



**ANNUAL MANAGEMENT REPORT**

**OF INVESTBANK JSC**

**for 2019**

**APPROVED ON 14 JANUARY 2020**

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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 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 (entered in the Commercial Register) share capital of Investbank JSC as of 31 December 2019 amounts to BGN 131,666,667, divided in 131,666,667 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 the end of 2019 is as follows:

| No. | Shareholder structure of Investbank      | %<br>shareholding |
|-----|--|-------------------|
| 1   | Festa Holding AD                         | 55.36             |
| 2   | Adil Said Ahmed Al Shanfari              | 31.65             |
| 3   | Petya Ivanova Barakova-Slavova           | 12.46             |
| 4   | Other legal entities and natural persons | 0.53              |
|     | Total:                                   | 100.00            |

## Management

Investbank JSC has a two-tier management system, with a Supervisory Board and a Management Board. The Supervisory Board (SB) appoints the members of the Management Board (MB), approves the executive directors and determines their consideration.

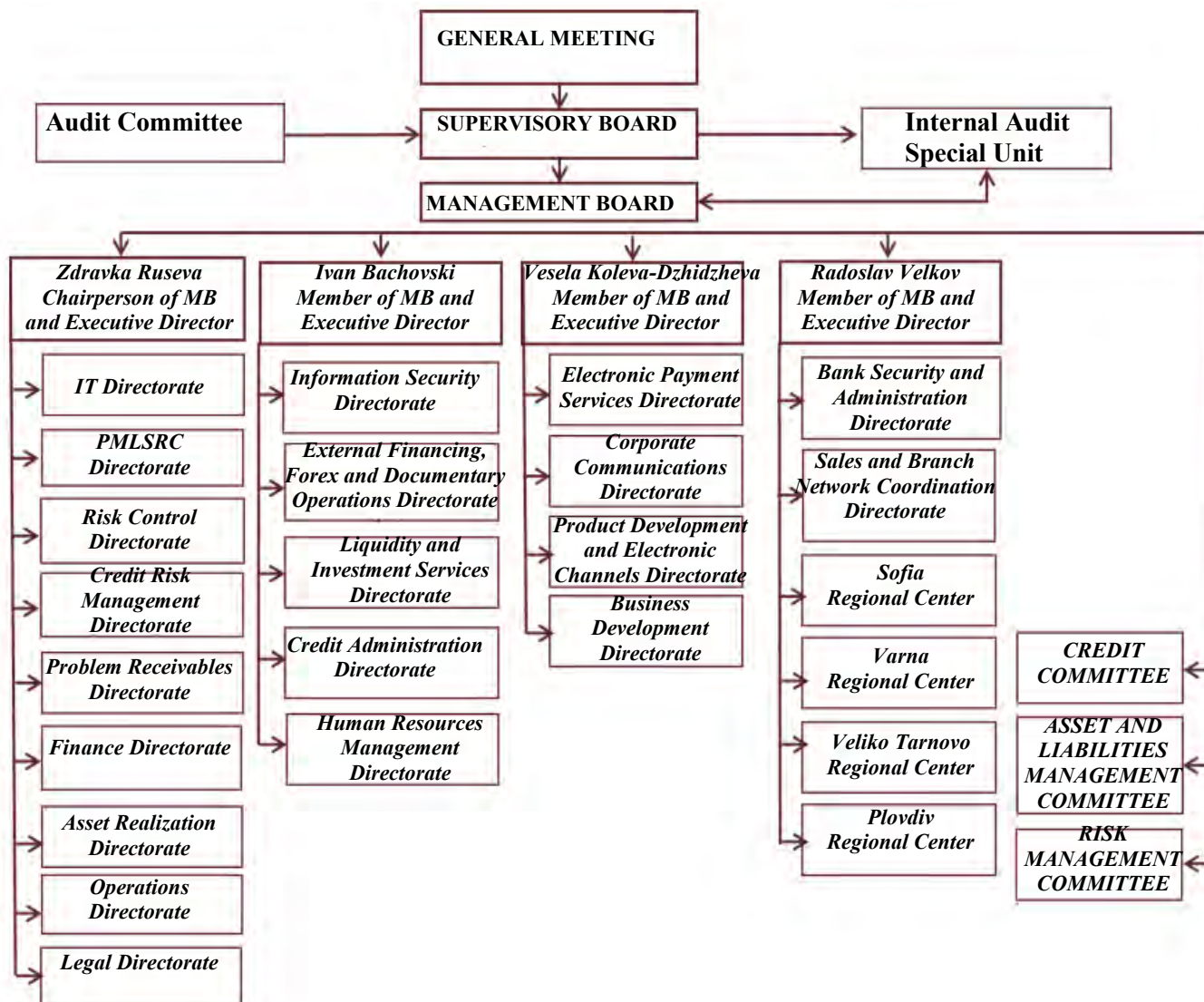
- As at 31 December 2019, the Bank's Supervisory Board comprises:
  - Petya Slavova - Chairperson of the Supervisory Board;
  - Festa Holding AD - Member of the Supervisory Board, represented by Mr. Zlatomir Dimitrov;
  - Dimitriyka Andreeva - Member of the Supervisory Board.
- As at 31 December 2019, the composition of the Management Board, as registered with the Commercial Register, is:
  - Zdravka Ruseva – Chairperson of the Management Board and Executive Director;
  - Vesela Koleva-Dzhidzheva – Member of the Management Board and Executive Director;
  - Ivan Bachovski – Member of the Management Board and Executive Director;
  - Radoslav Velkov – Member of the Management Board and Executive Director.

## Mission

- Offering high quality services and individual approach to each customer;
- Building long-term business relations with customers and partners;
- Developing and implementing innovative, applicable and effective value-added products and services for customers that fully meet their needs;
- 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

December 2019



## REVIEW OF THE PERFORMANCE OF INVESTBANK JSC IN 2019

## Key indicators

|  | 2016      | 2017      | 2018      | 2019      |
|--|-----------|-----------|-----------|-----------|
| <b>Financial indicators (BGN '000)</b>                         |           |           |           |           |
| Net interest revenues  | 30,264    | 33,144    | 30,081    | 26,146    |
| Net fee and commission revenues                                | 22,473    | 24,375    | 24,884    | 27,930    |
| Other net revenues   | 11,737    | 11,611    | 33,906    | 7,160     |
| Total operating revenues                                       | 64,474    | 69,130    | 88,871    | 61,236    |
| Administrative expenses  | (41,693)  | (39,799)  | (39,259)  | (40,969)  |
| Impairment   | (23,886)  | (59,364)  | (30,271)  | (31,392)  |
| Result after tax   | 1,038     | (29,333)  | 22,647    | 2,089     |
| <b>Balance-sheet indicators (BGN '000)</b>                     |           |           |           |           |
| Total assets   | 1,916,189 | 1,954,129 | 2,122,039 | 1,898,475 |
| Cash, balances with central banks and other deposits on demand | 272,137   | 295,277   | 531,753   | 259,863   |
| Net loans and advances to customers (including finance leases) | 846,687   | 816,856   | 763,547   | 718,135   |
| Securities   | 506,094   | 537,174   | 457,079   | 517,288   |
| Deposits from customers  | 1,657,473 | 1,734,462 | 1,886,794 | 1,664,949 |
| household deposits   | 1,183,028 | 1,185,431 | 1,266,682 | 1,226,620 |
| corporate deposits   | 474,445   | 549,031   | 620,112   | 438,329   |
| Deposits from credit institutions                              | 10,012    | 0         | 6         | 0         |
| Equity and reserves  | 181,542   | 152,187   | 180,266   | 188,094   |
| <b>Basic ratios (%)</b>  |           |           |           |           |
| Return on assets (after taxes)                                 | 0.05      | (1.52)    | 1.11      | 0.10      |
| Return on equity (after taxes)                                 | 0.57      | (17.58)   | 13.62     | 1.13      |
| Net interest margin  | 1.76      | 2.02      | 1.77      | 1.61      |
| Loans/deposits from customers                                  | 51.08     | 47.10     | 40.47     | 43.13     |
| Loans/assets   | 44.19     | 41.80     | 35.98     | 37.83     |
| Capital adequacy   | 19.14     | 16.58     | 18.69     | 19.36     |
| <b>Resources</b>   |           |           |           |           |
| Personnel  | 756       | 742       | 725       | 625       |
| Financial centers  | 43        | 43        | 43        | 42        |

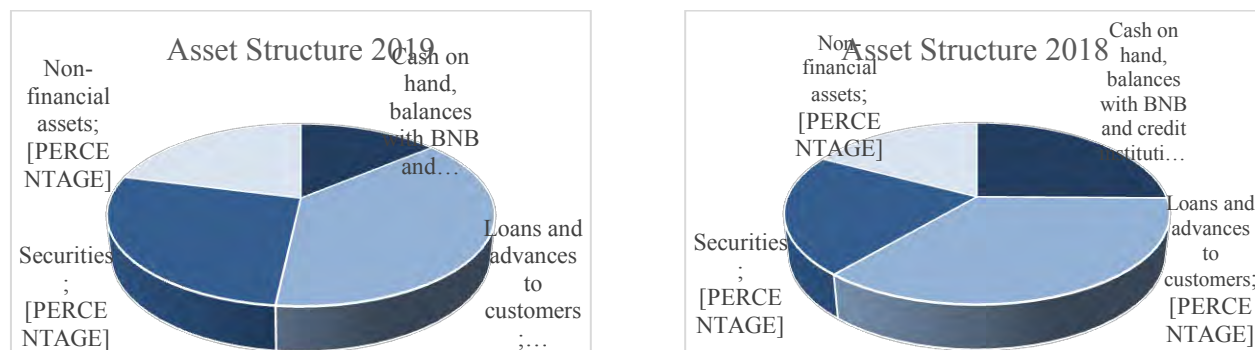
## STATEMENT OF FINANCIAL POSITION

## ASSETS

## Total assets

As at the end of December 2019, the Bank's assets amount to BGN 1,898 million (year 2018: BGN 2,122 million). In the assets structure of Investbank JSC, net loans and advances to customers (including finance leases) account for the largest share of 37.8% (36% as at December 2018) of total assets, followed by

securities of 27.2% (21.5% as at December 2018) and cash in hand and balances with BNB and receivables from credit institutions of 13.9% (25.2% as at December 2018). Non-financial assets account for 21% compared to 17.3% of the previous year.



