mission

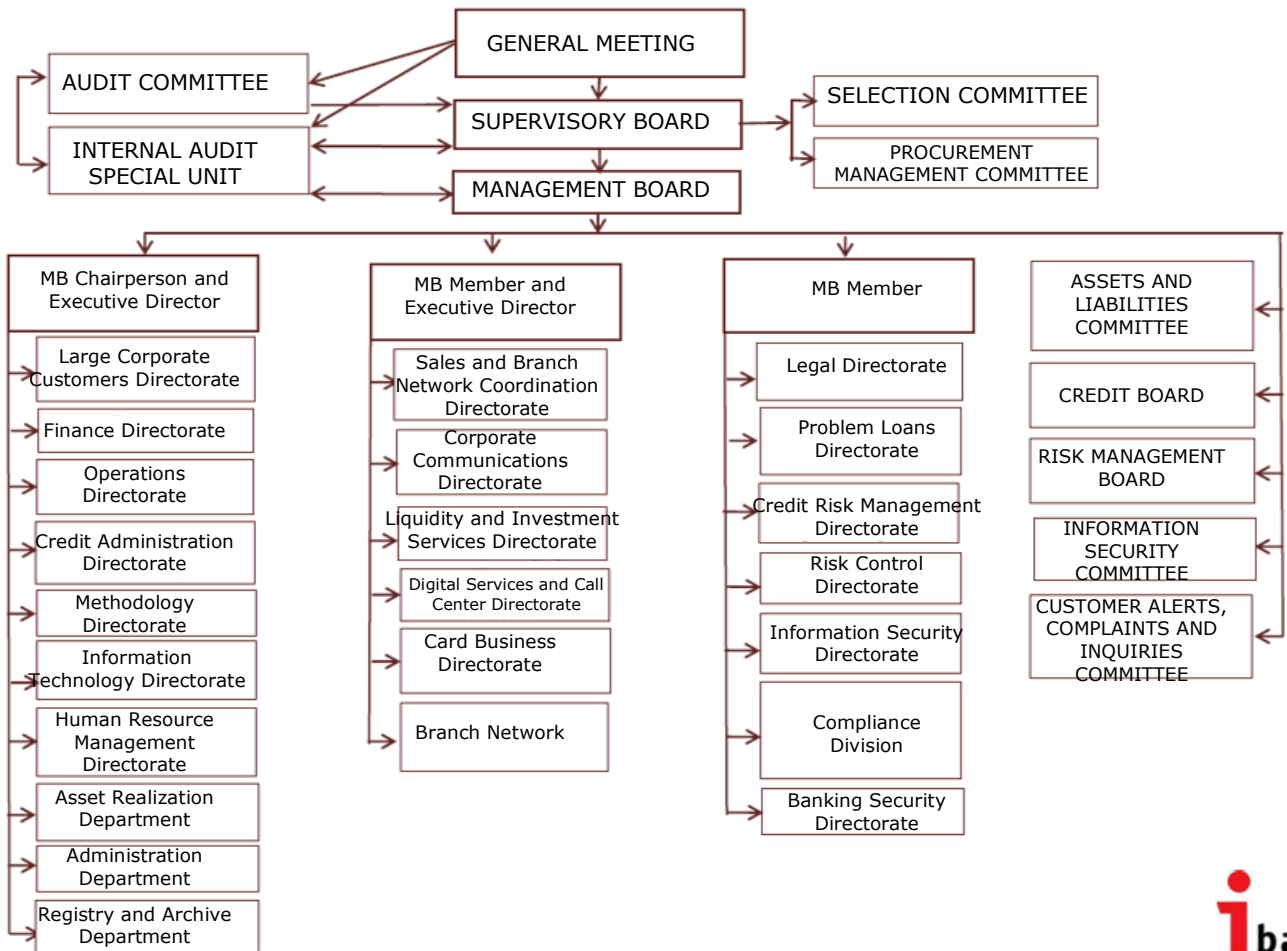
Investbank JSC strives to strengthen its position as a dynamically developing Bulgarian bank and to expand its presence on the financial markets through:

- Offering its customers and partners innovative products, digital services and individual approach to service, consistent with the modern business standards and technologies and in compliance with the best banking practices;
- Building long-term business relations with customers and partners;
- Attracting and retaining highly qualified, proven professionals and implementing best practices in effective governance;

- Providing a career development environment and employee motivation to promote affiliation with the Bank, its goals and performance;
- Generating sustainable growth and high value for investors;
- Establishing the Bank as a preferred business partner and providing mutually beneficial business conditions to customers.

*Investbank JSC
Organizational structure*

15/12/2022



MACROECONOMIC REVIEW**Key macroeconomic indicators**

Basic macroeconomic indicators	Reported data*			Forecast		
	2020	2021	2022 f	2023	2024	2025
Gross domestic product						
GDP (BGN mln.)	120,553	39,012	161,721	173,826	186,001	197,715
GDP (real growth, %)	-4.0	7.6	2.9	1.6	3.4	3.3
Consumption	1.4	6.7	3.8	2.7	3.0	3.0
Gross fixed capital formation	0.6	-8.3	-3.6	4.9	9.5	6.1
Export of goods and services	-10.4	11.0	5.4	1.5	4.8	4.9
Import of goods and services	-4.3	10.9	7.6	3.4	5.5	5.1
Labour market and prices						
Employment (System of National Accounts) (%)	-2.3	0.2	0.9	0.4	0.8	0.5
Unemployment rate (Labour Force Survey) (%)	5.1	5.3	4.6	4.5	4.3	4.2
Compensation per employee (%)	7.2	11.3	15.0	9.9	8.7	7.5
GDP deflator (%)	4.3	7.1	13.1	5.8	3.5	2.9
Average annual inflation (HICP) (%)	1.2	2.8	12.7	6.4	3.2	2.4
Balance of payments						
Current account (% of GDP)	0.0	-0.5	-0.7	-1.2	-1.2	-1.0
Balance of trade (% of GDP)	-3.1	-4.1	-4.9	-5.6	-5.8	-5.7
Foreign direct investment (% of GDP)	5.1	2.5	2.4	2.5	2.6	2.5
Monetary sector						
M3 (%)	10.9	10.7	11.5	10.6	10.1	9.8
Claims on entities (%)	3.3	6.1	9.6	5.8	6.1	6.7
Claims on households (%)	6.6	13.4	13.8	8.1	8.0	7.9

Sources: MF, NSI, BNB *When preparing the forecast, statistical data published until 10 October 2022 were used, with the exception of GDP data that are as of 19 October 2022

Year 2022 was marked by the military conflict between Russia and Ukraine and the subsidence of the Covid-19 pandemic. The conflict had an adverse impact on a number of sectors of the economy, with the energy sector being the most affected.

In year 2022, the real GDP growth is forecast to slow to 2.9%. The lower rate of real GDP growth in 2022 compared to 2021 will be driven by both the widening negative contribution of net exports and the projected slowdown in domestic demand growth. Private consumption is expected to decelerate significantly compared to 2021, despite the strong rate of growth in nominal wages in the private sector and the higher social spending set in the Consolidated Fiscal Program for 2022, since the acceleration of inflations will have a restraining impact on the household purchasing power.

The forecast for the average annual inflation for the end of 2022 is 12.7%, with expectations for the following year to decrease to 6.4%.

At the end of December 2022, the forecast for unemployment rate nationwide is to decrease to 4.6%.

The main factor that will support the development of the economy to the greatest extent in 2023 is the absorption of funds under the National Recovery and Sustainability Plan (NRSP) of Bulgaria by both the private and the public sectors. Bulgaria received the first tranche at the end of 2022. The funding will support the implementation of capital investments in areas such as energy, healthcare, education, transport, sustainable economic development. The projected acceleration of real GDP growth in the coming years is consistent with the technical assumption of a recovery in external demand and the expected acceleration of growth in final consumer spending in the context of easing inflationary pressure.

BANKING SECTOR REVIEW

Key banking sector indicators

	2019	2020	2021	2022
Financial indicators (BGN mln.)				
Net interest revenues	2,746	2,649	2,757	3,227
Net fee and commission revenues	1,106	1,039	1,241	1,430
Other net revenues	721	512	501	700
Total operating revenues	4,573	4,200	4,499	5,357
Administrative expenses	(2,273)	(2,300)	(2,107)	(2,300)
Impairment	(4312)	(876)	(594)	(570)
Result after tax	1,675	816	1,416	2,079
Balance-sheet indicators (BGN mln.)				
Total assets	114,201	124,006	135,410	155,406
Cash, balances with central banks and other deposits on demand	18,141	27,114	28,487	32,428
Net loans and advances to customers (including finance leases)	62,684	65,922	74,562	82,631
Securities	14,312	17,640	22,014	23,607
Deposits from customers	91,853	100,671	109,356	126,197
household deposits	57,616	62,636	68,107	74,282
corporate deposits	34,237	38,034	41,249	51,915
Deposits from credit institutions	5,358	5,062	6,072	7,882
Equity and reserves	14,307	15,354	16,421	17,038

Basic ratios (%)				
Return on assets (after taxes)	1.52	0.69	1.09	1.43
Return on equity (after taxes)	11.89	5.50	8.91	12.43
Net interest margin	2.63	2.34	2.22	2.31
Loans/deposits from customers	68.24	65.48	68.18	65.48
Loans/assets	54.89	53.16	55.06	53.17
Capital adequacy*	20.16	22.74	22.62	20.88

At the end of Q4 2022, the assets of the banking system amounted to BGN 155 billion and represented 96.1% of the projected GDP.

As at 31 December 2022, the banking sector reported a net profit of BGN 2.1 billion (an increase by 46.8% compared to December 2021 - BGN 1.4 billion).

The higher financial result is mainly due to higher net interest income, higher net fee and commission income, and lower net impairment expense compared to the figures last year.

The market interest rates increased in anticipation of further normalization of the monetary policy in response to the inflation outlook. In recent months, corporate loans and bank interest rates on household loans have become more expensive, with corporate lending volumes being still high, while mortgage lending slowing due to tightening credit standards, increased borrowing costs, and weaker consumer confidence.

Based on its current assessment, the ECB raised the interest rates on the main refinancing operations, on the marginal lending facility and on the deposit facility to 1.25%, 1.5% and 0.75%, respectively, from September 2022.

The banking sector operates in the conditions of recovering economic activity in a better state compared to the same period of the previous year, and in the conditions of overcoming the consequences of the conflict between Russia and Ukraine, which led to an increase in energy resource prices and an increase in inflation.

REVIEW OF THE PERFORMANCE OF INVESTBANK JSC IN 2022**Key indicators**

	2019	2020	2021	2022
Financial indicators (BGN '000)				
Net interest revenues	26,146	24,346	22,757	34,560
Net fee and commission revenues	27,930	24,230	25,782	31,636
Other net revenues	7,160	8,253	102	9,262
Total operating revenues	61,236	56,829	48,641	75,458
Administrative expenses	(40,969)	(39,049)	(36,740)	(39,947)
Impairment	(31,392)	(16,879)	(64,096)	(7,105)
Net result from remeasurement of investment property	14,682	1,248	77,521	21,916
Result after tax	2,089	2,200	13,954	48,951
Balance-sheet indicators (BGN '000)				
Total assets	1,898,475	2,200,670	2,543,097	2,842,847
Cash, balances with central banks and other deposits on demand	259,863	420,327	615,874	670,978
Net loans and advances to customers (including finance leases)	718,119	879,677	933,201	1,048,725
Securities	517,288	514,157	558,728	678,871
Deposits from customers	1,655,779	1,940,725	2,267,802	2,482,357
household deposits	1,226,620	1,265,334	1,411,202	1,408,444
corporate deposits	429,159	675,391	856,600	1,073,913
Deposits from credit institutions	0	12	0	31,811
Equity and reserves	188,094	246,608	255,415	306,946
Basic ratios (%)				
Return on assets (after taxes)	0.10	0.11	0.59	1.82
Return on equity (after taxes)	1.13	1.01	5.56	17.41
Net interest margin	1.61	1.47	1.16	1.53
Loans/deposits from customers	43.37	45.33	41.15	42.25
Loans/assets	37.83	39.97	36.70	36.89
Capital adequacy	19.36	19.93	18.91	19.86
Resources				
Personnel	664	627	596	589
Financial centers	42	28	26	26

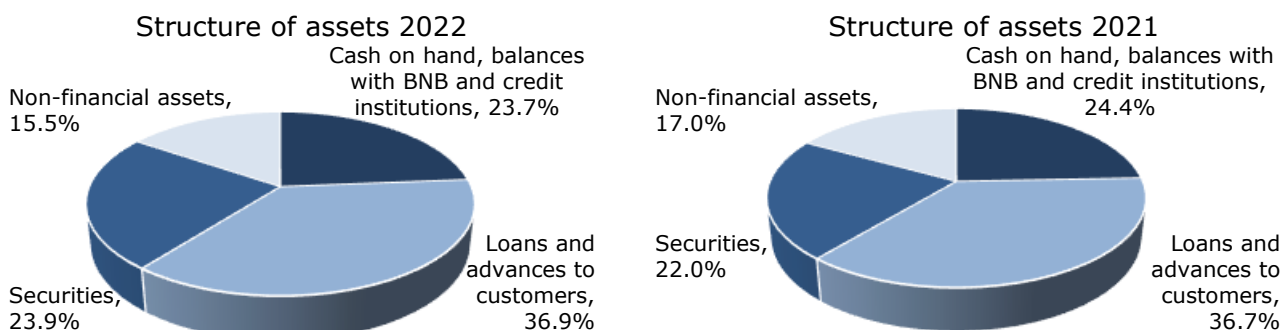
STATEMENT OF FINANCIAL POSITION

ASSETS

Total assets

In terms of total assets at the end of 2022, Investbank JSC retains the 11th position, whereby as at the end of 2021 it has a market share of 1.83% among the banks in the country. The business model structures the Bank's assets with a dominance of loans and advances to customers.

As at the end of December 2022, the Bank's assets amount to BGN 2,843 million (year 2021: BGN 2,543 million). In the assets structure of Investbank JSC, net loans and advances to customers (including finance leases) account for the largest share of 36.9% (36.7% as at December 2021) of total assets, followed by securities of 23.9% (22.0% as at December 2021), cash in hand and balances with BNB and receivables from credit institutions of 23.7% (24.4% as at December 2021), and non-financial assets, which form a share of 15.52%, compared to 16.98% for the previous year.



Loans and advances to customers

Loans and advances to customers account for 36.9% of total assets compared to 36.7% for the previous year. Loans/deposits ratio amounts to 42.25% compared to 41.15% for the previous year. In 2022, the total amount of net loans grew by BGN 115.5 million (increase by 12.38%) and reached BGN 1,048.7 million (year 2021: BGN 933.2 million). Loans also comprise receivables under finance leases for BGN 2.86 million compared to BGN 3.61 million at the end of the previous year. At the end of December 2022, the balance sheet impairment amounts to BGN 22.33 million, which decreases the degree of coverage with impairment of impaired loans from 19.78% for 2021 to 15.94% for 2022 and during the year the amount of BGN 4.63 million was written off at the expense of provisions for non-performing loans.

Compared to a year ago, the Bank's gross loan portfolio has increased by BGN 116 million (12.15% increase) and as at December 2022 it amounted to BGN 1,071 million. Compared to a year ago, gross **corporate loans** increased by BGN 86.4 million (11.56% increase) and as at December 2021 they amounted to BGN 834 million. The new business and the increase in the existing business since the beginning of 2022 compared to the previous year amount to BGN 380 million compared to BGN 351.6 million for the same period previous year.

Compared to a year ago, gross **retail loans** has decreased by BGN 2.5 million (1.2% decrease) and as at December 2022 they amounted to BGN 205 million. The new business and the increase in the existing business since the beginning of 2022 amount to BGN 76.9 million compared to BGN 77.8 million for the same period previous year.

In compliance with the policies, processes and procedures for risk management and monitoring of non-performing loans, the measures to improve the portfolio continued in 2022. As a result of the effective measures, the percentage of non-performing exposures to the Bank's total credit exposure changed from 11.7% in December 2021 to 13.5% at the end of 2022 with reported growth of the credit portfolio.