### Loans and advances to customers

Loans and advances to customers account for 37.8% of total assets compared to 36.0% for the previous year. Loans/deposits ratio amounts to 43.13% compared to 40.47% for the previous year. In 2019, the total amount of net loans decrease by BGN 45.4 million (decrease by 5.95%) and reached BGN 718.1 million (year 2018: BGN 763.5 million). Loans also comprise receivables under finance leases for BGN 1.46 million compared to BGN 0.8 million at the end of the previous year. At the end of December 2019, the balance-sheet impairment amounts to BGN 63.03 million, reducing the level of impairment coverage of bad loans from 33.16% for 2018 to 26.75% for 2019 due to write-offs for provision for non-performing loans for BGN 54.34 million.

Compared to a year ago, the Bank's gross loan portfolio has decreased by BGN 69 million (8.12% decrease) and as at December 2019 it amounted to BGN 781 million. Compared to a year ago, gross corporate loans have decreased by BGN 96 million (13.9% decrease) and as at December 2019 they amounted to BGN 595 million. The new business and the increase in the existing business since the beginning of 2019 compared to the previous year have marked a significant increase and amount to BGN 165 million compared to BGN 54 million for the same period previous year.

Compared to a year ago, gross loans to natural persons increased by BGN 27 million (17% increase) and as at December 2019 they amounted to BGN 186 million. The new business and the increase in the existing business since the beginning of 2019 amount to BGN 58 million compared to BGN 54 million for the same period previous year.

The percentage of non-performing exposures to the Bank's total credit exposure decreased from 30.72% in December 2018 to 30.16% at the end of 2019.

## 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 2019 they account for 27.2% of total assets (21.5% as at December 2018). Investbank JSC successfully manages its liquid assets by investing part of them in securities, which, although with declining yield, make up an alternative to interbank deposits the yield of which is even negative at the time.

## LIABILITIES

### Borrowed funds from customers

Borrowed funds from customers at the end of December 2019 amounted to BGN 1,665 million, reporting a decrease of BGN 222 million (11.76%) compared to December 2018 (year 2018: BGN 1,887 million).

As at 31 December 2019, borrowed funds from legal entities reported a decrease of BGN 182 million (29.31% decrease) compared to the end of 2018.

As at the end of December 2019, borrowed funds from natural persons amounted to BGN 1,227 million, reflecting a decrease by BGN 40 million compared to BGN 1,267 million in December 2018. An increase in current accounts was reported (BGN 28.1 million) and a drop in fixed-term accounts (BGN 63.1 million). This resource retains its structure-determining share in the total borrowed funds from customers - 73.7% (67.13% as at December 2018).

### Equity

The Bank's equity amounts to BGN 188.09 million and includes share capital of BGN 131.67 million, reserves of BGN 56.43 million including retained earnings for the current year of BGN 2.09 million. In 2019 the Bank's reserves increased by BGN 7.8 million.

## PROFIT AND LOSS ACCOUNT

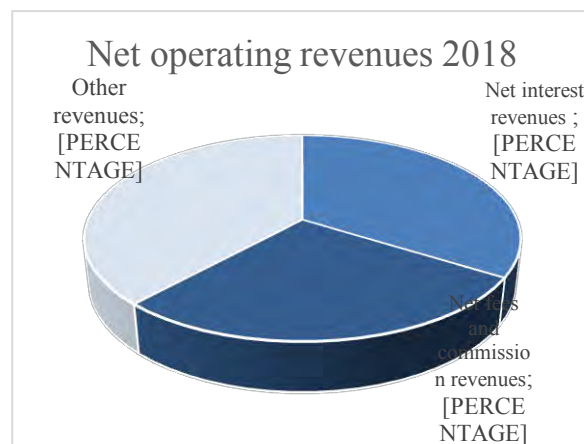
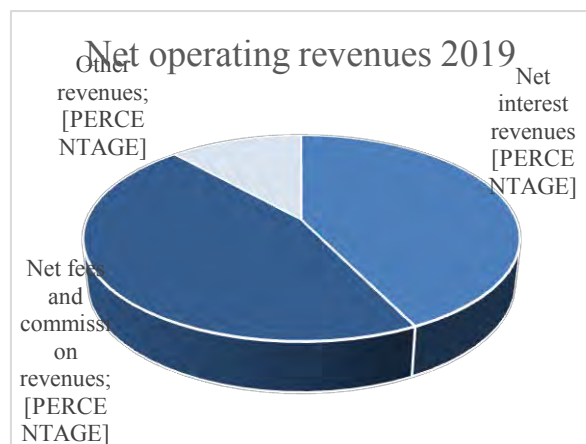
### Net financial result

As a result of its operating activities in 2019, Investbank reported a positive financial result after taxes of BGN 2.09 million.

### Total operating revenues

Total operating revenues for the year amounted to BGN 61.2 million, reflecting a decrease compared to BGN 88.9 million a year earlier, as in 2018 revenue was reported with a single effect from the merger of CB Victoria into Investbank - negative reputation amounting to BGN 22.58 million.





The largest share in the structure of net operating revenues is the net income from fees and commissions of 45.61% (28.00% as at December 2018) and net interest income 42.70% (33.85% as at December 2018). The share of other net revenues at the end of 2019 was 11.69% (38.15% as at December 2018, mainly with the reported revenue from the purchase of CB Victoria).

### Net interest income

|  | 2019          | 2018          | Change         | Change %       |
|--|---------------|---------------|----------------|----------------|
| <b>Interest revenues</b>                 | <b>34,448</b> | <b>43,476</b> | <b>(9,028)</b> | <b>(20.77)</b> |
| Deposits provided to credit institutions | 715           | 482           | 233            | 48.33          |
| Loans and advances to customers          | 30,818        | 37,787        | (6,969)        | (18.44)        |
| Securities                               | 2,915         | 5,207         | (2,292)        | (44.02)        |
| <b>Interest expenses</b>                 | <b>8,302</b>  | <b>13,395</b> | <b>(5,093)</b> | <b>(38.02)</b> |
| Deposits from credit institutions        | 469           | 81            | 388            | 479.01         |
| Deposits from customers                  | 6,341         | 10,193        | (3,852)        | (37.79)        |
| Other borrowed funds                     | 1,492         | 3,121         | (1,629)        | (52.19)        |
| <b>Net interest income</b>               | <b>26,146</b> | <b>30,081</b> | <b>(3,935)</b> | <b>(13.08)</b> |

As at 31 December 2019, Investbank reported a decrease in net interest income (BGN 3.9 million or a 13% decrease) compared to the previous year. The net interest income continues to be positively affected by the more significant fall in interest expenses than the level of interest revenues.

Interest revenues as at 31 December 2019 account for a decrease of BGN 9,03 thousand (decrease by 20.77) compared to the previous year. The decrease in interest revenues on loans compared to the same period of the previous year is deepened, taking into account a decrease of BGN 6,97 million due to: lower average portfolio volume (BGN 22.1 million) - the factor affects by BGN 996 thousand and a lower average interest rate on the portfolio (4.51% as at 31 December 2018 and 3.78% for 2019, respectively), with the effect of the difference in interest rates being BGN 5,974 thousand. Interest revenues on securities come to 44% below the level as at December 2018.

As a result of the reduction of interest rates on borrowed funds from customers, interest expenses are significantly reduced. As at 31 December 2019, interest expenses decrease by BGN 5.09 million (38.02% decrease) compared to December 2018.

### Net fee and commission revenues

In 2019 the Bank's net fee and commission revenues amount to BGN 27,9 million compared to BGN 24,9 million at the end of 2018, accounting for an increase by 12.2%. The largest increase in absolute value is accounted in the fees and commissions on securities transactions - BGN 2.5 million (in connection with the carbon emissions brokerage transactions realized in 2019), followed by those in account servicing - BGN 1.7 million or 46,28%.