Securities

The portfolio of securities in the structure of assets of Investbank JSC (classified as debt securities carried at amortized cost, financial assets carried at fair value through profit or loss and financial assets carried at fair value through other comprehensive income) remain structurally determining and as at December 2022 they account for 23.9% of total assets (22% as at December 2021). Investbank JSC successfully manages its liquid assets by investing part of them in securities, which increased their yield compared to previous periods. With the increase in the basic interest rate, the interbank deposits were also renewed, the yield of which increased.

LIABILITIES

Borrowed funds from customers

In terms of total funds borrowed from customers, Investbank JSC maintains the 10th position among the banks in Bulgaria with a relative share of 1.95% compared to 2.06% for 2021. In terms of funds borrowed from non-financial customers, the market position is the 15th, which is a downward shift by one position compared to the 14th position for 2021. In the sector of natural persons and households, the market share is 1.9%, preserving the Bank's 9th position as in 2021.

Borrowed funds from customers at the end of December 2022 amounted to BGN 2,482 million, reporting a growth by BGN 214.6 million (9.46%) compared to December 2021 (year 2021: BGN 2,268 million).

As at 31 December 2022, the funds borrowed from **legal entities** reported an increase by BGN 217 million (25.37% increase) compared to the end of 2021.

As at the end of December 2022, the funds borrowed from **natural persons** amounted to BGN 1,408 million, reporting a decrease by BGN 2.8 million compared to December 2021 (BGN 1,411 million). A decrease is reported both in payment accounts and in fixed-term deposits. This resource retains its structure-determining share in the total borrowed funds from customers - 56.7% (62.23% as at December 2021).

In order to meet the regulatory requirements according to Art. 69 of the Recovery and Resolution of Credit Institutions and Investment Firms Act (RRCIIFA), in 2022 Investbank JSC acquired acceptable liabilities in the amount of BGN 56.6 million with a maturity of up to 5 years.

Equity

The Bank's equity amounts to BGN 306.946 million and includes share capital of BGN 155.57 million, reserves of BGN 151.4 million including retained earnings for the current year of BGN 48.95 million.

PROFIT AND LOSS STATEMENT

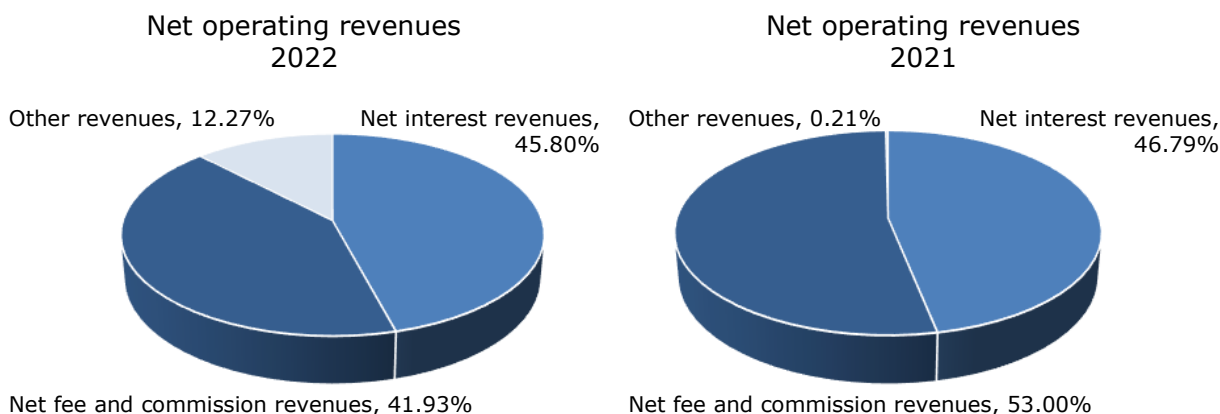
Net financial result

Investbank JSC achieved a significant increase in its annual result compared to the level of the previous year.

As a result of its operating activities in 2022, Investbank JSC reported a positive financial result after taxes of BGN 48.95 million (year 2021: BGN 13.95 million).

Total operating revenues

The total operating revenues for the year amount to BGN 75.5 million, reporting an increase compared to the figure of BGN 48.6 million a year earlier. There is growth in all positions: Net fee and commission revenues, net interest income and other revenues.



The structure and volume of revenues reflect the market dynamics and balance sheet changes during the year.

For 2022, the largest share in the structure of net operating revenues is that of net interest income with a share of 45.8% (46.79% as at December 2021) and net fee and commission revenues with a relative share of 41.93% (53, 0% as at December 2021). The share of other net revenues at the end of 2022 is 12.27% (0.21% as at December 2021).

Net interest income

	2022	2021	Change	Change in %
Interest revenues	40,534	31,339	9,195	29.34
Deposits provided to credit institutions	610	6	604	10,066.67
Loans and advances to customers	35,516	29,541	5,975	20.23
Securities	4,408	1,792	2,616	145.98
Interest expenses	5,974	8,582	(2,608)	(30.39)
Deposits from credit institutions	1,396	1,655	(259)	(15.65)
Deposits from customers	4,242	6,726	(2,484)	(36.93)
Other borrowed funds	336	201	135	67.16
Net interest income	34,560	22,757	11,803	51.87

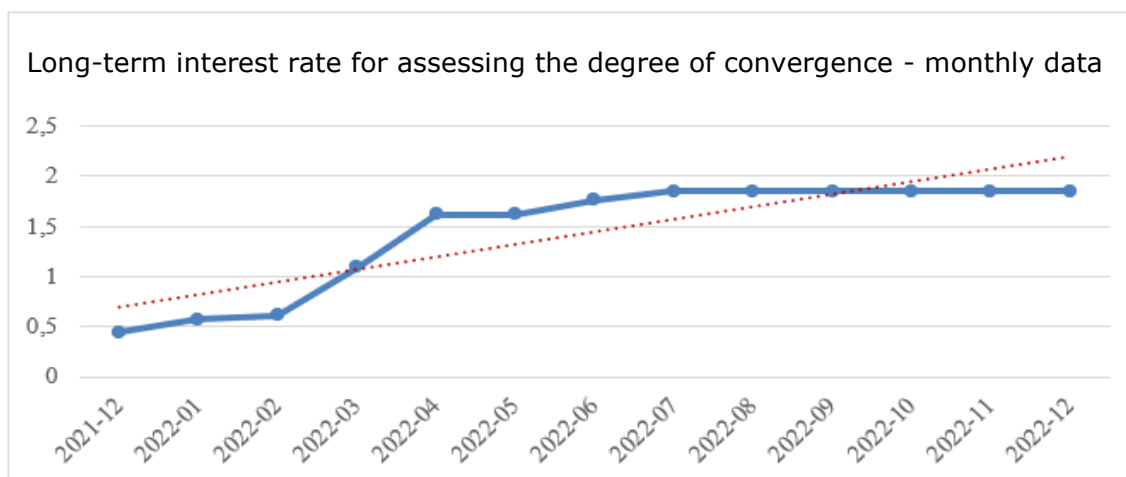
As at 31 December 2022, Investbank JSC reports a decrease in net interest income (BGN 11.8 million or a growth by 51.87%) compared to the previous year. The net interest income is more significantly affected by the higher growth of interest revenues than by the level of savings on interest costs. The net interest margin is more inert than the interest rates on loans and deposits considered separately. As at 31 December 2022, the net interest margin is 1.53 % (compared to 1.16 % at the end of 2021).

The dynamics of the indicator for the bank and the banking system is positive, i.e. the interest rate profitability is increasing. The banking system, as a whole, marks a growth of the average interest margin from 2.22% for 2021 to 2.31% for 2022, i.e. an increase by 0.09%, while the growth at Investbank was 0.37%. As at 31 December 2022, Investbank JSC occupies the 20th position in the ranking of this indicator compared to the 21st position at the end of 2021 among the banks in Bulgaria.

The improvement in the indicator is due to the greater growth of net interest revenues, the increase in the share of securities in the structure of the assets and the decrease in the cash balances with BNB and credit institutions, which until mid-2022 bore negative interest.

Interest revenues as at 31 December 2022 account for an increase by BGN 9,2 million (increase by 29.34%) compared to the previous year. The interest revenues on loans compared to the same period of the previous year account for an increase by BGN 5,9 million due to: higher average portfolio volume (BGN 29 million) – the factor affects by an increase by BGN 3.8 million and a higher average interest rate on the portfolio (increase by 0.20 percentage points), with the effect of the difference in interest rates being BGN 2.1 million. Interest revenues on securities come to BGN 2.6 million or 46% above the level as at December 2022.

The result of the securities in the bank is a function of the market factors in the country and in Europe. The previous year 2022 was marked by an increase in the prices of government securities (yield growth) in a global aspect, determined by the actions of the leading central banks - ECB and the US Federal Reserve and the expectations of global inflation. The yield on the Bulgarian government securities can be determined by the following periods: The first quarter saw rising yields, higher volatility and moderate liquidity. Followed by milder price growth, stability and lower volatility in the following quarters. The fourth quarter was characterized by the preservation of profitability, volatility and moderate liquidity. As a result, the Bank achieved a higher net result of securities in 2022 compared to the previous year. The long-term interest rate for assessing the degree of convergence, which includes BGN bonds of the Bulgarian government with a maturity of 10 years, generally shows this trend.



Interest expenses are decreasing as a result of the reduction in interest rates on borrowed funds from customers, as well as the increase in the negative interest rate on the excess reserves at BNB and on accounts with foreign banks. As at 31 December 2022, interest expenses decrease by BGN 2.6 million compared to December 2021.

Net fee and commission revenues

In 2022 the Bank's net fee and commission revenues amount to BGN 31,6 million compared to BGN 25,8 million at the end of 2021, accounting for an increase by 22.7%. Fees and commissions on transfer operations mark the greatest increase in absolute value of BGN 2.4 million, followed by those on servicing accounts – BGN 1.66 million, fees and commissions on operations with cash balances – BGN 456 thousand and fees on card operations BGN 436 thousand. The increase of other items is smaller.

Compared to the same period of last year, the fees for loan co-management with BDB are lower by BGN 78,000, the fees on operations in securities by BGN 50,000 and the fees on documentary operations by BGN 26,000.

Other net revenues

	2022	2021	Change	Change in %
Net income on foreign currency operations	2,300	2,547	-247	-9.70
Net result from securities	1,284	107	1,177	1,100.00
Net revenues on sale of assets	1,335	-5,242	6,577	-125.47
Other revenues, net	4,343	2,690	1,653	61.45
Total other net revenues	9,262	102	9,160	8,980.39

At the end of 2022, the amount of other net revenues (all revenues other than interest revenues and fees and commissions revenues are presented herein) marks a significant growth and amounts to BGN 9.62 million compared to BGN 102 thousand in 2021.

The following significant revenues were realized: Revenues from operations with financial instruments of BGN 1.2 million; Revenues received from offsetting and recovery from the budget of BGN 1.6 million. For year 2022, the Bank reports a positive net income from the sale of assets of BGN 1,335 thousand, in contrast to the previous year.

Administrative expenses

Administrative expenses	2022	2021	Change	Change in %
Expenses on personnel	16,691	14,218	2,473	17.39
Depreciation	5,243	5,478	-235	-4.29
Other administrative expenses	13,795	13,403	392	2.92
BDIF	4,218	3,641	577	15.85
Total administrative expenses	39,947	36,740	3,207	8.73

As at 31 December 2022, the total amount of administrative expenses amounts to BGN 39.95 million, which is by 8.73% higher than their level as at December 2021.

Since 2019 the Bank has applied IFRS 16 for rental expenses, whereby a significant portion of the rental expenses are recognized in depreciation and interest expenses. As the standard has been applied for four years so far, the data for 2022 and 2021 are completely comparable.

As of the end of December 2022, the level of the indicator Administrative Expenses / Total Operating Revenues (excluding the contributions to Bulgarian Deposit Insurance Fund (BDIF)) according to data reported in the Annual Financial Statements is 47.35% and the value at the end of 2021 is 68.5%. Compared to 2021, in 2022 there is a significantly higher growth in total operating revenues and lower growth in administrative expenses, as the factor total operating income has a greater impact on the change in the indicator.

Net impairment expenses

Impairment expenses as at the end of December 2022 amount to BGN 7.1 million and are by BGN 57 million lower compared to the figures in the previous year (BGN 64.10 million in 2021).

Net result from remeasurement of investment property

For the past year the Bank has made a net remeasurement of investment properties for BGN 21.9 million compared to BGN 77.5 million for 2021. The fair value of investment property is updated annually by licensed independent external appraisers holding the required qualifications and experience.

BANK REGULATIONS**Liquidity**

The effective management of the institution's inherent risks, the monitoring for early warning signals of possible problems, the regular monitoring and control on the ratios in the Recovery Plan are a top priority for the Bank.

Investbank JSC follows a moderately conservative policy with acceptable levels of risk-taking, emphasizing on high liquidity. The main goal is to achieve good return by maintaining an optimal balance sheet structure and improving the market position.

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. The liquidity management is carried out in compliance with the regulatory requirements and is conditionally divided into two functional areas: liquidity management and liquidity risk control. Operational and strategic liquidity management is carried out by the Liquidity and Investment Services Directorate. Liquidity risk control is performed by the Risk Control Directorate.

In recent years, Investbank JSC has maintained very good liquidity, and in 2022 the controlled liquidity ratios according to Regulation (EU) No. 575/2013 significantly exceed the regulatory requirements. The structure of balance-sheet assets as at 31 December 2022 is indicative of the existence of adequate liquid buffers:

- the volume formed of the security portfolio amounts to 23.88% of the Bank's assets, of which 91.59% are government securities, and the shares account for 3.2% of the total volume of securities, cash balances, balances with central banks and receivables from financial institutions, amounting to 23.65% of the Bank's assets.

Key ratios – LCR (short-term liquidity) and NSFR (longer-term ratio) significantly exceeded the minimum required values of 100% throughout 2022.

Date	December 21	March 22	June 22	September 22	December 22
LCR	412%	315%	292%	302%	309%
NSFR	172%	162%	135%	168%	176%

Total liquid assets (including cash balances, accounts with BNB and financial institutions, government securities, corporate bonds and shares) make up 47.59% of the Bank's assets (an increase by 1.8% compared to 31 December 2021), and the credit exposure (loans and advances) is 36.9% of the assets. Investbank JSC is able and capable of withstanding liquidity pressures and complicated market environment, including in the conditions of recession as a result of the complicated international situation.

Leverage - for managing and controlling the risk of excessive leverage, Investbank JSC calculates the leverage ratio (balance sheet capital to assets) and the reported figures are significantly higher than the required ones. As at December 2022, the leverage ratio stands at 9.4%.

Capital requirements

In compliance with the regulatory requirements of the European and Bulgarian legislation, Investbank JSC performs and observes the capital ratios specified below.

Total capital adequacy

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.

Pursuant to Art. 92 of Regulation 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%;

Part Eight of Regulation 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 and Ordinance No. 8 of the BNB on the capital buffers of banks. The capital buffers are:

1. Preventive capital buffer;
2. Countercyclical capital buffer;
3. Buffer for Global Systemic Significant Institution (GSSI);
4. Buffer for Other Systemic Significant Institution (OSSI);
5. System risk buffer.

Investbank JSC should maintain the additional capital buffers described above, excluding those relating to significant institutions, and their coverage should be provided by the Common Equity Tier I capital.

From the aforementioned capital buffers, as at 31 December 2022 the Bank allocates 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. By a decision of the Governing Council of the BNB dated 16 September 2021, a countercyclical capital buffer is set as 1.0%, effective as from 1 October 2022 and applicable to risk exposures in the Republic of Bulgaria. Its gradual increase is projected and from 1 October 2023 it will be 1.5% and from 1 October 2023 it will change to 2.0%.

Bank's common equity tier and capital base as at 31 December 2022

Indicators	BGN '000
Common equity Tier 1 Capital (CET 1)	271,584
Tier 1 capital	271,584
Equity (capital base)	271,584

In 2022, an increase in equity by 13.6% (+32,525 thousand BGN) is reported

As at 31 December 2022, the capital surplus is:

Capital structure as of 31 December 2022 in BGN '000	Surplus after capital coverage	Surplus (+) / Shortage (-) after deduction of capital buffers
Common Equity Capital (CEC 1)	210,048	125,179
Common equity Tier 1 Capital (Tier 1)	189,536	104,667
Equity /capital base/ T1 + T2	162,187	77,317

The Bank's risk profile 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 (93.5% of risk-weighted exposures), followed by operational risk (6.5% of risk-weighted exposures). The structure is presented in the following table with distribution of risk-weighted exposures of Investbank and capital coverage at 31 December 2022.

The operational risk is calculated by applying the method of Basic Indicator and is determined as 15% of the average gross income for the last three financial years.

As at 31 December 2022, the capital coverage of the Bank's risk exposure is:

Capital coverage of the Bank's risk exposure in BGN '000 as of 12/2022		Total capital adequacy	Capital buffers			Total capital coverage
		Capital coverage - 8%	Prepaid capital buffer - 2.5%	System risk buffer - 3%	Anti-cyclic buffer - 1.0%	
Total risk-weighted exposures, including	1,367,459	109,397	34,186	37,829	12,854	194,267
Credit risk, counterparty credit risk	1,279,134	102,331	31,978	35,180	12,024	181,512
Position, currency and commodity risks	0	0	0	0	0	0
Operational risk	88,325	7,066	2,208	2,650	830	12,754

Distribution of risk-weighted exposures of Investbank JSC as at 31 December 2022

Total risk-weighted exposures, including:	1,367,459	100.0%
Credit risk, counterparty credit risk	1,279,134	93.5%
Position, currency and commodity risks	0	0.0%
Operational risk	88,325	6.5%

RISK MANAGEMENT

Overview

In the normal course of business, Investbank JSC is exposed to various financial risks, the most important of which are: credit risk, market risk (including foreign currency risk, interest rate and price risk), liquidity and operational risk. To maintain the level of risk within the limits required by the Bank's Management, a system of rules, procedures and limits for identification and management of the main banking risks has been established and is functioning in compliance with the restrictive regulatory requirements and the Strategic Development Plan of the Bank. According to the requirements of the regulatory framework, Internal Capital Adequacy Analysis (ICAA), Internal Liquidity Adequacy Analysis (ILAA), Recovery Plan, Business Continuity Plan (BCP), "Liquidity Management Plan in Adverse Events and a Liquidity Crisis Scenario have been prepared and are subject to approval by the Management of Investbank JSC.

Risk management is based on the Risk Management Strategy, which defines the target risk profile and risk appetite of Investbank JSC. The aim is to limit the risk taken so that in the short and long term the Bank remains sustainable and viable. This may be achieved by maintaining sustainable levels of funds to ensure risk coverage in regulatory and economic aspect and ensuring that the Bank maintains a good risk-taking capability at all times. Furthermore, the Strategy clearly defined the risk structure that is relevant to the business model, including by defining a risk profile and determining rules to address 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 Rules (Limit Framework).

The general risk management focuses on the difficulties in forecasting the financial markets and minimizing the potential negative effects that may affect the financial performance and situation of the Bank. These financial risks are currently identified, measured and monitored through various control mechanisms implemented to establish adequate prices of the bank services and types of products and the borrowed capital from customers, and to adequately assess the market circumstances of the investments made by the Bank and the methods of maintenance of free liquid funds without allowing undue concentration of a particular risk. The Bank manages its trading operations according to the type of risk and on the basis of the different categories of financial instruments held.

Risk Management Policy

Investbank JSC follows a moderately conservative policy with acceptable levels of risk-taking, emphasizing on high liquidity. The Supervisory Board and the Management Board of the Bank discuss and adopt the risk policy according to their intentions to invest in activities generating stable growth and income, as well as consistent with the availability of sufficient capital to cover banking risks. Investbank JSC's risk management policy is aimed to identify, analyse, measure and control the risks to which the Bank is exposed., based on the core principles for effective banking supervision of the Basel Committee on Banking Supervision, the regulatory requirements of the BNB and the internal banking regulatory framework. The leading goal of the Bank is to achieve stable earning by maintaining an optimal balance sheet structure and maintaining a competitive market position. Risk management is the main professional model of work in all structural units of the Bank. The protection of shareholders and depositors is guaranteed through an adequate system for identification, management and control of the risk profile.

The activities for risk identifying, monitoring, managing and limiting its 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 – a framework for form and timing of reporting related to the risk events.

Principles 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 credit risk management 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.

The activity of control over the management of general banking risks is carried out by the Risk Control Directorate through an independent system for information and risk reporting. The Directorate is an independent structural unit managed by a director who is directly subordinated to a member of the Management Board. Risk identification, measurement, monitoring and reporting is performed on an ongoing or periodic basis in compliance with the rules and procedures for managing individual risks. The management of the specific risks inherent in the activity is carried out mainly by the operational units and the managements of the financial centers and are regulated in separate rules related to the performance of the respective activity. The system established at the Bank for allocation of the responsibilities and decision-making in risk management ensures adequate management of the main risks by providing the necessary flexibility combined with clarity of responsibilities at all levels of management.

The control on the compliance with rules and procedures set for risk management is carried out within the established system of internal control. The bodies that exercise control are the Management Board, the Executive Directors, the Risk Control Directorate, as well as the directors of directorates in the Central Office and the heads of the financial centers. The Specialized Internal Audit Unit (SIAU) performs independent internal inspections on the quality and the effectiveness of the established internal controls. The Management Board is responsible for the overall organization and effective functioning of the risk management system.

Structure and organization of risk management functions

The main units directly responsible for risk management at the Bank are:

Supervisory Board – 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, according to the relevant phase of the economic cycle. It consists of three members, and in 2022 there is a change in the composition of the board.

Audit Committee – a specialized supervisory body that monitors the objectivity of the financial reporting process, the effectiveness of internal control systems, including the practices related to internal audit and risk management, and the effectiveness of the independent financial audit and procedures established by the Bank's governing bodies to protect shareholders' interests. It consists of three members, and in 2022 there is a change in the composition of the board.

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. It consists of three members, and in 2022 there is an individual change in one of the members.

Supporting bodies to the Management Board (MB)

Credit Board – implements the credit policy approved by the SB and adopted by the MB, approval and renegotiation of credit transactions, making decisions for improving the Bank's lending process organization, taking actions to improve loan portfolio quality. The board consists of five members and a lawyer with the right to an advisory vote, and in 2022 there is no change in the number of members, but there is an individual change of the chairperson.

Risk Management Board – continuously monitors, analyses and assesses the risk factors pertaining to banking operations in compliance with the core principles for effective banking supervision of the Basel Committee on Banking Supervision. At the end of 2021, the board had four members, and at the end of 2022, the composition was increased to six, with an individual change of the chairperson.

Asset and Liability Management Committee – responsible for managing the Bank's assets and liabilities and liquidity and exercises control over the Bank's liquidity in compliance with the regulatory requirements of BNB and the liquidity management policies and rules that are in place at Investbank JSC. At the end of 2021, the board had six members, and at the end of 2022, the composition was increased to seven, with an individual change of the chairperson. Continuously analysing the Bank's 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. The Asset and Liability Management Committee manages different types of risk - liquidity, interest rate, foreign exchange, price, and sets up limits on types of assets and liabilities,

positions, transactions, exposures in order to limit foreign exchange, interest rate and liquidity risk, controlling and periodically analysing their compliance.

Customer Alerts, Complaints and Inquiries Committee - examines, analyses and makes decisions regarding alerts, complaints and inquiries from customers received at the Bank. Removal of identified gaps and deviations from the Code of Ethics, the good practices and standards for customer service, identified on an ongoing basis or through the "mystery customer" method or other methods, by setting specific tasks with precisely defined responsible persons and deadlines.

Information Security Committee - a collective body that prepares and submits the Information Security Policy of Investbank JSC for approval by the MB. It is responsible for the regular and periodic review and, if necessary, update of the contents of this document. The Committee reviews, discusses, approves and submits for approval by the Management Board all policies and internal banking rules, procedures and regulatory documents ensuring the information security of the Bank. The Committee shall periodically monitor and analyse the compliance and implementation of the internal banking information security regulations.

Credit risk

Credit risk covers the risks arising from the inability of a counterparty, debtor, issuer or borrower to duly implement its current, possible or contingent liabilities in a timely manner in accordance with the initially agreed terms and conditions, due to changes either in their own financial and economic condition or due to other specific circumstances. Credit risk is related to the potential partial or total loss of exposure that the Bank may suffer from a borrower who fails to make due payments to the Bank.

As at 31 December 2022, the Bank's total credit exposure (on and off-balance sheet, including exposure to credit institutions) is BGN 1,241,728 thousand. Compared to 31 December 2021, there is an increase by 8.4% (+94,405 thousand BGN). The total allocated provisions amount to BGN 22,358 thousand, including BGN 22,334 thousand for credit portfolio and BGN 24 thousand for off-balance sheet items, respectively. From the credit exposure structure, BGN 1,071,060 thousand is the volume of credit portfolio and repo transactions, BGN 96,914 thousand is the amount of off-balance sheet commitments (undrawn credit debt) and BGN 56,028 thousand is the portfolio of bank guarantees and letters of credit, and 17,726 undrawn amounts on limits. As at 31 December 2022, the loan portfolio volume (book value before impairment; see the following table) marks an increase by 11.1% or BGN 105,720 thousand (including BGN 31,810 thousand from credit institutions), and the share of non-performing exposures increases from 11.7% to 13.2%, mainly due to the growth of non-performing loans from non-financial enterprises (the most significant effect of a group of related parties) and partly due to the portfolio of consumer loans – deteriorated exposures from "fast loans". There is a significant reduction of 57.3% in non-performing exposures from the "housing-mortgage loans" portfolio and a 100% reduction from financial enterprises.

(in BGN '000)

Business Segment	31/12/2021			31/12/2022		
	loan portfolio	incl. non-performing	non-performing share	loan portfolio	incl. non-performing	non-performing share
1. Budget spending units	5,045	0	0.0%	8,913	0	0.0%
2. Other financial corporations	5,140	1,280	24.9%	1,353	0	0.0%
3. Credit institutions	1	0	0.0%	31,811	0	0.0%
4. Non-financial corporations	737,631	97,335	13.2%	813,952	128,435	15.8%
5. Residential mortgage loans	89,697	7,707	8.6%	86,651	3,291	3.8%
6. Consumer loans	117,802	5,461	4.6%	118,356	8,383	7.1%
Total for the Bank	955,315	111,783	11.7%	1,061,036	140,109	13.2%

Based on the analysis of the loan portfolio for the impact of the crisis caused by the pandemic and the subsequent military conflict in Ukraine, took adequate and timely measures to control and manage risks, analysing that credit impairments are sufficient to cover the probable credit risks. Immediate actions were taken to analyse the situation and limit the potential and actual risks. The analysis includes both the countries effectively affected by the military actions (Russia and Ukraine) and the possible negative consequences on sectors financed by Investbank JSC with probable potential for deterioration. As at 31 December 2022, the share of the total gross exposure to the two countries is 0.2%, and no increase in exposure to Russia and Ukraine is allowed due to the geopolitical situation. The share of loans to Russian citizens is insignificant – 0.03% of the Bank's total credit exposure. 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.

The crisis caused by Covid-19, the restrictive measures and the sharp deterioration of the economic environment, as well as the reflection of the geopolitical situation affected more or less almost all sectors of the Bulgarian economy. With the exception of the exposure to the sector "Real Estate Operations", which reports the largest increase in non-performing credit exposures, in 2022 the tendency to improve the quality of the credit exposure is preserved both for the Bank and for most economic sectors, accounting for an effective reduction in both the share and the amount of non-performing loans:

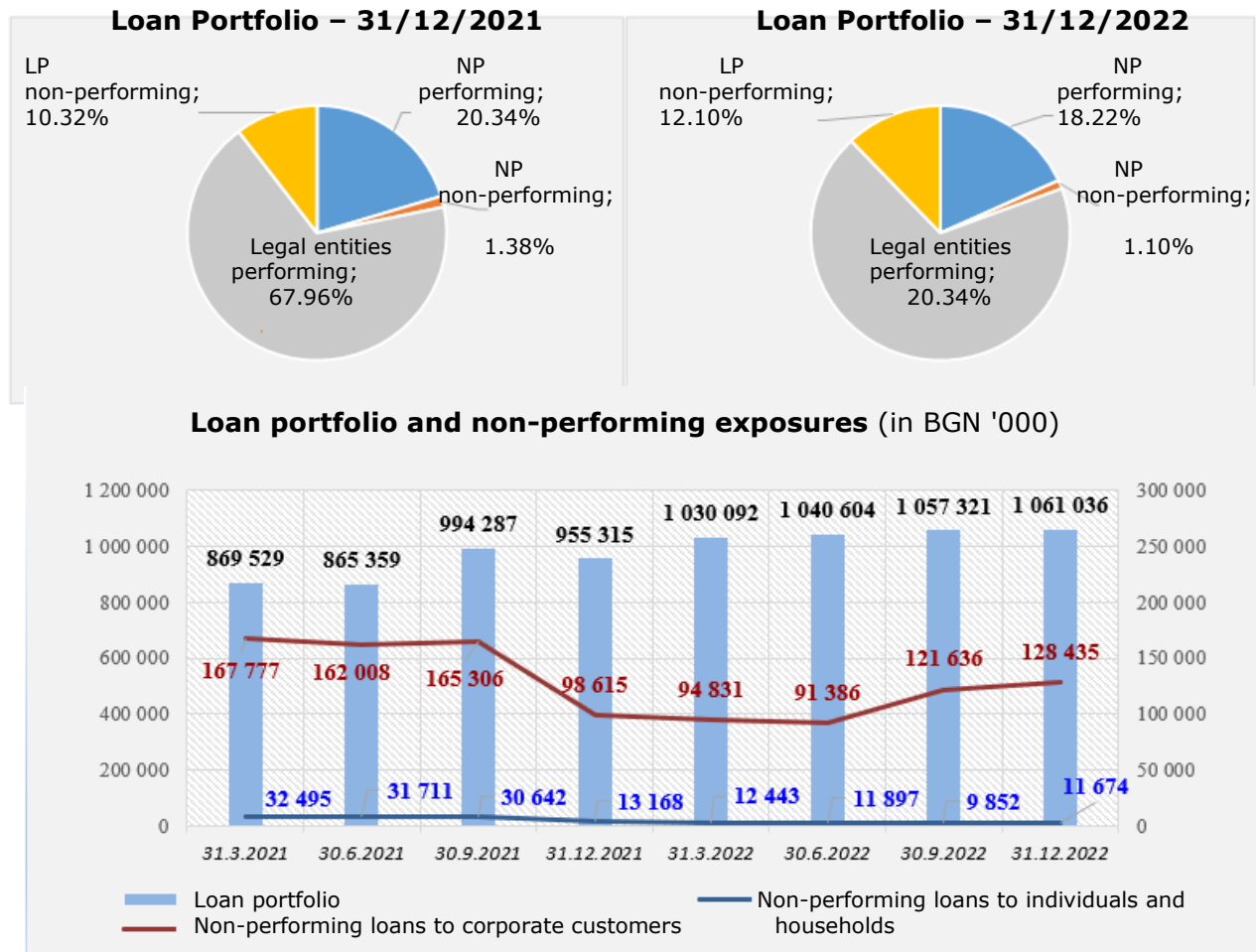
- Agriculture, forestry and fisheries – a decrease by 9.6% or BGN 1,883 thousand with a reported share of 24.9% of the sector's portfolio; Production and distribution of electricity and thermal energy and gas fuels – a decrease by 8.4% or BGN 1,300 thousand with a reported share of 7.6% of the sector's portfolio;
- Construction – a decrease by 11.4% or BGN 1,251 thousand with a reported share of 12.1% of the sector's portfolio;
- Commerce; repair of cars and motorcycles – a decrease by 9.4% or BGN 2,563 thousand with a reported share of 19.6% of the sector's portfolio;
- Financial and insurance activities – a decrease by 100%, i.e. non-performing exposures are not reported.

A major negative impact (such as the consequences of the Covid crisis and the complicated international situation) on the quality of the Bank's credit portfolio is reported in four sectors:

- Processing industry – with a credit exposure of BGN 65,415 thousand, a share of non-performing exposures of 27.7% is reported;
- Accommodation and food service – an increase in non-performing exposures by BGN 1,827 thousand (share of 5.5%) from a credit portfolio of BGN 56,074 thousand;
- Real estate operations – with a credit exposure of BGN 57,650 thousand, the share of non-performing exposures is 62.7% (increase by BGN 30,609 thousand), which is the largest increase for the Bank;
- Professional activities and scientific research – a credit exposure of BGN 6,361 thousand and a share of non-performing loans of 27.4% (an increase by BGN 1,601 thousand), but with an extremely small share (0.6%) of the Bank's loan portfolio.