Compared to the same period of the previous year, the fees for transfer transactions were lower - by BGN 940 thousand and bank guarantees (by BGN 739 thousand). Fees and commissions on loans provided and cash balances this year are also lower, but by a smaller amount.

### Other net revenues

|   | 2019         | 2018          | Change         | Change %      |
|---|--------------|---------------|----------------|---------------|
| Net income on foreign currency operations | 2,048        | 3,259         | -1,211         | -37.16        |
| Net result from securities                | 2,190        | 2,265         | 23             | 1.02          |
| Net revenues on sale of assets            | 555          | 2,605         | -2,050         | -78.69        |
| Other revenues, net                       | 2,367        | 25,777        | -23,508        | -91.20        |
| <b>Total other net revenues</b>           | <b>7,160</b> | <b>33,906</b> | <b>-26,746</b> | <b>-78.88</b> |

At the end of 2019, the amount of other net revenues (all revenues other than interest revenues and fees and commissions revenues are presented here) amounts to BGN 7.16 million compared to BGN 33.91 million in 2018. The high value of the decrease is mainly due to the reported revenue on the purchase of CB Victoria EAD in 2018.

The following significant revenues were realized: Trading and revaluation of securities - BGN 2.19 million; Currency trading and revaluation - BGN 2.05 million; Investment property rental revenues - BGN 1.06 million.

**Administrative expenses**

| Administrative expenses              | 2019          | 2018          | Change       | Change %    |
|--------------------------------------|---------------|---------------|--------------|-------------|
| Expenses on personnel                | 15,166        | 15,359        | -193         | -1.26       |
| Depreciation                         | 4,914         | 2,157         | 2,757        | 127.82      |
| Other administrative expenses        | 13,759        | 14,966        | -1,207       | -8.07       |
| BDIF and BRF                         | 7,130         | 6,777         | 353          | 5.22        |
| <b>Total administrative expenses</b> | <b>40,969</b> | <b>39,259</b> | <b>1,710</b> | <b>4.36</b> |

As at 31 December 2019, the total amount of administrative expenses amounted to BGN 40.97 million, which is by 4.36% higher than their level as at December 2018.

Since 2019 the Bank has applied IFRS 16 for rental expenses, whereby a portion of the rental expenses accrued in 2018 under the item Other administrative expenses in 2019 are recognized in depreciation and interest expenses.

As at the end of December 2019, the level of the Administrative Expenses / Total Operating Revenues indicator comes to 66.90%, compared to 44.18% for the same period in the previous year. The main factor for the significantly lower value of the indicator as at 31 December 2018 is the significantly higher Operating revenues associated with the negative goodwill resulting from the transaction with CB Victoria EAD, while Administrative expenses for both periods are approximately at the same level.

**Net impairment expenses**

Impairment expenses as at the end of December 2019 amount to BGN 31.39 million and are by BGN 1.12 million (3.7%) higher compared to the previous year (BGN 30.27 million in 2018).

**BANK REGULATIONS****Liquidity**

The main objective of liquidity management is to ensure optimal liquidity while balancing the inflows and outflows of cash flow to ensure the day-to-day implementation of the Bank's obligations. Liquidity management is performed in accordance with the rules and methodology for liquidity buffers determining and monitoring, dividing 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 2019 Investbank continued to maintain very good liquidity. The structure of balance-sheet assets is sufficiently indicative of the existence of adequate liquid buffers:

- the volume of the securities portfolio formed amounting to 27.2% of the Bank's balance sheet total as at 31 December 2019;
- cash in hand, a current account with BNB and receivables from credit institutions on current accounts, reaching 12.2% of the Bank's balance sheet total.

Total liquid assets account for 39.44% of the Bank's assets (increase by 0.6% compared to 31 December 2018) and credit exposure (gross carrying amount) is 39.5%. Investbank JSC is able and capable of withstanding liquidity pressures and complicated market environment.

Leverage - for managing and controlling the risk of excessive leverage, Investbank calculates the leverage ratio (balance sheet capital to assets) and the reported figures are significantly higher than the required ones. As at December 2019, the leverage ratio stands at 11.36%.

### **Capital requirements**

In accordance with the requirements of the banking legislation in Bulgaria and the instructions of BNB in its capacity of the Central Bank, Investbank JSC must comply with certain restrictions related to the following ratios:

#### Total capital adequacy

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

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. The purpose of regulation is to make the internal banking market function with increasing efficiency. The capital buffers are:

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

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

From the mentioned capital buffers, as of 31 December 2019 the Bank allocated capital for preventive capital buffer (2.5%) and buffer for systemic risk (3%) considering the total amount of the risk weighted assets for credit, market and operational risk. As of 10.2019, a requirement for an anti-cycling capital buffer of 0.5% of TRE has been introduced. In 2019, BNB introduced an additional capital requirement (Art. 103a(2) CIA) of 3.5% (capital requirements related to Tier II adjustments).

The reported values for the amount of capital and capital adequacy as of 31 December 2019 based on the reports prepared under CRD IV are as follows:

| Indicators  | BGN '000 |
|---|----------|
| Common Equity Capital (CEC)   | 179,405  |
| Common Equity Tier 1 Capital (CEC + Hybrid debt instruments issued) | 218,615  |
| Equity (capital base)   | 218,615  |

As at 31 December 2019, the capital surplus is estimated at:

| Surplus (+) / Shortage (-) as at 31 December 2019 in BGN '000 | Capital | After deducting the capital buffers |
|---|---------|-------------------------------------|
| Surplus (+) / Deficit (-) of Common Equity Tier 1 Capital     | 128,591 | 22,341                              |
| Surplus (+) / Deficit (-) of Tier 1 Capital                   | 150,862 | 46,612                              |
| Surplus (+) / Deficit (-) of the common equity                | 128,278 | 22,028                              |

The Bank's risk profile as of 31 December 2019 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 (90.7% of risk-weighted exposures), followed by operational risk (9.3% of risk-

weighted exposures). The structure is presented in the following table “Distribution of risk-weighted exposures of Investbank JSC as at 31 December 2019”.

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 2019, the capital coverage of risk exposure of the Bank is as follows:

| Capital coverage<br>of the Bank's risk exposure in BGN<br>‘000 |           | Total capital<br>adequacy |   | Capital buffers               |                               |         | Total<br>capital<br>coverage |
|--|-----------|---------------------------|---|-------------------------------|-------------------------------|---------|------------------------------|
|  |           | Capital<br>coverage<br>8% | Protective<br>capital<br>buffer<br>2.5% | System<br>risk buffer<br>3.0% | Anti-cyclic<br>buffer<br>0.5% |         |                              |
| Total risk-weighted exposures,<br>including:                   | 1,129,209 | 90,337                    | 28,230                                  | 32,965                        | 5,533                         | 157,065 |                              |
| Credit risk, counterparty credit<br>risk                       | 1,025,509 | 82,041                    | 25,638                                  | 29,854                        | 5,025                         | 142,558 |                              |
| Position, currency and<br>commodity risks                      | 0         | 0                         | 0                                       | 0                             | 0                             | 0       |                              |
| Operational risk   | 103,700   | 8,296                     | 2,593                                   | 3,111                         | 508                           | 14,508  |                              |

#### Distribution of risk-weighted exposures of Investbank JSC as at 31 December 2019

|   |           |        |
|---|-----------|--------|
| Total risk-weighted exposures, including: | 1,129 209 | 100.0% |
| Credit risk, counterparty credit risk     | 1,025 509 | 90.8%  |
| Position, currency and commodity risks    | 0         | 0.0%   |
| Operating risk                            | 103,700   | 9.2%   |

## 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 and price risk) and liquidity risk.

Risk management is based on the Risk Management Strategy, which defines the target risk profile and risk appetite of Investbank JSC. The purpose is to limit the risk taken so that both the short-term and the long-term future of the Bank are not jeopardized. This 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 trading instruments held.

### **Risk Management Policy**

Investbank JSC's risk management policy is aimed to identify, analyse, measure and control the risks to which the Bank is exposed. It is based on the core principles for effective banking supervision of the Basel Committee on Banking Supervision, the BNB's regulatory requirements, and the internal banking regulatory framework. The activities for credit 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 (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 the form and periodicity of reporting related to the occurrence of risks.

### **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.

### **Structure and organization of risk management functions**

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

The **Supervisory Board** (SB) of Investbank JSC approves and periodically reviews the adopted strategies and policies for taking, managing, monitoring and mitigating the risks to which the Bank is exposed or may be exposed, including the risks arising from the macroeconomic environment, according to the relevant phase of the economic cycle.

**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.

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

#### ***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.

**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.

**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.



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.

***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.

***Remuneration Committee*** - assists the Management Board and the Supervisory Board in implementing the remuneration policy at Investbank JSC and monitoring its compliance, as well as in complying with the imperative requirements and provisions of the legislation in force.

## **Credit risk**

Credit risk is any risk arising from the inability of a counterparty, debtor, issuer or borrower (all hereinafter referred to as “borrower(s)”) to duly implement its current, possible or contingent liabilities in a timely manner to the Bank 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.

Risk management at the Bank is carried out by the Risk Control Directorate, Credit Risk Management Directorate (Credit Risk Management - Legal Entities Department and Credit Risk Management - Natural Persons Department) and Problem Receivables Directorate.

The Credit Risk Management - Legal Entities Department analyses the financial position of all legal entities - customers of the Bank. Depending on the type of transaction, 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 and better structuring of transactions.

The Credit Risk Management - Natural Persons Department performs scoring of the customers who are natural persons.

The 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 level for the transaction at the Bank, 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 set out in the Rules for Competencies in Granting / Renegotiating / Restructuring Credit Exposures of Investbank JSC (Competence Rules).

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 2019, Credit Risk Management - Legal Entities Department processed 1,463 loan transactions, including 381 proposals for new loans totalling BGN 268 million. The number of approved loans increased by 18.21%. Of the 449 loan applications received, those approved represent 85%. A decision for 43% of the corporate loan transactions was made based on individual competencies, while for 25% of the proposals, the decision was taken at the Credit Board level. In 2019 compared to 2018, the corporate loan transactions decided on based on individual competencies increased from 579 to 628.

Compared to 2018, in 2019 the number of loan transactions processed by the Credit Risk Management - Legal Entities Department increased by 6.25%.

As at 31 December 2019, 93.66% (325 cases) of the loans within the loan transactions newly approved in 2019 with the involvement of the Credit Risk Management - Legal Entities Department are without registered delays and the loans over 90 days' overdue amount to 1.15% (4 cases, including 1 bank guarantee). Legal actions have been initiated on two of the loans and on one there is a decision made on restructuring.

In 2019, the Credit Risk Management - Natural Persons Department processed 4,051 loan transactions with a total value of BGN 88.02 million.

The number of new loan applications is 3,344, totalling BGN 79.44 million. Of these, 2,862 new loans totalling BGN 69.86 million were approved. As at 31 December 2019, 3 loans of all utilized loan transactions to natural persons during the year (2,452) are over 90 days overdue which is 0.12% of the total number of loans.

Credit risk is controlled 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 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 Bank's sub-portfolio 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* may occur:

- in case of interaction of exposures within one risk category – intra-risk concentration
- in case of interaction of exposures of different risk categories as a result of the influence of one or more risk factors – inter-risk concentration.

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 observed, controlled and managed 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 likelihood that the Bank may suffer losses from adverse changes in interest rates, foreign exchange rates, market prices of financial instruments and commodities, resulting in adverse market revaluation of assets and liabilities. These changes affect the Bank's profitability.

Market risk is controlled by establishing a system of limits by issuers, currency positions, interest-sensitive exposures and exposures influenced by market risk components.

Risk Control Directorate carries out ongoing monitoring of the change in the volume and risk characteristics of the securities held. For all securities, residual maturity 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 of 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. It is managed through stress test scenarios and the analyses are submitted for discussion to the ALMC (Asset and Liability Management Committee) and the Management Board of Investbank JSC.

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 analysis of interest rate risk of the Bank's financial assets and liabilities and their sensitivity to interest rate behaviour are disclosed in the 2019 Annual Financial Statements.

Interest rate risk is assessed using the GAP interest rate model. Assets and liabilities sensitive to changes in interest rates, which are allocated at maturity intervals, are identified. Their mismatch is the basis for decision-making on the regulation of interest-sensitive assets and liabilities, on covering the possible mismatch of interest rate risk, including offset of the yield curve.

#### 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 it has not opened any foreign exchange positions.

#### 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 2019, 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 quick and easy transformation of assets into available funds with insignificant losses.

The primary objective of liquidity risk management is to ensure that the Bank can meet in a timely manner its payables (commitments) at a reasonable price and with minimal risk.

Liquidity risk management is based on monitoring and defining:

- funding ratios;
- maturity mismatches;
- composition and amount of liquid buffers;
- internal pricing (in process of realization), including direct and indirect costs related to liquidity;
- 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 2019 Investbank JSC maintained minimum reserves in accordance with the requirements of Art.3 of Ordinance No. 21 (amounting to 10% of the reserve base). The management and control of the reserves is carried out on a daily basis by the Liquidity and Investment Services Directorate.

The analysis of the maturity structure of financial liabilities and off-balance sheet commitments based on undiscounted gross cash flows is disclosed in the 2019 Annual Financial Statements.

As at 31 December 2019, the Bank's liquidity position, calculated on the basis of the liquidity stress test, is normal (green traffic light). At separate intervals of the one-year horizon, the liquid ratios are within the required limits - there is no usability of the liquid potential for the entire one-year horizon.

The maximum utilization of available liquidity potential (operating liquidity limits) as at 31 December 2019 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 31/12/2019* | 0 %          | 0 %           | 0 %            | 0%*          |
| Utilization of the limit as at 30/09/2019* | 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. Minimum liquidity reserves at separate intervals as at 31 December 2019:

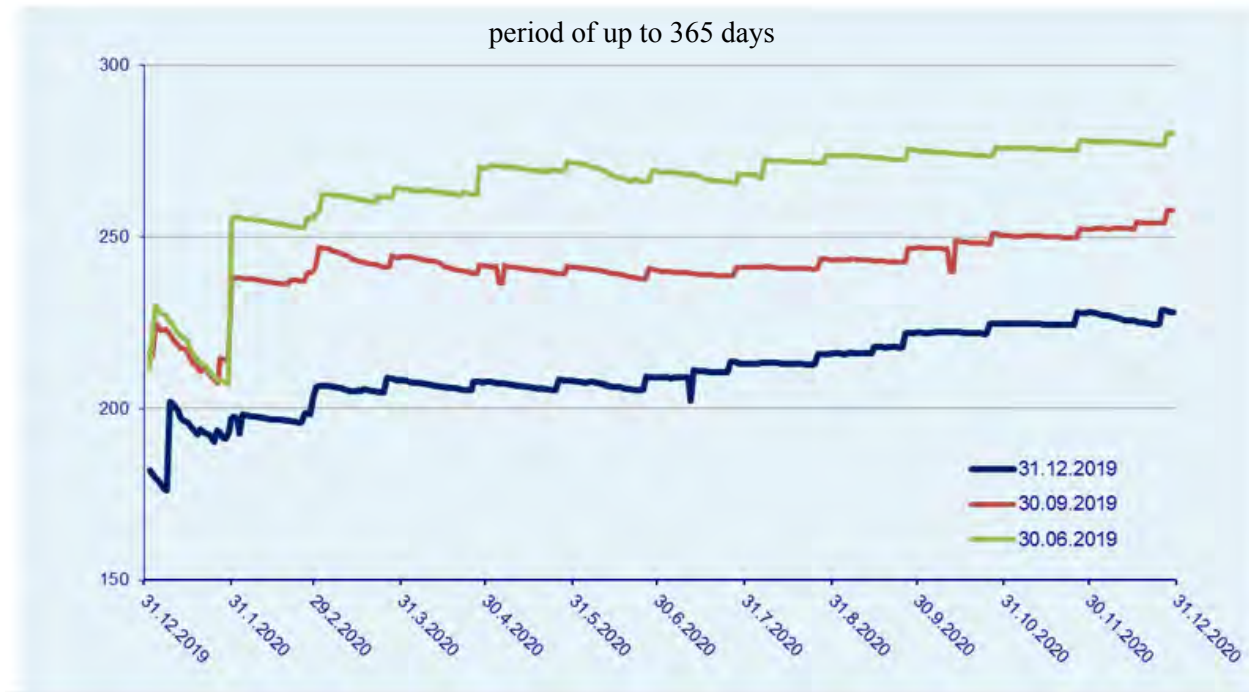


Liquidity Stress Test  
 Investbank JSC  
 Date: 02/01/2020  
 Including data as at 31/12/2019



| Combined scenario by type of currency |      |            |       |            |      | Minimum liquidity reserve (BGN '000) |       |      |       |            |       |            |       |            |       |            |       |            |
|---------------------------------------|------|------------|-------|------------|------|--------------------------------------|-------|------|-------|------------|-------|------------|-------|------------|-------|------------|-------|------------|
| Currency                              | 1 D  |            | 30 D  |            | 31 D |                                      | 181 D |      | 1 D   |            | 30 D  |            | 31 D  |            | 181 D |            |       |            |
|                                       | Date | Date       | Date  | Date       | Date | Date                                 | Date  | Date | Date  | Date       | Date  | Date       | Date  | Date       | Date  | Date       |       |            |
| Total                                 | 0.0% | -          | 0.0%  | -          | 0.0% | -                                    | 0.0%  | -    | 0.0%  | -          | 178.2 | 08.01.2020 | 180.4 | 25.01.2020 | 182.7 | 03.02.2020 | 202.4 | 12.07.2020 |
| BGN                                   | 0.0% | -          | 0.0%  | -          | 0.0% | -                                    | 0.0%  | -    | 43.3  | 08.01.2020 | 34.8  | 29.01.2020 | 32.5  | 03.02.2020 | 32.5  | 12.07.2020 |       |            |
| EUR                                   | 9.1% | 08.01.2020 | 12.1% | 19.01.2020 | 7.9% | 16.02.2020                           | 0.0%  | -    | 114.7 | 08.01.2020 | 111.0 | 19.01.2020 | 116.3 | 16.02.2020 | 126.5 | 05.07.2020 |       |            |
| USD                                   | 0.0% | -          | 0.0%  | -          | 0.0% | -                                    | 0.0%  | -    | 13.2  | 08.01.2020 | 38.2  | 30.01.2020 | 38.1  | 29.06.2020 | 36.9  | 31.12.2020 |       |            |
| Други валути                          | 0.0% | -          | 0.0%  | -          | 0.0% | -                                    | 0.0%  | -    | 5.1   | 07.01.2020 | 5.0   | 30.01.2020 | 4.9   | 28.06.2020 | 4.8   | 31.12.2020 |       |            |