The exposure from refinanced loans (balance sheet debt and off-balance sheet loan commitments) according to the Moratorium on Covid-19 (the effect of renegotiation ended on 31 December 2021) is in the amount of BGN 54,729 thousand (BGN 46,998 thousand from corporate customers and BGN 7,731 thousand from individuals and households), marking a decrease by 25.5% or BGN 13,959 thousand, with the share of non-performing exposures falling from 2.5% to 1.6%, i.e. a decrease by BGN 836 thousand. The volume of credit exposures subject to public guarantee schemes (BDB/Covid-19-related) amount to BGN 13,708 thousand and marks a decrease by BGN 4,318 thousand or 24.0%, accounting for a share of 1.1% of the Bank's total credit exposure.

In summary, the dynamics in loan portfolio quality are presented by the following figures:



The main competent bodies with respect to credit risk management and control are the Management Board, the Executive Directors, the Risk Management Board (RMB), the Credit Board, the Risk Control Directorate, the Credit Risk Management Directorate, the Problem Receivables Directorate, the SIAU and the heads of the financial centers.

The following basic techniques are used to manage and minimize credit risk in the Bank: diversification, application of a system of limits, ongoing monitoring and management of the loan portfolio, requirement for security of exposures, etc. The Bank assesses and classifies its risk exposures and reports impairment losses for credit risk in compliance with the adopted Policy of the Management Board consistent with the requirements of Regulation (EU) 2016/2067 and Regulation (EU) 575/2013.

Investbank JSC regularly monitors the quality of the entire loan portfolio, submitting monthly for discussion to the Risk Management Board and the Management Board a report of the Credit Risk Management Directorate on credit exposures overdue for over 1 day for legal entities and a report of the Problem Receivables Directorate for loans granted to natural persons which are in arrears over 30 days. The reasons are analysed and mechanisms are proposed for returning the exposures in regularity or taking actions for their acceleration. The business units contact the customers and offer workable options consistent with the possibilities of the borrowers aimed at improving the quality of the credits. Detailed information on the implementation of the goals set in the Business Plan and the capital planning related to the set business goals is presented on a monthly basis.

The main principles that are followed in risk management include:

No risk without limit – all types of risk that should be limited are defined, as well as the respective risk-bearing units (borrower, borrower's group);

Four-eye principle – a combination of at least two steps is applied in the approval of a business transaction by two independent units to ensure efficient management of the business process. The work process in lending is based on the division of the responsibilities between the sales units and the risk management unit.

Delegated credit competencies – all decisions related to risk-taking are taken by persons or boards / committees to which the necessary credit competencies, as defined in the Competence Rules, have been delegated.

Credit decisions are always based on credit offers / requests.

Credit limits and ratings are reviewed periodically /annually/.

Collateral is a risk mitigating factor. They are subject to regular evaluation in accordance with the requirements of the Collateral Policy.

They are implemented in the work process and early warning signals are actively used. Recognizing and analysing early warning signals is a daily and continuous process. In case the signals jeopardize the collection of the receivables, the necessary steps are taken to transfer the customer / customer group to problem management in order to timely and adequately manage them and prevent / reduce future losses or expenses for Bank's provisions. Early signals of increased credit risk may be grounds for taking measures to "recover" the customer by renegotiating / restructuring the credit transaction. They are regularly monitored by the business and risk units in the Bank in compliance with the prescribed rules and procedures in their daily work in order to assess the probability of the debtors becoming insolvent.

An analysis of the financial condition of all legal entities - customers of the Bank is performed in the Credit Risk Management - Legal Entities Department at the Credit Risk Management Directorate. A rating is prepared for each customer, as well as an opinion on the extent and types of risk that the Bank assumes or possibly may undergo on the credit exposure, as well as recommendations and guidelines for their minimization. The Credit Risk Management - Natural Persons Department performs scoring of the customers who are natural persons. The Credit Risk Management Directorate monitors the proper functioning of the procedures, systems and processes related to the analysis and approval of loan transactions of customers of the Bank, as well as the day-to-day management of credit risk on risk exposures, until their transfer to be managed at the Problem Receivables Directorate. The Bank's internal rules ensure and arrange the compliance with the principle of the four eyes when making decisions on loan transactions. In accordance with the foregoing, the processed loan transactions are forwarded to the respective competent decision-making unit for the transaction, whereby the Credit Risk Management Directorate is responsible and performs monitoring to prevent decision-making at a level lower than the appropriate one. The levels of credit competencies are defined in the Rules for Competencies in Granting, Renegotiating, Restructuring Credit Exposures of Investbank JSC.

The levels of decision-making competence for loan transactions (new financing, changes in parameters on current exposures, renegotiation of loan transactions and restructuring of credit exposures) and holders of credit competencies are:

- Management Board (MB)
- Credit Board (CB)
- Risk Management Board (RMB)
- Employees of the Bank who are personally delegated lending authorities.

In 2022, Credit Risk Management - Legal Entities Department processed 868 loan transactions, including 180 proposals for new loans totalling BGN 325 million. Of the 180 proposals for new loans received, the approved ones account for 98% and are of the total value of BGN 322 million. A decision for 47% of the corporate loan transactions was made based on individual competencies, while for 47% of the proposals, the decision was taken at the Credit Board and Credit Board/Management Board level.

As at 31 December 2022, of the newly authorized loan transactions in 2022 involving Credit Risk Management - Legal Entities Department, there are no registered transactions with arrears over 30 days, and 2 loans or 0.20% of all newly authorized loan transactions are with registered arrears up to 30 days, while 98.86% (174 transactions) are performing loans.

In 2022, the Credit Risk Management - Natural Persons Department processed 3,501 loan transactions with a total value of BGN 71,222,471.

The number of new loan applications is 2,554, totalling BGN 66,421,396. Of these, 2,092 new loans totalling BGN 55,476,253 were approved. As at 31 December 2022, of all utilized loan transactions to natural persons during the year (2,035 loans) 9 loans with total debt of BGN 202 thousand are over 90 days overdue which is 0.43 % of the total number of loans.

Credit risk is controlled and managed by setting limits that determine the tolerance allowed (degree of risk to be assumed) to an individual debtor, a group of counterparties and/or a segregated in portfolios - concentration risk. This risk may cause significant losses threatening the financial position of the institution and/or a material change in the risk profile and/or significant capital pressures. The Bank has established an internal system for monitoring, control and effective management of concentration risk, which are detailed in the Concentration Risk Management Rules. By diversifying, reducing concentration and creating a limit framework at portfolio and sub-portfolio level, the Bank seeks to control and limit the potential risk of unacceptable losses through diversification of the credit exposure based on different attributes - country, borrower's segment (business lines), segment lines, sectoral, regional principle, large exposure to customer / customer groups - related parties that are bearers of common risk, including affiliation with the Bank's shareholders. Concentration risk management is based on: application of a complex system for timely identification of risk sub-portfolios; application of a set of limits by risk category, by business line/unit. The levels of the limits, including pre-threshold values, reflect the risk tolerance that the Bank is prepared to accept in its usual course of business.

The following limits are monitored, controlled and managed on a daily basis, and analyzed and reported to the RMB and the MB on a monthly basis: Country; Sectoral; Customer Segment; Product; Customer / Customer Group, bearers of common risk and forming large exposures; Bank's related parties.

Market risk

Market risk is the probability that the Bank may incur losses and/or a decrease in equity under the influence of adverse changes in purely market variables such as: interest rates, exchange rates, and the value of portfolios of financial instruments due to changes in prices.

Timely risk identification and management is carried out on an independent basis by the Liquidity and Investment Services (LIS) Directorate and the Risk Control Directorate with the main objective of ensuring that appropriate management decisions are made to reduce the impact of market risk. To measure and assess the level of market risk of a portfolio of securities, the Bank applies the Value at Risk (VaR) model using the Monte Carlo simulation method.

Market risk management is carried out in compliance with the internal bank and regulatory documents. To manage and limit the level of market risk, the Bank applies a system of limits by issuers, currency positions, interest rate sensitive exposures and exposures influenced by market risk components. The minimization of market risk is carried out through a set of measures aimed at reducing the probability of the occurrence of events or circumstances that would lead to losses from market risk and/or reducing the amount of potential loss.

The main task of the market risk monitoring system is to achieve a sufficiently fast and adequate response by the Bank to external and internal changes and fluctuations in the financial markets, in order to minimize losses / prevent potential ones and achieve optimal profitability from operations in financial instruments while maintaining the established level of risk.

To measure the level of market risk of the portfolio of securities, the Bank mainly uses the Value at Risk (VaR) indicator through the PMS system. Measuring the level of market risk is focused on the main subclasses of this risk (interest rate, price and currency risk) and the components of market variables that affect them on the one hand and their mutual correlation on the other hand. The measurement and assessment of market risk is performed by applying stress tests (stress test for interest rate risk of activities outside the trading book / GAP-analysis, stress test for interest rate / price risk of debt securities).

Risk Control Directorate carries out ongoing monitoring of the change in the volume and risk characteristics of the securities held. For all securities, residual term and yield to maturity, duration and modified duration are calculated. The imbalance of interest-sensitive assets and liabilities (GAP analysis) is analysed for interest rate risk analysis and assessment. To examine the risk of changing stock prices, a number of interest scenarios are considered and their effect on the Bank's performance. The open currency position by currency types is subject to ongoing monitoring, including the compliance with the internal and regulatory requirements. A quarterly report is prepared to the MB/SB on the manifestation of the market risk and its impact on the Bank's operations and performance, including covering the implementation of the limits on the structure of the banking and trading portfolios, degree of risk, classification by portfolios and issuers.

Interest rate risk

The interest rate risk in the current or potential risk to earnings and capital arising from unfavourable changes in interest rates. This type of risk is considered as part of the market risk assessment for the trading book and as a self-assessed type of risk for the banking book. The fluctuations in market interest rates lead to a change in interest revenues and a risk of a decrease in the value of capital.

Interest rate risk management is based on the internal banking and regulatory framework. Risk management policy aims at optimizing net interest income and reaching market interest rate levels consistent with the Bank's business strategies. Interest rate risk management procedures are related to maintaining an acceptable interest margin between the applicable interest rates on borrowed funds and interest-bearing assets and are applied to changes in market interest rates.

The Bank constantly monitors the changes in foreign currencies, discrepancies in interest rates and in the maturity structure of assets and liabilities. Interest rate risk is monitored by the Risk Control Directorate and the Liquidity and Investment Services Directorate to ensure compliance with market risk limits. The Assets and Liabilities Management Committee (ALMC) defines and regulates the interest rate policy, including controls the interest rate risk to which the Bank is exposed and decides on changes in interest rates. It makes timely decisions to regulate interest-sensitive assets and liabilities and the possible interest rate risk mismatch. The quarterly report regularly submitted to the Management Board contains an analysis of the interest rate risk of the Bank's financial assets and liabilities and their sensitivity to the behaviour of interest rates.

The main model for measuring, assessing and controlling interest rate risk is the Interest Rate GAP model, which is based on an analysis of the impact and dynamics of interest rates on the net interest income and is based on the expectations about the changes in the interest rates in the future. The model is presented by the Risk Control Directorate in different scenarios / variants of simulation and stress tests and reporting to the Bank's ALMC (Asset and Liability Management Committee) and the Management Board. The analysis for change in the net interest income in the different scenarios assists the Management in making timely decisions for taking actions for the implementation of the business plan of the Bank.

Foreign currency risk

Currency risk is the probability that the Bank may suffer losses or missed profits as a result of adverse changes in foreign exchange rates. The net position in each currency is monitored and controlled on a day-to-day basis by the Risk Control Directorate, Liquidity and Investment Services Directorate and by the members of the Assets and Liabilities Management Committee.

The Bank is not exposed to currency risk through transactions in financial instruments denominated in foreign currencies. Following the introduction of the Currency Board in Bulgaria, the Bulgarian Lev is pegged to the Euro and as a consequence there is no open currency risk associated with it. The movements in the exchange rates of the BGN to the currencies outside of the Eurozone affect the indicators in the financial statements.

The Bank's policy lays down that most of the Bank's assets and liabilities are denominated in EUR or BGN and therefore it does not support open positions in currencies other than the EUR.

The Liquidity and Investment Services Directorate manages the assets and liabilities of the Bank within the limits set for the achievement of the determined goals and indicators of return on investments. The amount of the Bank's open currency position (by individual currencies) is monitored daily and the necessary steps are taken to minimize any possible effects on the Bank from changes in exchange rates. The analyses show that the Bank is not exposed to currency risk, as at any time it is within the regulatory limits regarding the currency position.

Price risk

Price risk is the likelihood of adverse change in the prices of securities, including contracts (derivatives) and other financial instruments related to commodities.

As at 31 December 2022, the assessment of the sensitivity to changes in interest rates in the portfolio is made using the method of change in the price of debt instruments with the change in the yield curve and a constant balance-sheet position.

- Analysis of the sensitivity of the portfolio of debt securities to changes in interest rates - assuming a constant balance-sheet position and a parallel shift of the yield curves.
- Analysis of the sensitivity of the portfolio of debt securities to changes in interest rates - assuming a constant balance-sheet position and a non-parallel shift of the yield curves.

Liquidity risk

Liquidity risk is the risk of loss due to inability to meet current and future liabilities in due time and at a reasonable price without jeopardizing the interests of depositors, shareholders and creditors or the possibility of meeting them but by paying a high price. The Bank strives to maintain such an asset structure that ensures relatively fast and easy transformation of assets into available funds with insignificant losses.

The Bank maintains its liquidity profile in accordance with regulatory requirements and the relevant internal bank regulations. Prudent liquidity risk management and appropriate control are important for the effective management of the Bank.

The primary objective of liquidity risk management is to maintain the Bank's balance sheet in terms of size, structure and ratios, ensuring that the Bank can meet in a timely manner its payables (commitments) at a reasonable price and with minimal risk. To measure and control liquidity risk, the Bank applies various models and techniques presented below.

ALMC functions as an internal body for management of assets, liabilities and risk in the Bank, in order to achieve stable income, high rate of return at appropriate capital level and optimal liquidity, consistent with the adopted strategy for development of the Bank.

Liquidity risk management is based on monitoring and defining:

- funding ratios;
- maturity mismatches;
- composition and amount of liquid buffers;
- analysis of the results of the quarterly liquidity stress tests and liquidity ratios under Regulation 575 (LCR & NSFR).

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 define the actual expected cash flow. Investbank JSC measures the liquidity risk 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 analysis includes a scenario for measuring liquidity risk in an extremely serious stress situation (combined scenario). The Liquid Coverage Potential measures (in terms of size and timing) the ability to raise liquid cash in the shortest possible period of time under market conditions and shows the potential to cover net cumulative cash outflows (liquidity imbalances / mismatches).

The compliance and the controlled non-compliance with maturities and interest rates on assets and liabilities is at the heart of the Bank's liquidity management. A mismatch in the maturity structure can potentially improve profitability but also increase the risk of

losses. The maturities of assets and liabilities, as well as the ability to substitute, at an acceptable cost, the interest payables at their maturity, are important factors in assessing the Bank's liquidity and the impact of changes in interest rates and exchange rates on it. In order to manage the risk, the Bank maintains high liquid assets in different currencies at all times. General liquidity is controlled and monitored on an ongoing basis by the Bank's Asset and Liability Management Committee, on the basis of reporting information from the "maturity ladder" introduced by Regulation (EU) 2017/2114 of the European Commission.

Banks are required to maintain a certain amount of funds as reserves in their current accounts with Bulgarian National Bank, whereby the basis on which the amount, maintenance period and reporting are determined is regulated in BNB Ordinance No. 21 of 2015. In 2022 Investbank JSC maintained minimum reserves in accordance with the requirements of Art.3 of Ordinance No. 21. The management and control of the reserves is carried out on a daily basis by the Liquidity and Investment Services Directorate.

As at 31 December 2022, the Bank's liquidity position, calculated on the basis of the liquidity stress test, is a "green signal" (green traffic light). There is no liquidity shortage or currency imbalance. Following the accession of Bulgaria on 10 July 2020 to the monetary mechanism (ERM II), preparing the member states of the European Union for their obligations to join the monetary union (Eurozone), the LIS Directorate maintains a significant resource in EUR in order to protect of the bank from potential currency fluctuations in relation to the currency pair EUR-BGN. It should be borne in mind that at any time without restriction and without realizing a negative effect on the Bank, this recourse may be converted at a fixed rate with the BNB.