**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.



**Available high-quality assets****≥ 100%****Total net cash outflows over the next 30 calendar days**

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

| Date | Dec 2014 | Dec 2015 | Dec 2016 | Dec 2017 | Dec 2018 | Mar 2019 | Jun 2019 | Sep 2019 | Dec 2019 |
|------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| LCR  | 297%     | 331%     | 479%     | 538%     | 440%     | 358%     | 329%     | 470%     | 440%     |

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

| Date | Dec 2014 | Dec 2015 | Dec 2016 | Dec 2017 | Dec 2018 | Mar 2019 | Jun 2019 | Sep 2019 | Dec 2019 |
|------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| NSFR | 269%     | 183%     | 211%     | 214%     | 199%     | 207%     | 200%     | 177%     | 199%     |

**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:

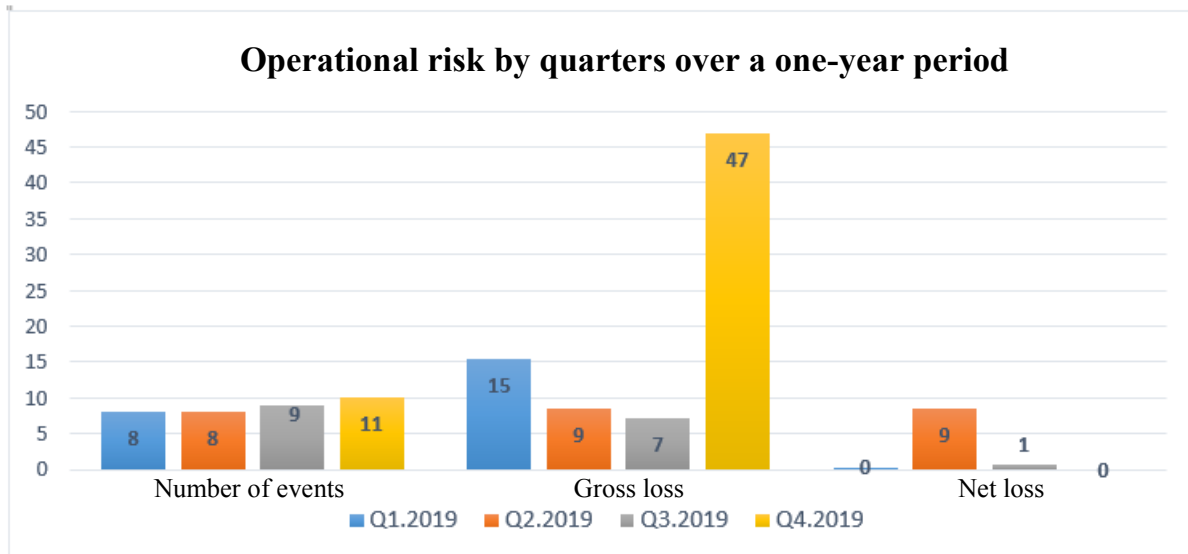
- Risk of human error – the risk of abuse due to low, non-existent or imperfect control procedures, as well as unconscious errors caused by product unawareness, inadequate training, complexity of applied procedures.
- Risk of information systems – related to the use of incorrect models, incorrect data 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 responsibilities, lack of appropriate procedures.
- External factors – abuse, fraud, etc. with external manifestation.

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 2019, the event with the largest gross loss amounts to BGN 32 thousand (the BGN 0 net event is not closed) and the event with the largest net loss amounts to BGN 5.9 thousand.

In 2018, the event with the largest gross loss amounts to BGN 544 thousand (the BGN 0 net event is not closed), and the event with the largest net loss amounts to BGN 4.3 thousand.



| Period  | Number of events | Gross loss | Net loss | BGN '000   |
|---------|------------------|------------|----------|--|
| Q1 2019 | 8                | 15         | 0        | Highest gross loss – BGN 14 thousand (BGN 0.1 thousand net)  |
| Q2 2019 | 8                | 9          | 9        | Highest gross loss – BGN 5.9 thousand (BGN 5.9 thousand net) |
| Q3 2019 | 9                | 7          | 1        | Highest gross loss – BGN 5 thousand (no net loss)            |
| Q4 2019 | 11               | 47         | 0        | Highest gross loss – BGN 32 thousand (no net loss)           |

| Frauds related to card payments |                   |            |          | in BGN '000           |
|---------------------------------|-------------------|------------|----------|-----------------------|
| year                            | number registered | gross loss | net loss | from number of events |
| 2018                            | 0                 | 0.0        | 0.0      | 0                     |
| 2019                            | 0                 | 0.0        | 0.0      | 0                     |

## LARGE CORPORATE CUSTOMERS

In 2019, the practice from previous years was further developed, namely to build lasting relationships with large corporate customers that have shown promising performance and have good prospects for development.

Investbank JSC consolidated and upgraded the practice to attract corporate customers by providing quality service, flexible solutions and short terms for consideration, analysis of projects and completion of transactions.

In 2019 new customers were attracted to the Bank in the Large Corporate Customers (LCC) segment, with loans approved for over BGN 118 million. The utilizations in 2019 of newly approved loans managed by LCC amount to over BGN 85 million.

In general, the activity in 2019 focused on two main areas:

- Lending to proven and loyal customers, attracting new customers for the Bank in the LCC segment with good business and credit history with potential for development. The purpose and achievement of full banking servicing was aimed at maximizing the profitability of the Bank for each customer. Offering maximum number of services and products, concluding contracts for mass payments and transfer of wages.
- Improving the current loan portfolio quality. Monitoring of all credit exposures, and early identification of impaired financial position.

## RETAIL BANKING

The activity of Investbank JSC in 2019 in the field of retail business follows the trends valid for 2018 in this segment - the high interest in lending continues this year, 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 continues to apply more adequate and effective measures regarding credit risk monitoring and control.

The activity in 2019 focused on a number of main areas:

- Optimization of the structure of the branch network of Investbank.
- 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.
- Updating and modernization of the work processes in the Bank. Enrichment of the range of products relevant to customer demand and competitive demand. 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 trades mainly in the following currencies: BGN, EUR, USD, CHF and GBP.

Priority is given to ensuring the Bank's liquidity.

The proper management of cash flows and increased deposits from natural persons and businesses did not allow the institution in 2019 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.

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 securities portfolios for Investbank JSC, reflecting the impact of all revenues and expenses, including interest ones, for the last three years has always been a profit in accordance 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 2018 shows a decrease in the net profit for the period by about BGN 2,366 thousand. The main reason for this is the decrease in the low bond yields. The portfolio is optimally structured, mainly with liquidity issues with minimal risk in size and maturity. Despite the low levels of yields (directly affecting interest earnings and depreciation expenses of portfolios) in key maturities of major issuers of debt securities in the Eurozone, the Bulgarian government and corporate debt market in 2019 continued the trend of record low levels of yields. Short-term and medium-term Bulgarian government bonds were traded at a negative yield, as a result of the trend in 2019 for a more pronounced differentiation between the leading countries in the Eurozone and the so-called periphery.

| Indicators  | 31/12/2017 | 31/12/2018 | 31/12/2019 |
|---|------------|------------|------------|
| 1. Securities portfolio                           | 537,174    | 457,079    | 517,288    |
| 2. Net revenues on securities portfolios          | 12,037     | 7,472      | 5,105      |
| 2.1. Interest revenues from securities management | 5,069      | 5,207      | 2,915      |
| 2.2. Net revenues from securities management      | 6,968      | 2,265      | 2,190      |
| 3. Yield of securities portfolio                  | 2.24%      | 1.63%      | 0.98%      |

### Net income on foreign currency operations

For 2019 Investbank JSC reports the net revenues from foreign exchange transactions and the revaluation of foreign currency balances in the amount of BGN 2,048 thousand.

The results as at 31 December 2019 reported a decrease in revenues compared to the end of the previous year, as a result of the reduced volume of foreign exchange transactions with customers, whereby the revenues are mainly from the achieved efficiency in managing the Bank's foreign currency assets and liabilities.

**Bondholders' trustee bank**

Investbank JSC is a bondholders' trustee bank of 12 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 on an annual basis from this activity amount to BGN 99,600.