The maximum utilization of available liquidity potential (operating liquidity limits) as at 31 December 2022 is presented in the following table:

Scenario	Up to 1 week	Up to 1 month	Up to 6 months	Up to 1 year
Combined stress scenario – requirement	< 95%	< 95%	< 100%	≤ 100%
Utilization of the limit as at 31/12/2022*	0 %	0 %	0 %	0%*
Utilization of the limit as at 30/09/2022*	0 %	0 %	0 %	0%*

*Total for all currencies

The stress scenario is modelled in separate currencies (BGN, EUR, USD and all other total), as well as in total for all currencies in the Bank. The minimum liquid reserves increase in 2022 in all zones, by BGN 90 million in the first zone (up to 7 days) and BGN 163 million in the last zone (up to 1 year). No imbalance in BGN is reported. The increase in the graph with liquid reserves, observed in March 2023, is due to the maturity of Bulgarian and French government securities with nominal values of EUR 43.3 million and EUR 3.5 million /maturity dates on 21 March 2022 and 25 March 2022/.

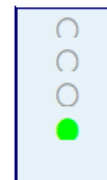
The minimum liquidity reserves are BGN 467.4 million (up to 7 days), BGN 460.3 million (up to 1 month), BGN 471.1 million (up to 6 months) and BGN 615.2 million (up to 1 year), respectively.

Liquidity Stress Test Investbank JSC

Date: 03/01/2023

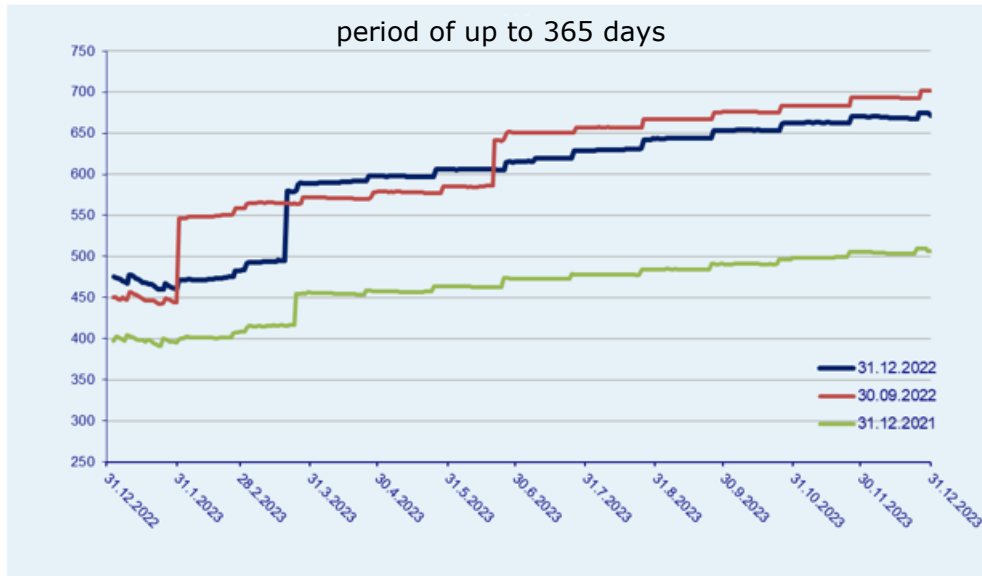
Including data as at 31/12/2022

(No)



Combined scenario by type of currency																
03.01.2023																
Maximum usability (in %)						Minimum liquidity reserve (BGN '000.000)										
Currency	1 D 7 D	Date	8 D 30 D	Date	31 D 180 D	Date	181 D 1 Y	Date	1 D 7 D	Date	8 D 30 D	Date	31 D 180 D	Date	181 D 1 Y	Date
Total	0.0%	-	0.0%	-	0.0%	-	0.0%	-	467.4	09.01.2023	460.3	25.01.2023	471.1	13.02.2023	615.2	04.07.2023
BGN	0.0%	-	0.0%	-	0.0%	-	0.0%	-	232.2	09.01.2023	220.0	30.01.2023	221.7	02.02.2023	241.2	08.07.2023
EUR	0.0%	-	0.0%	-	0.0%	-	0.0%	-	208.8	09.01.2023	211.8	25.01.2023	220.0	13.02.2023	341.9	04.07.2023
USD	0.0%	-	0.0%	-	0.0%	-	0.0%	-	23.4	09.01.2023	22.5	31.01.2023	24.1	25.02.2023	28.8	25.08.2023
Other currency	0.0%	-	0.0%	-	0.0%	-	0.0%	-	5.2	09.01.2023	5.0	01.02.2023	4.9	28.08.2023	4.9	29.12.2023

Liquidity Reserves (Combined scenario for all currencies)



Liquidity ratios under Regulation 575 (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 to ensure 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.

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

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	12/2014	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	12/2021	12/2022
LCR	297%	331%	479%	538%	440%	444%	286%	412%	309%

- 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.

Availability of stable funding
Required amount of stable funding **≥ 100%**

Date	12/2014	12/2015	12/2016	12/2017	12/2018	12/2019	12/2020	12/2021	12/2022
NSFR	269%	183%	211%	214%	199%	186%	178%	172%	176%

Operational risk

Operational risk - the risk of loss arising from inadequate or malfunctioning internal processes, people and systems, or from external events, and the risk to earnings and capital arising from violations or non-compliance with laws, ordinances, regulations or ethical rules. This risk includes IT risk and legal risk. Operational risk is a non-financial risk that includes the following sub-types:

- Risk of human errors – the risk of abuse due to low, non-existent or imperfect control procedures, as well as unintentional errors arising from ignorance of products, inadequate training, complexity of procedures.
- Risk of information systems – related to the 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.
- Organizational risk – risk of inappropriate structuring and allocation of duties, lack of appropriate procedures.
- External factors – abuse, fraud, etc. with external manifestation.

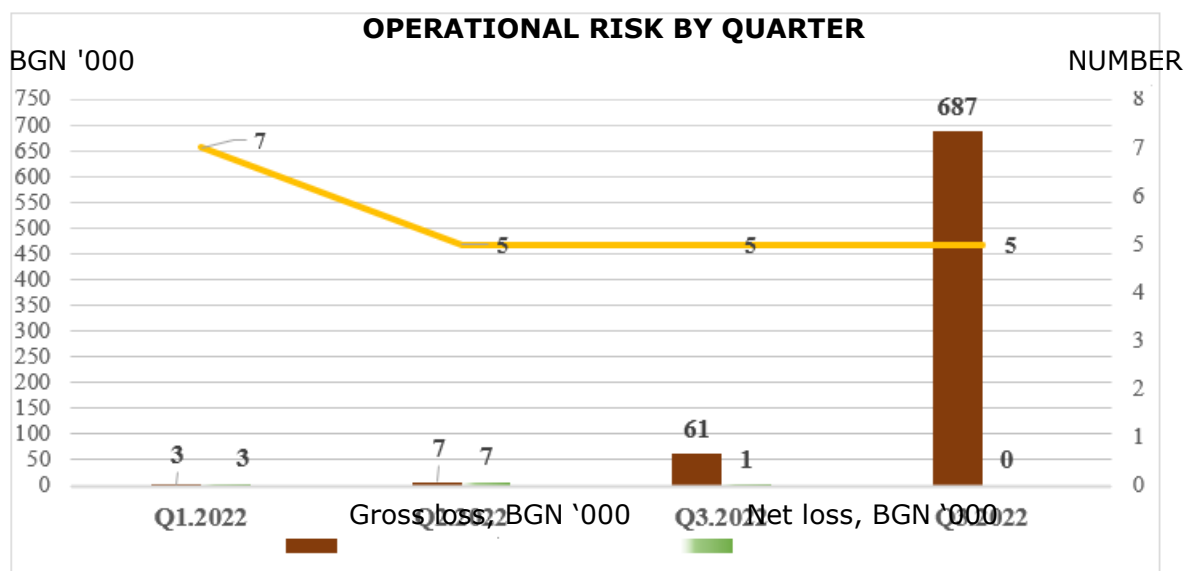
The operational risk management in the Bank is carried out in compliance with the approved "Operational Risk Management Rules" which are consistent with the requirements of the regulatory framework. Summarizing and analysing the information on the operational risk is performed by the Risk Control Directorate through an implemented system for registration of operational events by all structural units in the Bank, as well as by analysing the information for self-assessment on the operational risk by the structural units. The operational risk management in the Bank is carried out by the Risk Control Directorates, the SIAU and the heads of all structural units. A specialized internal body in the field of operational risk management and control is the RMB, which is headed by a Chairperson and members appointed by the Management Board of the Bank.

The Internal Rules for Operational Risk Management define the methods for classification and assessment of operational risk, the principles for its monitoring and management, as well as the competencies, relations and responsibilities of the units involved in its management at the Bank. Appropriate mechanisms and requirements have been put in place to implement the current standards of operational risk management and control. The main focus is on recognizing the operational risks in time so that to prevent them or mitigate their effects, as well as on preventing their recurrence in the future, while increasing the rate of voluntary reporting of occurring operational risk events.

Operational events are classified by risk categories and business lines in compliance with the requirements of EBA (European Banking Authority) and BNB.

In 2022 the event with the largest gross loss amounts to BGN 668 thousand (the loss is fully reimbursed by the insurer).

In 2021 the event with the largest gross loss amounts to BGN 246 thousand (net BGN 246 thousand, the event is related to legal risk).



Period	
Q1 2022	Highest gross loss – BGN 2 thousand (BGN 2 thousand net)
Q2 2022	Highest gross loss – BGN 6 thousand (BGN 6 thousand net)
Q3 2022	Highest gross loss – BGN 246 thousand (BGN 246 thousand net)
Q4 2022	Highest gross loss – BGN 668 thousand (BGN 0 thousand net)

Country risk

Country risk is the risk of loss resulting from a government deed, economic, political or other event occurred in the country and beyond the control of the Bank as a lender/investor. The elements of country risk include: transfer risk and currency conversion; sovereign risk resulting from the insolvency of the country to which the institution has assumed exposure; investment and legal risks; risk of systemic banking crises or country-specific economic risks.

The Risk Control Directorate exercises monthly control and monitoring of the state limits and sends information on the free limit to the Large Corporate Customers (LCC) Directorate, the Credit Risk Management (CRM) Directorate, the Liquidity and Investment Services (LIS) Directorate, the Problem Receivables Directorate, the Operations Directorate and the Sales and Coordination of Branch Network (SCBN) Directorate.

LARGE CORPORATE CUSTOMERS

In 2022, the unit responsible for large corporate customers in the Bank, i.e. the Large Corporate Customers Directorate, continued the successful development of the segment. New corporate customers were attracted to the Bank, and good relations with the current customers are maintained.

Investbank JSC continues to upgrade its practice of attracting corporate customers by offering quality service, flexible solutions and through the professional qualities of its employees able to review, analyse and finalize transactions in short terms. Due to these features, our customers see Investbank JSC as a partner for their projects, growth and development plans in 2022, thus laying the foundations for a more successful year 2023 both for Investbank JSC and for the corporate customers of the Bank.

A net growth of loans was realized in 2022 in the Large Corporate Customers (LCC) segment compared to the end of 2021. The budget set for 2022 for interest revenues and fee revenues was overperformed for each of the positions. Interest revenues report over 120% performance and revenues from fees under loans and guarantees report over 115% performance.

Over the past year, the trend for cross-selling of products and services to customers in the segment continued, which is associated with additional profitability from transactions, foreign exchange transactions and retail lending to employees of the customers in the LCC segment.

Overall, year 2022 was successful for the Bank in the large corporate customers segment, which is largely due to the professionalism of the team responsible for the management and development of the LCC portfolio, as well as the mutual efforts of all units and persons involved in the process.

RETAIL BANKING

The operations of Investbank JSC in 2022 in the field of retail business was also affected by the subsiding Covid-19 pandemic. The Bank successfully completed the work on the programs of the Bulgarian Development Bank AD (BDB AD) to guarantee interest-free loans in protection of people deprived of the opportunity to work due to the Covid-19 pandemic and the Program of BDB AD for portfolio guarantees in support of the liquidity of the enterprises affected by the emergency situation and the epidemic of Covid-19 (Recovery Program).

In the other operations, the Bank continues the trends also valid for 2021 in this segment – the high interest in lending continues in 2022, which is mainly due to the low

interest rates on newly issued loans, as well as the extremely fierce competition between banks in the field of retail banking.

Investbank JSC continues to apply **more adequate and effective measures** regarding credit risk monitoring and control.

The operations in 2022 were focused on a number of main areas:

- Enrichment of the range of products relevant to customer demand. Creation of new package programs;
- Focus on full customer service, offering packages including utilities, internet banking and an account for each customer.
- Focus on attracting new customers from state and municipal enterprises, as well as employees from large companies in the country. Development of specialized loan offers for employees of these corporate customers.
- Realization of targeted marketing campaigns for the sale of mortgage and consumer loans and credit cards.
- Organization, implementation and reporting of competitions between the employees and the Financial Centers for stimulating the activity and the interest for the realization of the products and services offered by the Bank.
- Update and modernization of the work processes at the Bank.
- Trainings of the employees in the Bank's branch network regarding new products, qualitative structuring of the loan transactions, which will respectively lead to an increase in the Bank's business.

LIQUIDITY AND INVESTMENT SERVICES

Asset and liability management

The Bank's assets and liabilities are managed in three main areas: money market, foreign exchange and financial instruments trading. The presence of a network of counterparties, local and international banks, ensures optimal market exchange rates and prices for all transactions.

The Bank mainly trades in BGN and EUR.

Priority is given to ensuring the Bank's liquidity.

The proper management of cash flows and increased customer deposits did not allow the institution in 2022 to suffer from need for cash.

If necessary, the Bank has agreed limits with financial institutions to provide financial resources for borrowings from the interbank money market. Partnership relations with several banks were restored and new ones created. Furthermore, Investbank JSC started negotiations for a repo limit.

The Bank reinstated the repo transaction instrument, creating relevant software-backed rules and concluding a transaction worth BGN 10 million.

Liquidity management is also linked to the maintenance of minimum required reserves in accordance with the regulatory requirements. During the past year, Investbank JSC maintained its minimum required reserves within the required amount.

Another major activity in this regard is securing the budgetary funds deposited with the Bank by the respective institutions.

Management of securities portfolios

The result of the management of financial instrument portfolios for Investbank JSC, reflecting the impact of all revenues and expenses, including interest ones, for year 2022 is positive, consistent with market conditions, and the portfolios are structured on the basis of the expected changes in the market indicators in the relevant period of holding financial instruments. The net result reported at the end of the year compared to the level of 2021 shows an increase in the net profit for the period. The average yield to maturity is 0.82%, amid negative interest rates of the European Central Bank until mid-July 2022, when interest rates became equal to 0%, rising to 0.75% in September.

Indicators	31/12/2020	31/12/2021	31/12/2022
1. Securities portfolio	514,157	558,728	678,871
2. Net revenues on securities portfolios	2,911	1,899	5,692
2.1. Interest revenues from securities management	1,601	1,792	4,408
2.2. Net revenues from securities management	1,310	107	1,284
3. Yield of securities portfolio	0.57%	0.34%	0.84%

Net income on foreign currency operations

For 2022, Investbank JSC reports net revenues from foreign exchange transactions and the revaluation of foreign currency balances in the amount of BGN 2,3 million compared to BGN 2.5 million for 2021.

The decrease in revenues compared to the end of the previous year is a consequence of the termination of foreign exchange trading in USD, conditioned by the closure of the Bank's correspondent accounts in this currency, as well as the realized foreign exchange transactions with customers mainly in EUR.

The revenues mainly come from the efficiency achieved in the management of the Bank's foreign currency assets and liabilities.

Bondholders' trustee bank

This year too, Investbank JSC continued its development as an investment intermediary. The Bank is a preferred registration agent for many customers nationwide.

As at 31 December 2022, Investbank JSC is a bondholders' trustee bank of 6 corporate bond issues; reports on the activities of the companies are submitted within the legal time limits to the FSC and BSE, in accordance with the relevant corporate events. The revenues from this activity on an annual basis amount to BGN 31 thousand, excl. VAT.