**Mediation in carbon emission allowance trading**

In 2019 Investbank JSC launched a new service of mediation in carbon emission allowance trading. Orders on behalf of customers were executed in the amount of EUR 65,742,200, and the total operating revenues amounted to BGN 2,443,030.77.

**CARD BUSINESS****Card operations**

In 2016 Visa Inc. acquired its former Visa Europe unit for approximately EUR 21 billion. The merger made the new company more competitive and allowed it to integrate all Visa international operations within one corporation, improve the quality of services and enable banks to access resources for product innovation and development. As a shareholder, Investbank JSC received residual income from the sale, which was redistributed in 2019 to VISA members.

At the beginning of 2019, a five-year agreement was signed between Investbank JSC and Mastercard for the development of the common card business of the two organizations.

In mid-2019 Investbank JSC updated the designs of its card products Debit Mastercard, Mastercard Standard, Mastercard Gold and Mastercard Business. The new designs take a modernist look, suggesting the Bank's willingness to develop and offer innovative card products and payment methods based on the latest technological solutions in the field.

At the end of 2019 Investbank JSC started offering a new card product - Business Debit Mastercard. The product is intended for legal entities and generates higher income for the bank from interbank fees for card transactions. The introduction of this product is a step towards optimizing the investment portfolio of Investbank JSC and increasing the efficiency of the card business of the Bank.

In the beginning of October 2019 Investbank JSC launched a campaign to stimulate the issuance of Mastercard debit and credit cards with cash rewards for the employees who achieved the highest sales results during the campaign period. This activity will help 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 wants to place on the market.

Investbank JSC is a fully certified issuer and acceptor of cards and payment transactions, respectively, using the secure Internet payment technology 3D Secure (3D secure protocol and Verified by Visa /

Mastercard Secure Code). For each payment with an online merchant supporting the Verified by Visa/Mastercard SecureCode service, the customers will receive a single free SMS password on their mobile phone to be entered in the relevant box.

The service is applicable to all customers who have registered a valid mobile phone at the Bank's office.

In 2019 Investbank JSC started a joint project with the card organizations on the implementation of additional strong customer authentication measures with respect to the payer, which will be applied every time the payer accesses the relevant payment account online, initiates an electronic payment transaction or performs a remote operation.

Investbank JSC launches and implements a Cash Back Loyalty Program for credit cards with a credit limit granted to natural persons and legal entities issued by Investbank JSC.

As a bank issuing Mastercard and VISA cards, we support VISA Direct and MoneySend. The services involve a transfer of funds on the card provided by the receiving and card issuing bank in the customer's account within 30 minutes of the authorization.

### **Terminal network**

In 2019 Investbank JSC launched a project for modernization and optimization of its ATM network. The main goals of this project are:

- Ensuring the readiness of Investbank JSC to meet the challenges of the "digital era" through the complete technological transformation of its ATM network to the latest generation of ATM devices from the leading manufacturer in this field "Diebold Nixdorf";
- Achieving high competitiveness of Investbank JSC in the dynamic market of financial and technological services;
- Offering a new user experience and new type of service through ATM devices:
  - with a modern and advanced appearance;
  - with large 15-inch colour touch-screens;
  - with contactless cash withdrawal functionality;
- Providing an additional channel for communication with customers through the capabilities of the new ATM devices for the visualization of targeted messages;
- Optimizing the number of locations and keeping the most cost-effective locations;
- Increasing the efficiency of the ATM network;

The new ATM devices enable Investbank JSC to develop and implement value-added services:

- Customized messaging by customer segments;
- Cardless cash withdrawal through contactless transaction functionality;

Some of the new ATMs will have cash deposit functionality that helps reduce financial maintenance costs.

As of the end of 2019, the total number of ATM terminals installed is 121, which allows the Bank to provide additional services to the population in more than 100 settlements in the country. Currently, Investbank JSC maintains and expands a well-developed network of POS terminals that support dual chip/stripe interface and VISA/Mastercard wireless technology. The number of POS terminals in 2019 has remained at approximately the same level.

In 2019, a number of projects were completed related to improving the security of card payments and the development of additional value-added functionalities for both the Bank's POS merchants and the end customers. 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 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 Bank has a real-time monitoring system for card transactions, which monitors devices and prevents suspicious transactions.

## **PAYMENT SERVICES**

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

- receiving and issuing credit transfers in EUR, CHF, GBP, RUB, SEK, USD;
- issuing transfers in over 34 different currencies through an AUTO-FX agreement with Société Générale, Paris
- receiving credit transfers in EUR and USD under the Unistream system (for natural persons only);
- documentary operations - letters of credit, collection, bank guarantees.

In 2019, there was an increase in the number of transfers (inbound and outbound) in both local and foreign currency. The growth of foreign currency inbound transfers was over 4% compared to the previous year.

The Bank performs cross-border currency transfers through its correspondent accounts, the TARGET2 payment system and credit transfers in the Single Euro Payments Area (SEPA).



To carry out its activity in the field of international payments and commercial financing, Investbank JSC has opened correspondent accounts with the following banks:

| <b>CORRESPONDENT BANK</b>                           | <b>SWIFT / BIC</b> |
|---|--------------------|
| <b>CHF</b>  |                    |
| SBERBANK OF RUSSIA, MOSCOW                          | <b>SABRRUMM</b>    |
| SOCIETE GENERALE, PARIS                             | <b>SOGEFRPP</b>    |
| <b>EUR</b>  |                    |
| INTESA SANPAOLO SpA, MILAN                          | <b>BCITITMM</b>    |
| INTERNATIONAL BANK FOR ECONOMIC COOPERATION, MOSCOW | <b>IBECRUMM</b>    |
| SBERBANK OF RUSSIA, MOSCOW                          | <b>SABRRUMM</b>    |
| SOCIETE GENERALE, PARIS                             | <b>SOGEFRPP</b>    |
| <b>GBP</b>  |                    |
| SOCIETE GENERALE, PARIS                             | <b>SOGEFRPP</b>    |
| <b>RUB</b>  |                    |
| SBERBANK OF RUSSIA, MOSCOW                          | <b>SABRRUMM012</b> |
| <b>SEK</b>  |                    |
| SOCIETE GENERALE, PARIS                             | <b>SOGEFRPP</b>    |
| <b>USD</b>  |                    |
| INTERNATIONAL BANK FOR ECONOMIC COOPERATION, MOSCOW | <b>IBECRUMM</b>    |
| SBERBANK OF RUSSIA, MOSCOW                          | <b>SABRRUMM</b>    |

In 2019, the network of correspondent relationships was expanded and correspondent accounts were opened with new financial institutions. Investbank JSC has established SWIFT RMA with over 160 banks in different geographical regions worldwide.

Investbank JSC participates in the following payment systems:

- Banking Integrated Electronic Payment System (BISERA);
- Real-time INterbank Gross-settlement System (RINGS);

- 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.

In 2019 Investbank JSC implemented a project for control and monitoring of payments through SWIFT Payment controls.

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

## INFORMATION TECHNOLOGY

### Development of information systems

The development of the information systems in Investbank JSC in 2019 was under the sign of continuous updating, sustainable upgrading and gradual modernization. Following the medium-term IT Development Strategy and in line with current IT trends, the Bank continued to take steps to ensure the maximum functionality and security of internal and external IT services and systems necessary for carrying out its core activities.

During the year, the Project on Ensuring the Activities for Providing Continuous and Fault-Free Operation of the Bank's Information Systems was successfully implemented, aiming at achieving a high degree of security in the execution of banking transactions, as well as maintaining reliable databases, networks and systems in order to ensure continuity of service and key processes at the Bank. As part of the project, the Bank successfully transitioned its hardware platform to the latest generation of hardware, which, combined with the migration to a new version of Oracle, contributed to higher productivity, new optimization capabilities and better database management efficiency. The basic communication equipment, as well as the equipment intended for achieving and backup information, was also updated.

The activities finalized in 2019 may include the final implementation of a project for system deployment containing suspicious transaction monitoring (AML) modules, Know Your Customer (KYC), sanction / restriction lists (Embargo), and submission of information to the US tax authorities (FATCA), and the mandatory automatic exchange of financial information for tax purposes in the EU; implementation and integration of a risk analysis and management system (Risk Framework-RFW) comprising the modules RFW - Rating, RFW - Scoring and IFRS 9 subsystem; as well as the implementation of a project to create an online platform for applying for consumer loans and credit cards.

In implementation of the Payment Services and Payment Systems Act transposing Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market (PSD 2) and Commission Delegated Regulation (EU) 2018/389 supplementing Directive (EU) 2015/2366 with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication, Investbank JSC has successfully implemented a project to align online

banking with the regulatory framework and to ensure services in payment initiation and provision of account information.

In connection with the asset quality review and stress tests carried out, preliminary preparation was carried out and timely exchange of data with the ECB was ensured.

In order to expand the range of products and services for the Bank's customers, during the year 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.

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. The scope of IP telephony in the branch network was expanded, the UPS devices for a number of branches of the Bank were replaced, the work on optimizing the printing at the bank continued. Together with the communication provider and the system integrator, network capacities and reliability of communication connections were increased.