CARD BUSINESS

Card operations

Investbank JSC is permanently moving on the path to digitization of its banking services. After the successful launch of mobile banking in 2021, the digitization processes were focused on offering new card services. In 2022, Investbank JSC offered its customers new digital products – Fast Credit Card, which can be applied for both at the desks in the offices and through the Bank's official website, and Fast Debit Card, which can be applied for through the Bank's online channels. Fast card products can be received at a specified address, for which customer is subject to verification before the activation of the card.

In 2022, the Card Business Directorate carried out research and launched a project for the implementation of digital wallet, i.e. Wallet, through the Apple Pay and Google Pay platforms with the joint participation of Mastercard and their financial support. The implementation of this new service will widen the functionality of the Bank's mobile and internet banking and will enable our customers to make payments using their smart phone, as well as to carry out transactions on ATM devices. The implemented Wallet of Apple Pay and Google Pay will increase the Bank's rating and it will rank among the largest banks in terms of services offered.

The Bank strives to improve the customer experience by offering fast, secure and convenient services. In this regard, research has also been carried out on additional options for managing bank cards through digital channels, namely online access to block and unblock a bank card, change transaction limits, request a new PIN in case it is forgotten and reissue a bank card in case of loss or theft.

The process of implementation of these two projects started in 2022 and is expected to be finalized in 2023.

Investbank JSC is a fully certified issuer and acceptor of cards and accordingly support payment transactions, using the secure Internet payment technology 3D Secure (3D secure protocol and Visa Secure/ Mastercard Identity Check), having fully complied with the regulatory requirements for the application of "strong customer authentication" in online card payments. The Bank applies a wide range of authentication methods for its cardholders, including biometric authentication when paying online through the BORICA mobile application.

The cardholder authentication process provides more data for increased security and minimizes losses from fraudulent and contested online transactions. The use of biometric features contributes to a high level of security and an improved customer experience.

For another year, Investbank JSC implements a Cash Back Loyalty Program for credit cards of cardholders being natural persons and legal entities with authorized credit limit. The Cash Back program is automated and is applied every six months. It stimulates credit card payments by reimbursing an amount of 0.5% of the turnover for transactions classified as "payment at a merchant".

As an issuer of Mastercard and VISA cards, the Bank supports the VISA Direct and MoneySend services, allowing card-to-card express transfers of funds within 30 minutes of authorization.

In its card portfolio, Investbank offers its retail customers a joint product with the insurance company Bulgaria Insurance AD – a co-branded debit card under the name of Debit Mastercard Bulgaria Insurance. The product combines simultaneous access to the customer's funds and included conditions of additional health insurance valid nationwide.

The campaign to stimulate the issuance of Mastercard credit cards, launched at the end of 2021, continued until mid-2022 with cash rewards for the employees who achieved the highest sales results during the campaign period. This activity helped to increase the motivation of the employees in the banking offices and to direct their attention to the sale of card products that Investbank JSC successfully places on the market.

Terminal network

Investbank JSC has a completely renewed ATM network, which provides convenience and the optimal level of 24/7 service to their customers. Part of the ATM devices offer a deposit function, which allows the Bank's customers to deposit funds and operate them in their accounts less than 30 minutes after their deposit, regardless of whether the deposit is made during working hours, at night or on weekends. Customers are able to make contactless transactions on all devices. These services are available through the installed new-generation high-tech ATMs with 15-inch touch screens and wider operational functionality. The Bank's ATM network is managed through the new software of BORICA. This allows real-time monitoring and response to registered accidents on ATMs. At the end of 2022, the total number of installed ATM terminals is 76. Investbank JSC is making efforts towards expanding its ATM network in 2023. In 2022, new screens (distributive) for our ATMs were prepared which give an individual vision to the Bank. The new software development is distributed to the entire ATM network.

Investbank JSC maintains and expands a network of physical and virtual POS terminals. The number of the Bank's POS terminals at merchants in 2022 increased by 16.64% under the conditions of economic crisis and rising inflation. All physical POS terminals of the Bank support dual chip/stripe interface and VISA/Mastercard wireless technology. The POS terminal network is constantly updated in accordance with the regulations of the VISA/Mastercard payment schemes and our terminals support contactless functionality, providing users with additional convenience, speed and flexibility. The new POS terminals offered to our customers are based on the model of outsourcing with BORICA, which reduces the investment costs of their purchase, and the costs of the necessary regulatory certifications are distributed among the banks participating in the project with BORICA. All POS terminals provided under the outsourcing model have individual colour screens branded with the name of the Bank. In 2022, the Bank completed a project to implement a virtual POS/merchant in EUR, which expanded the range of services to customers developing in e-commerce.

The card activity and the alternative routes used for the implementation of the electronic services offered by Investbank JSC continue to develop in compliance with all regulatory requirements of the payment card schemes.

The Bank has a real-time card transaction monitoring system to prevent suspicious transactions. In 2022 the system was updated in order to detect internet transactions without an authentication method in place, which reduced the number of unauthorized card transactions.

PAYMENT SERVICES

Investbank JSC offers its customers the following types of transactions in local and foreign currency:

- credit and debit transfers in BGN;
- receiving and issuing credit transfers in EUR;
- documentary operations - letters of credit, collection, bank guarantees.

Investbank JSC is included in the list of banks that can be trustees under the Social Security Code.

In 2022, the Bank continued its partnership with the German company Raisin DS GmbH to attract time deposits from natural persons in Germany.

The Bank performs foreign currency transfers through its correspondent accounts, the TARGET2 payment system and credit transfers in the Single Euro Payments Area (SEPA). As a provider of payment services, when executing EUR payment transactions within the EU, Investbank JSC complies with and applies the requirements of both the PSPSA and the BNB, as well as Regulations 260/2012 and 2019/518. The Bank takes active part in the activities related to the TARGET2 migration project, as well as in the SEPA scheme development process.

In 2022:

To carry out its operations in the field of foreign currency payment services and documentary operations, Investbank JSC has opened correspondent accounts with the following banks:

CORRESPONDENT BANK	SWIFT / BIC
EUR	
INTESA SANPAOLO SpA, MILAN	BCITITMM
LANDESBANK BADEN-WÜRTTEMBERG, STUTTGART	SOLADEST

Investbank JSC has established SWIFT RMA with over 160 banks in different geographical regions worldwide.

Investbank JSC participates in the following payment systems and is in partnership with other payment service providers as follows:

- National payment system for servicing customer transfers for amounts up to BGN 100,000 (BISERA 6);
- Real-time INterbank Gross-settlement System (RINGS) in Bulgaria;

- Bank Organization for Payments Initiated by Cards (BORICA);
- Trans-European Automated Real-time Gross Settlement Express Transfer System in Euro (TARGET2);
- Single Euro Payments Area (SEPA) as indirect participant
- Easy pay AD.

The Bank's employees are constantly upgrading their qualifications in the field of payment services and documentary operations by participating in trainings and workshops arranged by counterparties in Bulgaria and foreign correspondent banks.

INFORMATION TECHNOLOGY

Development of information systems

In 2022 the information systems in Investbank JSC were developed under the specifics of an external environment still marked by the continuing emergency situation announced due to the spread of Covid19. Regardless of the external circumstances, the Bank continues with the consistent renewal, sustainable upgrading and phased modernization of its internal and external IT services and systems, while preserving the operational functionality and security for both the Bank's employees and customers.

In order to expand the range of products and services for the Bank's customers, during the period active actions were taken in the field of optimization, development and upgrading of the functionality of the basic banking system, the card system and the Internet banking system. The development and offering of innovative value-added products for customers and new multifunctional solutions in banking continues, such as the implemented iToken solution in mobile banking, the development and launch in real environment of fully online opening of current accounts and debit/credit card, as well as the integration with Bulgaria Insurance regarding the automatic conclusion of Accident and Illness insurance for fast consumer loans. The multibanking system was prepared for pilot implementation and installation.

After meetings with Mastercard and BORICA, work on the project for the Bank's Digital Wallet started.

The implementation of the project for the replacement of the ATMs with devices of a new generation included in the new BORICA system - Way4 was successfully continued.

In the field of payment systems, the migration of package payments in BGN - BISERA 6 to ISO 20022 XML was successfully carried out and preparations for including the Bank in the instant payments system were launched.

In connection with the regulatory requirements, a project was implemented to provide reporting information to the Bulgarian Deposit Insurance Fund (BDIF) (BNB) in a new XBRL format.

In accordance with the project for digitization of the internal banking processes, the module "System for electronic monitoring of orders, contracts and invoices in the Head Office" was developed and put into test mode.

The project of implementing the new HSMS and updating the infrastructure of the card system was successfully finalized in the field of electronic channels protection.

During the reporting period, the Bank's official website was successfully moved and internal and external perimeter protections were configured. As a result, the protection of the corporate website and the electronic services integrated therein was significantly improved. After the release of the server, a new website of Festa Holding was moved, set up and put into operation in the hosting.

Along with the projects for the introduction and development of the main systems, the Bank also continued to optimize and upgrade the internal information infrastructure. During the period, new servers and storages were delivered, configured and included in the production system. In parallel with the renovation of the communication equipment, the project to introduce IP telephony in the branch network was completed and activities for the implementation of a new monitoring and video surveillance system were started. The UPS devices were replaced in a number of branches of the Bank and the gradual renewal of the computer equipment continued.

Projects in the field of software and technical support - 2023

All projects launched in 2022 are to be developed and finalized in 2023, with efforts focused on the strict implementation of the planned schedules.

At the same time, the implementation of other projects planned for the year is forthcoming:

- Projects relating to online processes relating to provision of account information and payment initiation services, digital portfolio of accounts, etc.;
- Projects related to the inclusion of the Bank in the systems for immediate payments, transaction tracking, statistical information on card payments, number of cards and terminals, etc.
- Projects related to the preparation for the introduction of the EUR;
- Digitization of new intrabank document processes;
- Analysis and implementation of specialized systems and tools for the purposes of optimal use of managerial and analytical information.

DIGITAL SERVICES

Development of digital services and products

The development of the digital services and products in Investbank JSC in 2022 took place in compliance with the adopted Strategy for Development of Remote Sales Channels in Investbank JSC.

The Bank has successfully implemented a number of projects related to the digital transformation of the Bank and offered its customers new and innovative services. The new Ibank mToken mobile application for bank transfer authorization was released to customers in early 2022. It is intended for both natural persons and legal entities who are customers of the Bank. Its functionalities offer the possibility of signing transfers even when the device on which it is installed is not connected to the Internet. Selecting to use Ibank mToken, the user can authorize transfers to any customer to whom the user is allowed access and in accordance with the assigned rights.

A new module for PP Bankera 3 providing a higher level of protection against fraud in online payments via the Internet and mobile banking was launched.

Projects to digitize the banking products Fast Credit Card and Fast Online Debit Card were completed. The fast credit card application, scoring and approval process is

available both at the bank offices and online through a special platform. Scoring is two-stage.

The Fast Online Debit Card product was launched for the Bank's customers in October 2022. A special platform has again been created for this purpose. The design of both platforms is tailored to the requirements of the products and is meant to be consistent with the overall vision of the corporate website.

Connectivity with Bulgaria Insurance was built for automatic insurance offering for fast loans. Special attention was paid to the online product pages, as well as to advertising materials and videos

The employees of the Call Center were acquainted in detail with the new functionalities and applications.

The Directorate published on the Bank's internal website a number of manuals and brief descriptions of the new functionalities and applications in order to facilitate the front office employees.

The project for Multibanking functionality in Internet and mobile banking is in the final stage of being released to the customers. The project is implemented jointly with Iris solutions and BS technologies. Multibanking is a new service in Europe that enables the Bank's customers to easily monitor their balances and movements on their accounts in other financial institutions and easily operate all their funds from one place. By operating with their payment accounts in various banks and financial institutions through the platforms of Investbank JSC, the customers significantly ease their efforts, save time and receive up-to-date information on their financial situation. Multibanking enables the Bank, based on the access permissions to the customers' financial data, to understand their needs and thus to offer them suitable products.

Projects in the field of digital services - 2023

The implementation of the important projects planned during the year is forthcoming:

- Developing the functionalities in the Internet banking service /instant payments, local taxes and fees, card management, etc./
- Developing the functionalities in the Mobile Banking application.
- Developing the functionalities in the Mobile Token application.
- Developing new online products.
- Developing the remote customer identification and remote signing of documents for the Bank's customers.

- Customer Service Center - upgrade / new system
- Digitizing the front office process
- Digitizing the internal processes
- Joint projects in the holding - product cross-offering

INFORMATION SECURITY

With the continuous and dynamic development of technology and the globalization of financial services, the frequency and forms of attempts at malicious interference and misappropriation and use of information in the banking sector are increasing dramatically. Therefore, Investbank JSC (the Bank) considers it extremely important to preserve the availability, confidentiality and integrity of this asset in view of its direct impact on the Bank's business and the scale of its potential adverse effects thereon.

Information security is an indispensable element of the unified banking security concept applied by the Bank. It is designed to protect information from a wide range of attacks in order to ensure business continuity, minimize operational risk, and increase return on investment.

The document of Information Security Policy (Policy) aims to define the minimum requirements for maintaining an acceptable level of risk for the Bank in terms of information security, as well as and the obligations of the management and the employees for the protection of the information assets of Investbank JSC.

In Q4 2022, the periodic review and update of the Policy was carried out, and the new revision was adopted by the Bank's Management Board. The Bank's management sets the following key goals in terms of information security:

- ensuring compliance with the applicable legislation and regulations;
- ensuring continuity of processes while maintaining the integrity and accessibility of information;
- minimizing the information security risks causing loss or damage to the Bank;
- providing the necessary resources to support the Policy and increase its effectiveness;
- providing information to and training employees in information security.

The document defines a regulatory framework that should be complied with when developing additional rules and procedures regarding the implementation of specific controls related to the information security.

In the course of its functioning, Investbank JSC could face the challenges of situations of short-term or longer-term failure of critical business processes. The reasons for this could be of different nature - natural disasters, technical accidents, malicious human actions, etc. The existence of such threats to the Bank's activities necessitates the implementation of preventive measures, creating and maintaining a plan of action in case of more significant incidents.

The Business Continuity Plan - BCP, by its very nature, is a logical plan for the organization of the Bank to restore partially or completely interrupted critical (core, basic) banking processes in the shortest possible time after a disaster or a prolonged crisis.

Investbank JSC develops, documents, tests and maintains an up-to-date Business Continuity Plan (BCP), which defines the responsibilities and obligations of the banking units in the event of any possible incidents that could jeopardize the performance of the Bank's core activities.

The main objective of the Business Continuity Plan of Investbank JSC is to minimize financial losses in the event of an incident and to ensure timely recovery of critical business processes by creating the necessary prerequisites for:

- providing services to the customers of the Bank and its counterparties during and after the occurrence of the incident;
- maintaining business activity in the locations affected by the incident;
- reducing the negative effects of the incident;
- preventing disorder in the event of an incident.

Risk management for the security of information and communication systems is part of the network and information security management policy at Investbank JSC (the Bank). Risk management is inherently a set of processes for identifying potential threats to the information assets involved in the provision of electronic services, analysis and assessment of the risks posed by these threats.

Risk analysis and assessment is a documented process in which the levels of unacceptable risk and the responsibilities of the persons involved in the various stages of the process are regulated. Risk analysis and assessment operations are performed in compliance with a methodology that guarantees comparable, relatively objective and repetitive results.

HUMAN RESOURCE MANAGEMENT

Human resources management and development activities in 2022 were focused on improving the working environment, working conditions and optimizing processes in order to achieve high efficiency, quality and competitiveness.

The challenges facing the Human Resources Management Directorate were twofold – improving the employer brand, reducing turnover levels and achieving competitive levels of compensation and benefits for employees, while maintaining reasonable levels of costs within the framework of the adopted strategy for 2022.

The dynamics of the labour market, characteristic of the last two years, have been preserved, adding to the shortage of personnel the tendency that the competing companies in the sector undertake several increases in remuneration within the calendar year in an attempt to compensate for the growing inflation rate. On the other hand, job seekers raised their expectations driven by the sense of uncertainty and impending financial crisis.

Investbank JSC responded to these challenges by taking measures at several stages – analysing remunerations compared to the market ones, introducing additional benefits such as food vouchers and adopting new remuneration levels for the employees in the branch network. The efforts in this field gave results and during the year we managed to attract highly qualified candidates to key units of the Bank.

The training and development program was elaborated to ensure the achievement of the strategic goals for the period 2022-2024. Certification trainings and preparation of managers for the transition to work under the conditions of the new requirements of the ESG standard were included. Returning to the in-person form of training improved the results and the employee engagement. During the year, several in-person trainings were held for employees in the branch network which proved their effectiveness with the excellent financial result of the Bank for the past year.

The successful use of the internal platform for e-training of employees on topics related to regulatory requirements, prevention of money laundering and conflict of interest continued successfully. During the calendar year, 95 employees of the Bank were enrolled in external trainings related to regulatory changes, professional and personal development. All newly appointed employees involved in cash operations attended trainings under BNB Ordinance No. 18 and in Cash Foreign Exchange Transactions. The e-learning platform was used effectively to conduct 5 internal trainings, which were attended by 1,317 employees.

The internship program attracted many students, some of whom successfully passed all stages and continued their careers in Investbank JSC.

REAL ESTATE

Asset realization

The real estate market in 2022 indicated a 15% decline on an annual basis, but still provides good transaction volumes. The residential segment is considered to be the most affected, while that of luxury apartments and houses are relatively unaffected. The serious growth in prices at the beginning of the year, the high inflation, the general political and economic instability internationally and nationally, the expected rise in mortgage interest rates are the main factors determining the trend. Gradually, supply is catching up and is in the process of exceeding demand. At the same time, in the first half of 2022, the construction of 14,859 new homes was started in the country, 6,975 of which in Sofia, which is the largest volume since 2010.

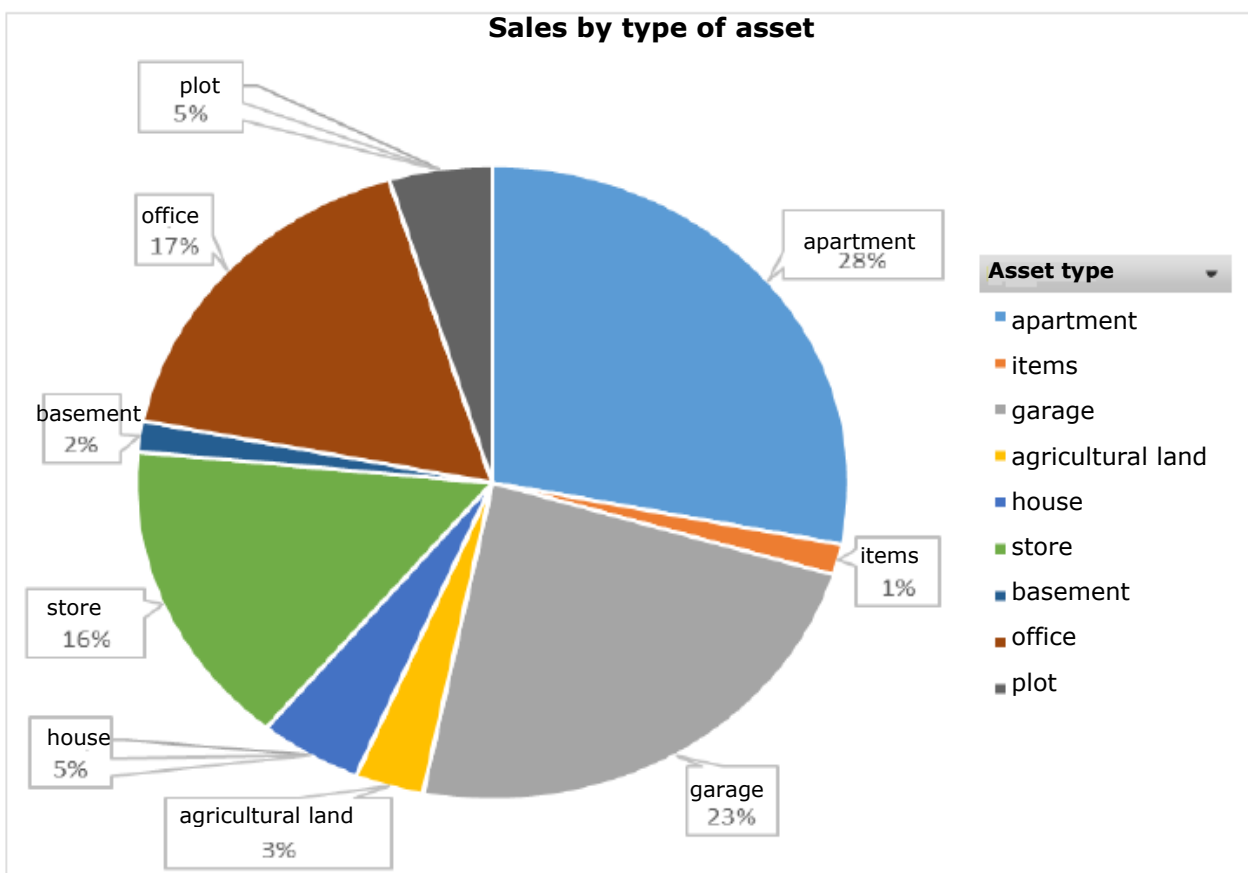
Most investment purchases are for the purpose of inflation protection and possible rental. The rental yield is most often between 2 and 3%. The rental market, which was severely affected by the pandemic, has already recovered to 2019 occupancy levels and is currently stable, with rent increases in the range of 10-15% for new tenants.

Against this background we can note the following:

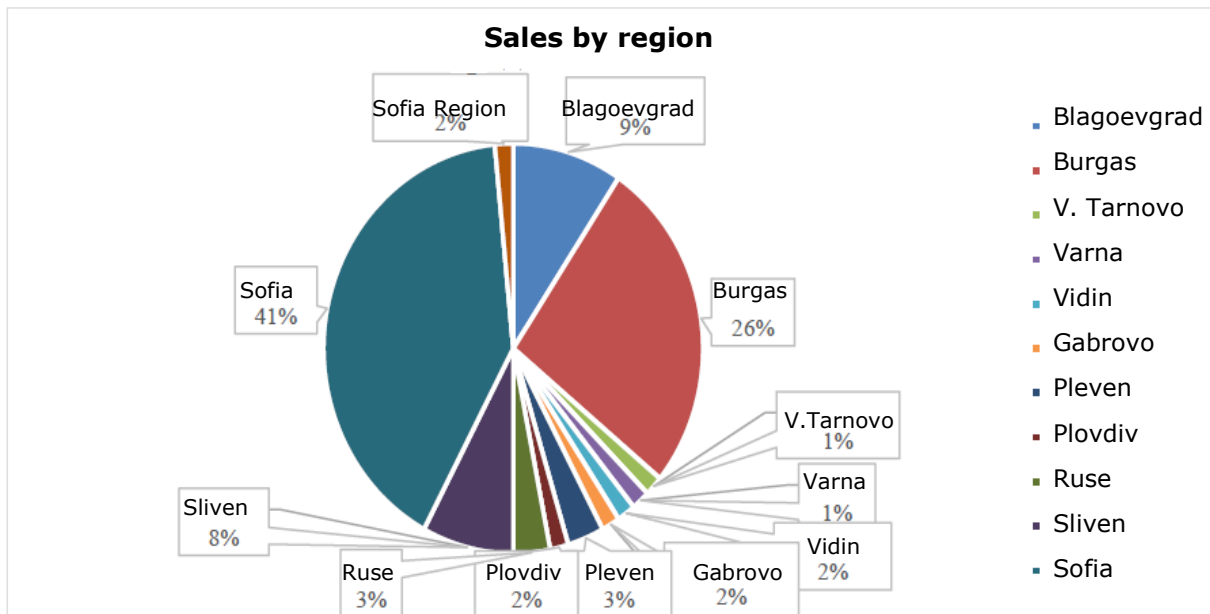
During the year, 106 assets were sold, with a total book value of BGN 28,501,939.

The total sale price of the sold assets is BGN 29,888 thousand, and the result of the transactions is in the amount of BGN 1,335 thousand. The plan for the sale of assets laid down in the budget of Investbank JSC is fulfilled at 120%.

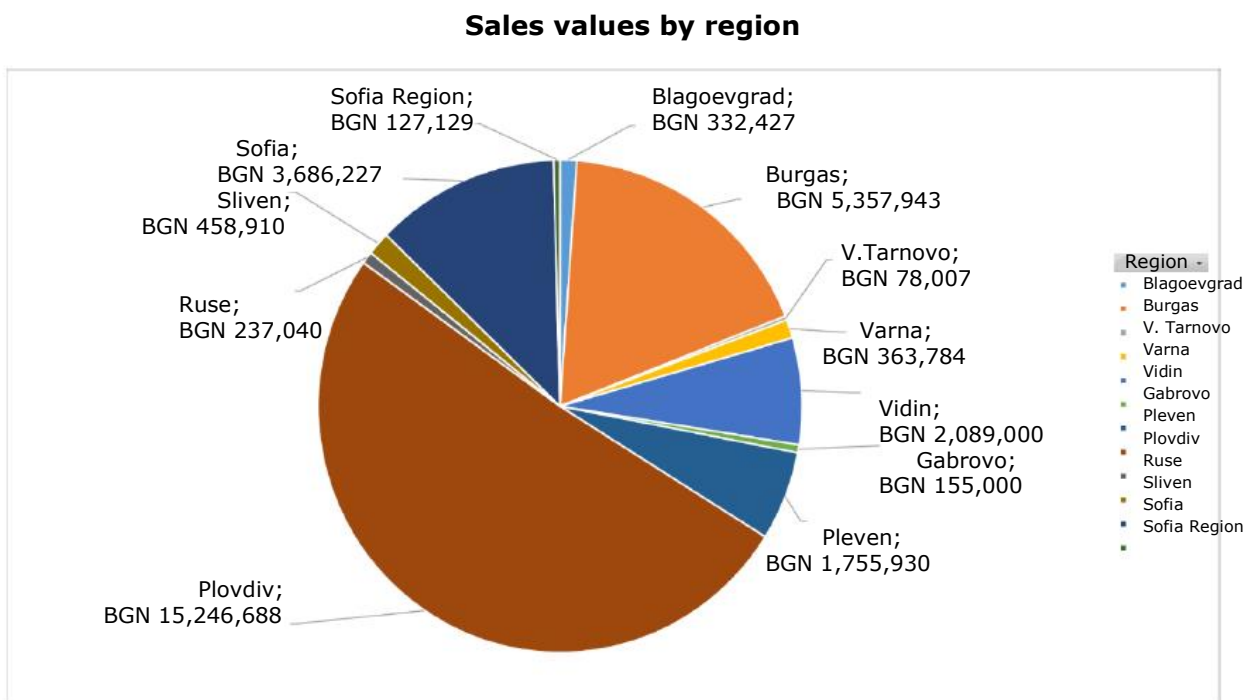
The predominant percentage of transactions were sales of residential properties, garages, offices and stores.



By region, the percentage of transactions was mainly distributed in Sofia, Burgas and Blagoevgrad Regions:



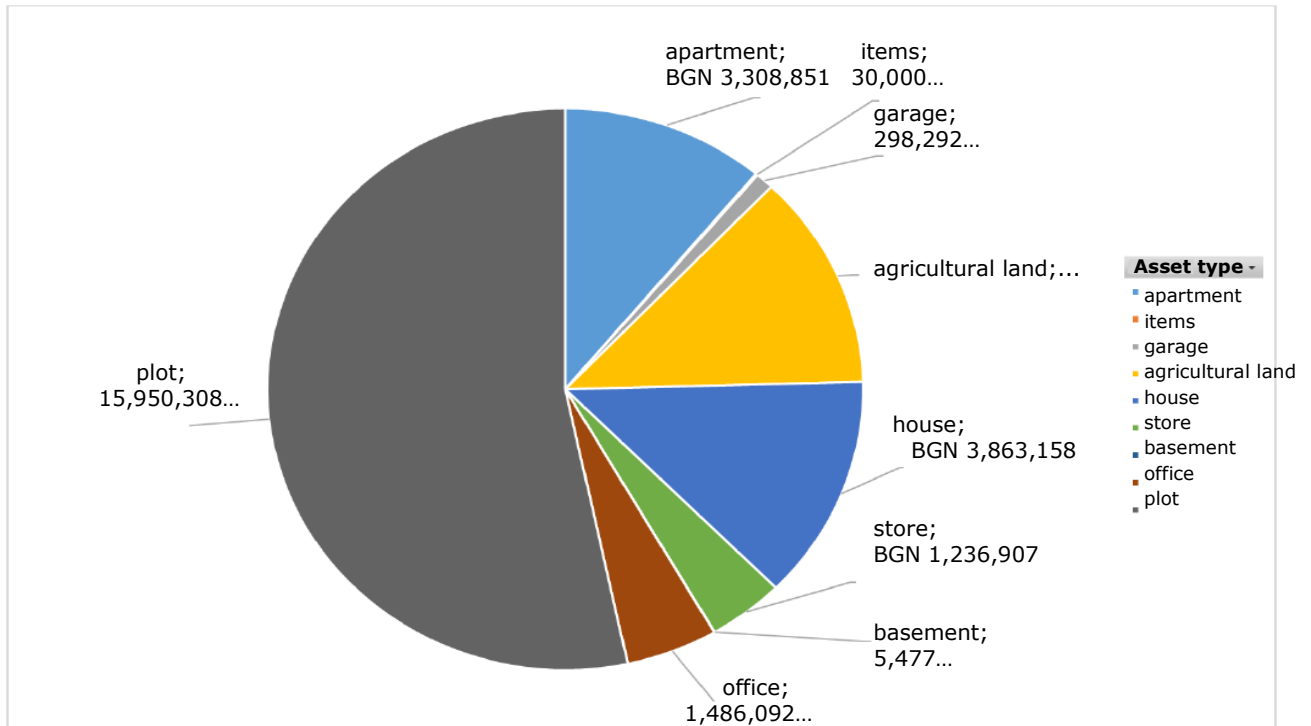
The largest volumes of completed transactions were in Plovdiv, Burgas Region, Sofia, Vidin and Pleven Regions:



The volumes distributed by types of assets are as follows - plots, houses, apartments, stores, offices, etc.:

The unit was focused to work in the following areas:

Sales values by type of asset



- Active offering of properties for sale and rent;
- Preparation of opinions on market prices of properties in case of sale and acquisition;
- Coordination of the Bank's centralized asset insurance;
- Operational relations with tenants;
- Regulation of relations with condominiums;
- Cost optimization and asset quality improvement.

CORPORATE COMMUNICATIONS

In 2022 the Directorate primarily focused in the active communication of the ongoing process of digitalization of the Bank and the introduced modern solutions and new products in the portfolio of Investbank JSC. The Corporate Communications Directorate fully manages the communication aimed at both customers and partners, as well as employees, regarding the establishment of the financial institution as a responsible and modern bank.

During the year, the Corporate Communications Directorate customized the screens of the Bank's ATM devices and developed a design for both the Ibank mToken mobile application and for the two online platforms: for application for a credit card and opening a current account and debit card online. Investbank JSC received an award in the Innovative Service category at the annual B2B Media Awards. The award was presented at a ceremony to honour the winners of the b2b Media Annual Awards 2022, and the financial institution won with the online credit card application platform.

In order to increase the visibility of the new digital services of the financial institution and increase sales, the Directorate conducted a number of large-scale advertising campaigns,

using a variety of channels and advertising forms according to the specifics of each particular banking product. There was also an active presence in strategically selected media with articles useful for the end user, providing information about the Bank and its products.

Media monitoring – The Directorate carries out daily monitoring of the print and digital media, as well as monitoring on specific topics, when necessary. On a daily basis, the Bank's Management was informed about the important current news on topics related to banking institutions and business.

Internal communications – The internal corporate communication during the year was actively carried out, following the mission to keep the Bank's employees informed, confident in the decisions taken by the institution and motivated to achieve maximum results in their work. In addition to detailed information on the digital products and other innovations introduced by the financial institution, the employees were promptly informed about the achievements of their peers at the financial centers in Sofia and nationwide.

Advertising – Investbank JSC implements its annual advertising strategy, combining traditional advertising forms with innovative and digital ones. The Bank uses various channels in order to saturate and diversify the submitted advertising forms, namely: positions in established print media with PR materials and native articles, participation of employees in conferences, advertising on social networks, banner advertising on high-ranking websites, Google search and Google display advertising and last but not least – radio advertising.