The ongoing work continued on the optimization of the complex anti-virus and firewall protection, for control of all I/O devices, installed software, etc. The new centralized ESET Endpoint Protection system was successfully installed and deployed throughout the bank, replacing the old Kaspersky Endpoint Protection.

#### **Software and technical support guidelines**

Investbank JSC considers the development of information technologies and the maintenance of a modern infrastructure, information and technological environment its main priorities, as the Bank systematically and purposefully invests in technologies in line with the current trends in the field of banking, in order to offer innovative value-added products for customers and new multifunctional banking solutions.

In the context of the growing importance of digitalization in the field of banking, Investbank JSC plans for the following year a number of projects aimed at providing the opportunity to offer new digital services.

#### **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) adopted by the MB on 14 February 2014 with Minutes No.14 and approved by the SB, 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.

By adopting and periodically reviewing the Policy, the Bank's management sets the following key goals in terms of information security:

- ensuring compliance with the applicable legislation and the agreed requirements;
- 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 of Investbank JSC.

The last periodic review of the Information Security Policy was completed by the Investment Security Committee of Investbank JSC at a meeting held on 18 December 2019 with Minutes No. ISC-17 dated 18 December 2019.

The Information Security Policy was amended and supplemented by a decision of the Management Board at a meeting held on 27 December 2019 with Minutes No. 55.

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 necessitate the implementation of preventive measures, creating and maintaining a plan of action in case of more significant incidents.

The Crisis Action Plan, 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 (adopted along with the appendices thereto on 5 March with Minutes No. 15 of the meeting of the MB and approved by the SB with Minutes No. 9 dated 9 March 2015) 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.

The last periodic review of the Business Continuity Plan was completed by the Investment Security Committee of Investbank JSC at a meeting held on 27 November 2019 with Minutes No. ISC-16 dated 27 November 2019.

The Business Continuity Plan was amended and supplemented by a decision of the Management Board at a meeting held on 3 December 2019 with Minutes No. 52.

## **HUMAN RESOURCE MANAGEMENT**

Human resource management and development activities in 2019 focused on supporting the employees' performance, motivation and commitment. During the year, a policy of evaluation and optimization of processes, organization of work and staffing was gradually implemented in order to create a more efficient, modernized and sustainable institution.

During the calendar year, 96 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.

In 2019, a new e-learning platform provider was selected - Moby2. Compared to the old platform, Moby2 offers training and attestation modules, faster and easier administration, access via mobile devices, enabling the employees to access training during off-hours and not interrupt their workflow. The and Attestation and Assessment Module provides an option for better organization of the performance targeting and evaluation process, as well as more efficient processing of results. 10 in-house trainings were conducted through the e-learning platform involving 2426 employees.

In the field of employee motivation and commitment, a new Internal Rules of Procedure were adopted in 2019 with a focus on improving the employees' work-life balance, namely the introduction of floating working hours and two days of additional paid leave.

Employee targeting took place in early 2019 as part of the employee evaluation process provided for in the new Personnel Incentive System. Employees and managers at all levels in the Head Office and the Branch Network of the Bank participated in the targeting process.

In 2019, programs and practices for evaluating the performance of individual teams and the potential for development at the individual level were successfully continued and further developed. As a result, the employees with the necessary qualities and skills for future and successful professional realization in the Bank's structures were identified.

The internship program "On the path of tradition, to develop ambition" attracted young professionals with no practical experience to work with some of the Bank's professionals. The program has laid a good foundation for future development and upgrading in the coming years, stimulating mentoring and knowledge sharing by the employees within the organization. 28 students enrolled in it, and 3 of them, after successfully completing their internship, have been employed by the Bank. This has contributed to enhancing the Bank's image as a preferred employer and the strive of the employees for sustainable growth.

## **REAL ESTATE**

### **Asset realization**

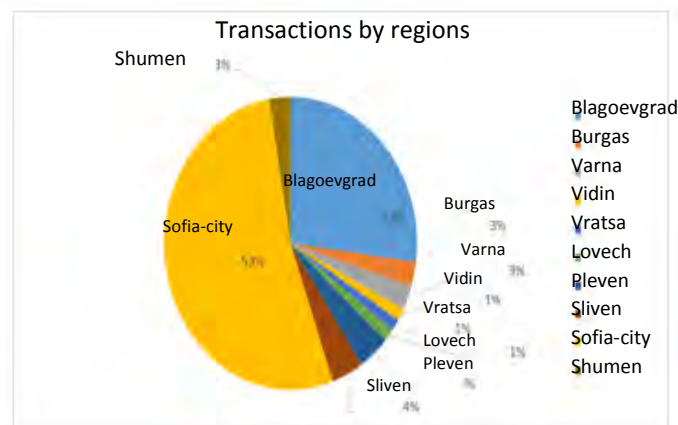
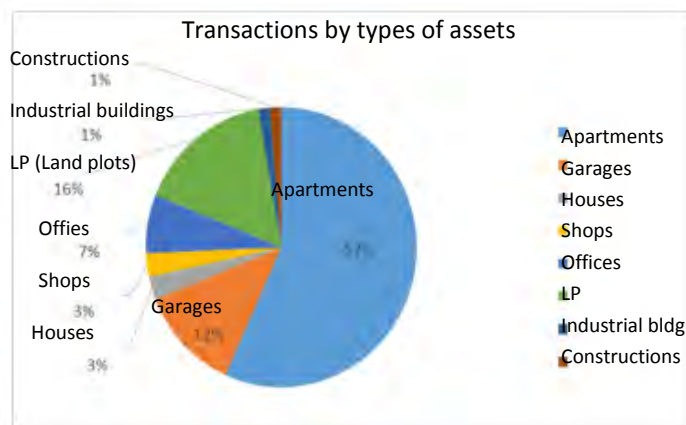
The real estate market in 2019 was characterized by some delays: retaining offer prices down and reducing the number of deals. Nevertheless, the Bank has finalized transactions amounting to over BGN 20 million. The majority of the transactions were in the area of holiday and residential real estate, and the highest profits were realized in the sale of unfinished plots. For 2019, the Bank reports a 50% increase in the revenues from the sale of acquired assets. The regions with the largest volume of transactions are Sofia, Blagoevgrad, Shumen, Sliven, etc.

The activities for the completion of several buildings owned by the Bank and their putting into operation have continued, with a view to increasing the options for the realization of the properties in the respective sites. Several new lease agreements were signed, and most of our relations with our tenants have been maintained.

The main focuses were in the following areas:

- Improving asset quality;

- Transformation of the operating model - digitalization and active offering of assets for sale;
- Cost optimization.



## CORPORATE COMMUNICATIONS

In 2019, the activities related to the corporate communications of Investbank JSC were organized and carried out in accordance with the general strategic goals and policies of the Bank, in compliance with the approved marketing plan, by priority over specific time periods within the year. The campaigns conducted took into account the needs of the customers, the behaviour, products and services of the competition, the development of the banking sector and the specific nature of the processes in macroeconomic and socio-political terms.

The Investbank JSC advertising and PR budget for 2019 was effectively implemented and we continued our good practices in the area of **Corporate Social Responsibility**, supporting significant causes and initiatives in the field of Bulgarian culture, art and education.

The following projects were implemented with the support of Investbank JSC:

- Holding of the International Music Festival "March Music Days" in Ruse, which for over half a century has united Bulgaria with the European and world music culture;
- The Excellencies of Bulgaria - - the initiative has been organized by "24 Hours" Newspaper for the third consecutive year and will continue to support Bulgarian young minds;
- Investbank has participated in a charity campaign organized by the Association of Banks in Bulgaria (ABB) and the Foundation "Our Premature Children" to purchase medical equipment in neonatology wards in the country. With the help of donations from ABB member banks, medical equipment worth over BGN 50,000 will be purchased and provided to six hospitals in the country;

- The bank supported the Bulgarian Christmas campaign.

**PR** –The press center of Investbank JSC daily monitors information in dozens of Internet information points and publications in central printed editions. Current and overview clips are prepared and, if necessary and approved by the Management, reaction is effected through the PR toolkit. Press releases are regularly drafted and sent to the press and in the event of important and significant news from the Bank.

In 2019 Investbank JSC was the subject of active media interest in connection with the stress tests conducted by the European Central Bank. Throughout the review process, the Bank was consulted and methodologically assisted by leading international audit firms.

### ***Internal communication***

The area of internal communications is one of the areas of focus during the year and successfully developed by the Corporate Communications Directorate.

The Bank's employees were communicated about all relevant internal news and events, both by email and through the news on the internal corporate website.

### ***Advertising***

In order to implement its advertising strategy, Investbank JSC uses different types of advertising, each campaign being carefully analysed by selecting an approach, a media mix and considering price offers.

The ***image advertising*** of Investbank JSC in 2019 was carried out daily through the Bank's advertising boards positioned in the BTA press clubs in the capital and the country. The advertisement is visible during all press conferences of BTA, which are reflected in the print and electronic media. The Bank also had a strong image presence during the career exhibitions in which it participated.