The main focus of the Bank's advertising activities in 2022 was both on product advertising of fast online consumer credit and deposit products, and on the promotion of the Bank's new online products and services, namely: mobile token application, online platform for credit card application and microsite for online opening a current account and debit card. A leading Bulgarian influencer took part in the advertising campaign of an online credit card, and the game "Apply for a credit card completely online and participate in a raffle with prizes" was held.

Internet advertising is realized both in social networks, Google search and Google display, and through banner advertising in a number of specialized websites that cover the target audience to the maximum extent. Radio advertising was also used in addition to the above-mentioned channels in the advertising campaign of an online deposit product. The Bank also expanded its advertising activities in the field of contextually offered brand content with articles practical for the end user in niche media – author's materials, articles, interviews. This type of projects, which reach a large number of users and are perceived with a high degree of trust due to the added value of their content, were implemented jointly with national and specialized business publications.

The Directorate periodically provides all financial centers in the country with the necessary advertising printed materials for the Bank's products and services.

Online communications

In order to optimize the results of its activity in the social networks, the Directorate made an analysis of the current trends and jointly with the digital agency updated and specified its strategy. We modernized our presence in the social networks by running campaigns with successful influencers. We will continue working for building a strong brand identity through new campaigns in the field of Corporate Social Responsibility by supporting projects important to society.

Relations with media and other key partners

The Directorate maintains and expands its partner network of media, advertising and digital agencies, as well as other types of counterparties.

Investbank JSC supported the contest for clean and transparent journalism Web Report in its capacity as a General Sponsor. The contest was organized by dir.bg and was held with the official support of the Union of Bulgarian Journalists.

The Bank was among the sponsors of one of the major folklore festivals in Bulgaria, Folklore Izvor, which is to be held in the village of Tsarevets, Svishtov Municipality. The initiative is in the spirit of the cause and activity of Investbank JSC for the preservation and development of the Bulgarian spiritual and cultural values. Bearing this in mind, the Bank also supported the municipality of Vetrino on the occasion of the municipality's holiday and the celebrations organized by it.

In support of the contemporary Bulgarian art, Investbank JSC, jointly with Oborishte 5 Gallery, arranged a competition for young artists MOST. For 2 months, the gallery received works by young authors to be evaluated by a jury. As a award, a joint final exhibition was arranged for the six finalists.

An additional solo exhibition was organized specifically for the finalist selected by Investbank JSC in the lobby of the Festa Sofia Hotel.

In June, Investbank JSC was the General Partner of the financial conference "The Noise of Money". A representative of the Bank participated in the event, together with key Bulgarian and foreign financial experts and economists. In October, the Bank also supported the Digital Trends event, of which it is a partner. The forum brought together experts in management positions in global companies, as well as some of the most successful IT entrepreneurs from Bulgaria and the region who operate at international level. A representative of the Bank took part in the Fintech panel on behalf of Investbank JSC.

As a sign of its long-term fruitful relations with its partners, Investbank JSC supported the holding of "Mr. and Mrs. Economics" and "Banker of the Year" ceremonies, as well as the "Banks and Business" conference.

At the end of the year, the financial institution organized the purchase of gifts and the holding of a Christmas party for the children of two family-type centers at Sofia Municipality intended for children without disabilities – Paisiy Hilendarski and Sofroniy Vrachanski.

In 2022 the Bank continued its traditional partnership within the charity initiative Bulgarian Christmas, held under the patronage of President Rumen Radev. In 2023, the Directorate will continue to develop fruitful media and strategic partnerships. This will allow not only diversity and maximum efficiency in the upcoming campaigns of the Bank's products and services, but also the implementation of socially significant projects.

RESEARCH AND DEVELOPMENT

The Bank does not carry out any research and development operations.

DISCLOSURE RELATED TO SUSTAINABILITY IN THE FINANCIAL SERVICES SECTOR (ESG, ENVIRONMENTAL, SOCIAL AND GOVERNANCE)

After the adoption in 2015 of the United Nations 2030 Agenda for Sustainable Development, it formed the basis of the strategy for the successful development of companies and became an essential element giving meaning to their goals and activities. The established goals for sustainable development (17 goals set in the UN Agenda) become the ideal analytical network for presenting sustainable and growing economic models aimed at future. Committed as a financial business, we work with the three approach pillars – focus, complementarity and impact measurement in order to show:

- The joint search over time for environmental and social results and financial profitability, while simultaneously controlling the emergence of negative external factors in a timely manner;
- The adoption of a clear and transparent methodology describing the causality mechanisms through which our strategy contributes to the achievement of the environmental and social objectives defined upstream, the relevant period of investment or financing, as well as the measurement methods according to the regulations and accountability frameworks at the local level and at European level, namely: Taxonomy Regulation, CSRD Directive (Corporate Sustainability Reporting Directive) and ESRS Standard
- The achievement of these environmental and social goals within the frameworks of reference, in particular the sustainable development goals, at international, national and local levels.

Investbank JSC includes standards in its internal policies and procedures and by creating a culture of ethics and integrity, sets standards for sustainable business growth. The good business strategy, the introduction of global know-how in various business areas and the company's financial stability contribute to improving the company's credit rating. Its image as an ethical and socially responsible organization is an additional guarantee of success in any new operating activity. Investbank JSC is a business committed to initiatives in the field of ecology, education and culture. The corporate approach requires a comprehensive approach or the so-called holistic approach, which the Bank's management is committed to, which will lead to the improvement of the processes in the institution in general, increase their efficiency, reduce the costs of accessing resources and managing resources for people, will reduce our environmental footprint and boost competitiveness.

The business model of Investbank JSC is built on the basis of responsibility and transparency towards all interested parties – customers and providers. The Bank contributes to the improvement of the business climate, following at the group level the policy for conducting and building a permanent and successful market presence. The corporate management's understanding of sustainable development is a fundamental principle integrated into the company's structure and corporate values – striving to exceed the expected flexibility, quality and integrity.

The selected holistic method has two inseparable dimensions – **Internal**, focused on the company's employees and identified internal stakeholders, and **External**, an analysis of the external factors and products offered and related to the stakeholders.

Over the past year, Investbank JSC, as a committed bank, has initiated specific activities related to the ESG framework. The main focuses and initiatives are related to:

- S (Social Impact and Human Rights): human capital: transparency in management, provided social benefits, conducted trainings, etc.
- G (Corporate Governance): risk management, transparency, tracking system, etc.
- E (Environmental Impact): reduction of the used resource, optimization of the vehicle fleet, preparation of an energy efficiency strategy, etc.

Realizing the sporadic and segmental activities, the Bank set itself the goal of building a complete strategic holistic model for managing the ESG strategy. To achieve the above commitments, the Bank will work with external experts, namely in:

- Preparation of an initial diagnosis of already initiated activities, analysis and assessment of the business in accordance with the ESG criteria;
- Determination of the values of sustainable development in a period of ecological transition. Assessment of climate-related risks in accordance with the recommendation of the Task Force on Climate-related Financial Disclosures (TCFD);
- Development of a strategic vision;
- Analysis of the strategic position – relevance to the framework of sustainable finance and the ESG framework;
- Integration of the 17 sustainable development goals of the UN by preparing a short-term and long-term plan related to the implementation of the strategic goals set in relation to the Paris Agreement, the climate change and including the main priorities of sustainability in the financial sector;
- Reconsideration of the model of business actions and transition to sustainable and green finance;
- Communication related to business engagement;
- Determination of special key performance indicators (KPI) and key risk indicators (KRI), which are based on the dual materiality of the strategic objectives and the implemented actions in order to monitor the development of the Bank year after

year. Commitment by the financial institution to estimate and disclose greenhouse gas emissions (GES) from its loans and investments by reporting using the GHG protocol. Greenhouse gas reporting will enable the financial institution to disclose these emissions at a fixed point in time and in accordance with the financial reporting periods. The measurement of financed emissions will enable the transparency of GHG emissions disclosures and the identification of climate-related risks and transition opportunities as well as the determination of baseline emissions for setting targets in accordance with the Paris Agreement.

Considering the above, Investbank JSC aims to ensure transparency related to the governance and the products offered, as well as to achieve a new business model – sustainable and consistent with the current and leading requirements of the banking sector.

In conjunction with Art. 11 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on transparency of the promotion of environmental or social characteristics and of sustainable investments in periodic reports, Investbnak JSC currently does not offer financial products aimed at sustainable investments falling within the scope of the disclosure under the regulation. Investbank JSC is in the process of developing a project and creating a product aimed at reducing carbon emissions and biodiversity.

At the moment, the Bank does not report the adverse effects of the operational and management decisions on the sustainability factors when managing the banking activity, the reasons being as follows:

- Specifics of the mandatory provisions of the sectoral legislation;
- The legal framework has not yet been completed, as there are no legislative procedures adopted and entered into force, technical standards for the content, methods and presentation of information under the EU Regulation 2019/2088, which would regulate the reporting of the possible adverse effects of the Bank's operational decisions on the factors of sustainability;
- There are different European acts adopted at different times and for this reason they are not yet synchronized with each other;

- Lack of regulated and generally available methods for disclosure by public companies regarding the presence or absence of ESG data, which would possibly enable the formation of objective information about sustainable factors or their absence;
- The costs of technical and software provisions necessary for the consideration of the ESG factors when making operational and investment decisions and the management of the accompanying risks many times exceed the possible benefits at the moment;
- Potential effect of possible lost benefits as a result of decisions taken or not taken for the so-called more sustainable products could be quantified through statistical analysis
- Considerations whether a sufficient amount of information or the necessary data can be provided by all public companies /projects of common interest PCI/ in a comparable format, as well as the lack of guarantees that misleading information will not be published.

Realizing that offering financial products aimed at environmentally sustainable goals is an effective way to direct private investments to sustainable activities, Investbank JSC sets its leading goal and priority to comply with the requirements for offering financial products or corporate bonds as environmentally sustainable investments.

As a participant in the financial markets, we expect to present information and explain how the activities in which we invest contribute to the environmental goals.

DISCLOSURES

Information about the persons managing and representing the Bank

In compliance with the requirements of the Credit Institutions Act, the provisions of the Articles of Association of Investbank JSC and the commercial registration of the company, it is represented by all members of the MB collectively or jointly by two executive directors.

The executive directors and members of MB have no participation in the Bank's share capital.

Information under Article 187e and Article 247 of the Commerce Act

The remunerations of the executive directors and the Management Board and the members of the Audit Committee as at 31 December 2022 amount to BGN 309 thousand (year 2021: BGN 509 thousand) and those of the Supervisory Board amount to BGN 330 thousand (year 2021: BGN 405 thousand).

The rights of the members of the Boards to acquire shares and bonds of the company - according to the effective Articles of Association of the Bank there are no restrictions on the rights of the Board members to acquire shares and bonds of the company (the Bank) in addition to the general requirement for prior approval by the Supervisory Board, which is applicable to each acquisition case.

Participation of Boards members in commercial companies as partners with unlimited liability, holding of more than 25% of the capital of another company, as well as their participation in the management of other companies or cooperatives in the capacity of procurators, managers of board members:

MEMBERS OF THE SUPERVISORY BOARD

- Petya Ivanova Barakova Slavova
Festa Holding AD – over 25% of the capital and participation in the management (Chairperson of the Board of Directors)
Festa Hotels AD – participation in the management (Chairperson of the Supervisory Board)
Investbank JSC – participation in the management (Chairperson of the Supervisory Board)
Properties PS EOOD – over 25% of the capital and participation in the management (Manager)
Job SRL – over 25% of the capital (Manager)
Ralevitza Property JSCo. – over 25% of the capital (Chairperson of the Board of Directors)
Chernomorsko Zlato AD – participation in the management (Chairperson of the Supervisory Board)
Bulgaria Insurance AD – participation in the management (Chairperson of the Supervisory Board)
Association of the Bulgarian Tourism Industry - participation in the management (Chairperson of the Management Board)
Investments Properties EOOD – Manager
Alegro Property Ltd. – Manager
F Assets AD – participation in the management (Chairperson of the Board of Directors)
- Festa Holding AD
Festa Security – over 25% of the capital (Member of the Supervisory Board)
F Assets AD – over 25% of the capital
Eco Invest House EAD – over 25% of the capital
Investbank JSC – over 25% of the capital (Member of the Supervisory Board)
Bulgaria Insurance AD - more than 25% of the capital
Re PAK AD – participation in the management (Member of the Board of Directors)
Dunav Plaza OOD – over 25% of the capital
Festa Hotels AD – over 25% of the capital and participation in the management (Member of the Supervisory Board)
- Minka Slavova Kirkova – Representative of Festa Holding AD in the Supervisory Board of Investbank JSC
Festa Holding AD – Member of the Board of Directors and Executive Director
F Assets EAD – Member of the Board of Directors
Eco Invest House EAD – Member of the Board of Directors
- Martin Tsvetkov Bogdanov – independent member of the Supervisory Board
Paysera Bulgaria JSC – Executive Director and Chairperson of the Board of Directors
Bulgarian Fintech Association – Member of the Management Board
Bulgarian Industrial Capital Association – Member of the National Board

MEMBERS OF THE MANAGEMENT BOARD

- Svetoslav Rumenov Milanov
There is no data for participation in the Commercial Register and Declaration pursuant to Art. 45 of Credit Institutions Act (CIA)
- Maya Ivanova Kolarova (Stancheva)
There is no data for participation in the Commercial Register and Declaration pursuant to Art. 45 of Credit Institutions Act (CIA)
- Nedyo Yankov Tenev – member of the Management Board
There is no data for participation in the Commercial Register and Declaration pursuant to Art. 45 of Credit Institutions Act (CIA)

Responsibility of the Management

According to the Bulgarian legislation, the Management of Investbank JSC is required to prepare annual financial statements for each financial year, which accurately reflect the property and financial position of the Bank at the end of the respective reporting period, as well as the financial performance for that period.

In preparing these statements, the Management confirms that:

- the accounting policy used is appropriate and applied consistently;
- the necessary assessments and proposals made are in accordance with the precautionary principle;
- the applicable accounting standards have been applied consistently;
- the annual financial statements are prepared based on the going concern assumption.

The management declares that:

- where necessary, it has made the best estimates and decisions;
- it has complied with all International Financial Reporting Standards applicable in accordance with the national accounting legislation for banks in Bulgaria;
- the annual financial statements disclose the Bank's position with a reasonable degree of accuracy;
- it has taken all possible measures to safeguard the assets of the Bank and to prevent fraud.

The Bank does not have any subsidiaries and holdings of more than 10 percent.

DEVELOPMENT PLANS

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 moderate policy in adopting risk and maintaining an acceptable risk profile of the Bank's assets and liabilities.

This goal will be achieved by:

- Implementing the strategic projects set in the investment program of the Bank for the period;
- Providing for investments in human capital;
- Further reducing the volume of assets acquired through sales or leasing;
- Significantly improving the structure of the Bank's assets and liabilities to increase the profitability of the assets and reduce the cost of their refinancing while reducing the Bank's risk profile;
- Further diversifying the Bank's loan portfolio and improving its quality by reducing the relative share of non-performing loans and increasing the total volume of loans;
- Emphasising on granting loans covered by regulatory recognized collateral;
- Enhancing the efficiency of the Bank by increasing the operating income simultaneously with a relatively smaller increase in administrative costs;
- Setting a conservative interest income based on performing exposures only
- Expanding and enriching the banking products and services
- Attracting acceptable liabilities to cover regulatory requirements

The main emphasis in the projects for the strategic period is the digitalization of the Bank in:

- Customer service processes;
- Development of new products and services;
- Bank's internal document flow processes;
- Increase in environmental responsibility and addition of the Green Idea to the Bank's image.

The desired result in the implementation of these projects is both satisfying the needs of customers and achieving overall satisfaction with the service, as well as achieving optimization and efficiency of the operations.

Projects are also planned that improve:

- Information security and control of network activities and vulnerabilities;
- Processes for preventing money laundering and monitoring customers and their transactions;
- Processes ensuring the unhindered functioning and security of the Bank - by building technical protection

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

No material events have occurred after the date of the financial statements.

In the forecasts for the development of the Bank in the medium term, according to the management of Investbank JSC, higher realistic goals are set with a view to achieving a larger market share. The prospects for the economy of our country in the coming years will continue to depend on the development of the conflict between Russia and Ukraine and on the utilization of the funds under the National Recovery and Sustainability Plan.

Svetoslav Milanov

MB Chairperson and Executive Director

Maya Stancheva

MB Member and Executive Director