### ***Supporting advertising and layout of the FC***

In 2019, the unified renovation of the financial centers and offices of Investbank JSC continued through a supportive advertisement of various printed materials: leaflets, posters for various products, advertising stickers, etc.

### ***Online communications***

***Online communications*** include the administration of the official corporate website of Investbank JSC in its two language versions - in Bulgarian and English, implemented both by regular publication of news, notifications, announcements, banners and updates of information about products, services and prices, and by providing feedback when receiving inquiries.



*The focus in the Bank's advertising activities in 2019 was on product advertising for consumer and mortgage loans*, using the following advertising channels: Internet, press, television, radio, print materials for offices. Internet advertising is implemented in reputable news and information sites that maximize the coverage of the targeted audience. The television campaign was realized through a TV commercial and alternative television formats in a reputable television media group, and the press advertising - in well-established magazines and business publications. At the end of August 2019, a two-week national advertising campaign of Promotional Consumer Loan was launched on Radio 1.

In connection with the 25th anniversary of Investbank JSC, a new TV commercial of the Bank was prepared, broadcast on the channels of Nova Broadcasting Group (NOVA, NOVA Sport, FOX, National Geographic Channel, Diema Sport, Diema, Disney Channel, Fox Crime, Nat Geo Wild, Diema Sport 2, Diema Family, AXN, FOX Life, Nickelodeon, Kino NOVA, CITY TV, 24Kitchen, Nick Jr), in the period: September to November 2019.

Banking products and services were also properly advertised *through the Facebook and Instagram pages of Investbank JSC*, which in 2019 continued to attract a large number of followers, as well as report high results in terms of the scope reached.

Through the *Christmas and New Year's advertising campaign* of Investbank JSC for the Head Office and all financial centers, branded advertising materials were provided for greetings to employees, customers and partners.

In order to reach more users, in 2019 Investbank JSC launched a new platform for online application for credit cards and consumer loans.

In the next 2020 Investbank JSC will continue to carry out a number of activities in the field of PR and advertising communications. The planned projects in the field of digitalization of the Bank, corporate social responsibility, internal communications, as well as the continuation of the process of updating the advertising layout of the financial centers and offices of the Bank have significant potential for development.

## RESEARCH AND DEVELOPMENT

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

## 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 the members of the MB have interest in the share capital of the Bank, the total shareholding of which does not exceed 1% of the total number of the Bank's shares.

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

The remunerations of the executive directors and the Management Board as at 31 December 2019 amount to BGN 620 thousand (year 2018: BGN 458 thousand) and those of the Supervisory Board amount to BGN 376 thousand (year 2018: BGN 376 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).

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:

- Petya Ivanova Barakova Slavova
  - Festa Holding AD - over 25% of the capital and participation in the management
  - Festa Hotels AD - participation in the management
  - Properties PS - over 25% of the capital and participation in the management
  - Job SRL - over 25% of the capital
  - Chernomorsko Zlato AD - participation in the management
  - ZAD Bulgaria - participation in the management
  - Association of the Bulgarian Tourism Industry - participation in the management
- Dimitriyka Lazarova Andreeva
  - DA Finance EOOD - over 25% of the capital and participation in the management
- Festa Holding AD

Festa Security - over 25% of the capital

F Assets AD - over 25% of the capital

Bulgaria Insurance AD - more than 25% of the capital

MC Festa Medika EOOD - over 25% of the capital (through Festa Hotels AD)

Re PAK AD - participation in the management

Festa Hotels AD - over 25% of the capital and participation in the management

### **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 moderately conservative policy in adopting risk and maintaining an acceptable risk profile of the Bank's assets and liabilities.

**This goal** will be achieved by:

- 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 diversification of the Bank's loan portfolio and improvement of its quality by reducing the relative share of loans granted to large companies at the expense of an increase in loans to SMEs and an increase in the volume of retail banking loans;
- further reducing the volume of assets acquired through sales or leasing;
- increasing the efficiency of the Bank (reducing the ratio of operating expenses in % of operating income) and maintaining it at 50%-60%.

**Core business segments:**

- business banking (banking products and services for small and medium-sized enterprises);
- retail banking (natural persons and micro-enterprises)
- institutional customers

The emphasis in the development of the Bank in the short and medium term will be placed on business banking through the increased supply of standardized products and retail banking by expanding the supply of mortgage and consumer loans, as well as card products/.

**Particular attention will be paid to:**

- Developing long-term business relations with the Bank's customers and business partners by offering high quality banking products and services based on an individual approach to each of them;
- Lending to companies in promising sectors of the Bulgarian economy and with high growth potential;
- Developing digital services and electronic distribution channels:
- Introducing Omnichannel banking - a business model to improve customer experience. Including channels such as physical locations, FAQs webpages, social media, live chat, mobile apps and telephone communication puts customers at the heart of the banking experience. In addition, allowing the customers to initiate a transaction on one channel and complete the process through another one is an integral part of the successful implementation of a comprehensive strategy.

- Establishing fully virtual banks - “branches of the future”, operating on a global, local or private electronic network, having no “physical” offices but offering a basic package of banking services;
- Increasing channels to create an environment where customers gain a customer experience with the Bank rather than simply execute transactions.

## EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

1. The General Meetings of the bondholders of the two corporate bonds with ISIN code BG2100004139 and BG2100008130, issued by Investbank JSC, held on 13 January 2020, took unanimous decisions (by 100% of the bonds of the two issues) by which the bondholder gives its consent that the Issuer - Investbank JSC - make a full one-off final repayment of the bond loan on both bond issues, provided that all necessary preliminary permits have been obtained and the amount paid by the issuer for the repayment of the principal of the two bond loans will be used by the Bondholder for the purchase of a total of 1,960,500 voting shares from the capital increase of Investbank JSC at a single issue price of BGN 20 per share or at the total issue value of all purchased shares of BGN 39,210,000.

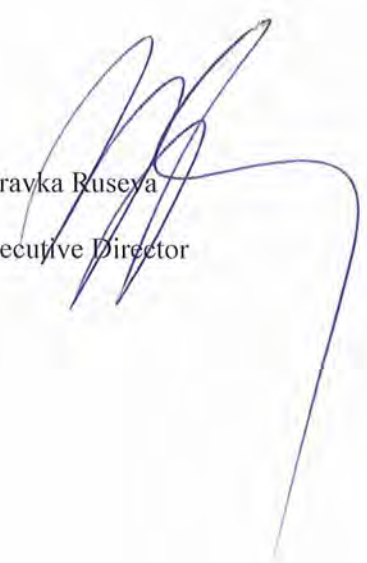
2. The agenda of the extraordinary general meeting of shareholders of Investbank JSC, to be held on 10 February 2020, includes the following draft resolutions:

2.1. Increase of the capital of the Bank pursuant to Art. 192 (1) (prop. 1) and Art. 221 (2) (prop.1) of the Commerce Act and Art. 12 (1) and (2) of the Articles of Association of Investbank JSC by up to BGN 21,944,445 (twenty-one million nine hundred and forty-four thousand four hundred and forty-five BGN) by issuing new 21,944,445 (twenty-one million nine hundred and forty-four thousand four hundred and forty-five) ordinary registered voting shares with a par value of BGN 1.00 (one BGN) each and issue value of BGN 1.00 (one BGN) each or total issue value of BGN 21,944,445 (twenty-one million nine hundred and forty-four thousand four hundred and forty-five).


2.2. Conducting a procedure for replacement of equity instruments with higher-end equity instruments, with full and final repayment by a one-off contribution the full bond loan formed under the two debt-equity hybrid instruments, included in the additional tier I capital of the Bank, in the total amount of BGN 39,210,000, and the amount received for the repayment of the loan principal, the Bondholder should subscribe, purchase and pay all 1,960,500 voting shares from the capital increase of Investbank JSC which is to be performed simultaneously with the repayment of the bond loan, at a single issue price of BGN 20 (twenty) per share or total issue value of all shares in the increase amounting to BGN 39,210,000.

2.3. Increase of the Bank's capital under the provisions of Art.195 in conjunction with Art.194(4) of the Commerce Act by BGN 1,960,500 (one million nine hundred and sixty thousand and five hundred) by issuing new 1,960,500 (one million nine hundred and sixty thousand and five hundred) ordinary registered voting shares, with a par value of BGN 1 (one) each and a single issue value of BGN 20 (twenty) per share or a total issue value of BGN 39,210,000 (thirty-nine million two hundred and ten thousand) upon loss of the preferences of the shareholders under Art. 194 (1) of the Commerce Act and on the condition for the redemption of the shares from the increase by the Bondholder of the corporate bonds issued by Investbank JSC with the full amount of the principal of the bond loans on both issues, paid to it by the Issuing Bank at the repayment of the bond loans. The difference between the par value and the issue value of the new shares should be paid into the Reserve Fund pursuant to Art. 246 (2) (2) and Art. 192 (4) of the Commerce Act, and Art. 12 (4) of the Bank's Articles of Association.

3. On 17 January 2020. Mrs. Lyudmila Vasileva was registered as a member of the Management Board of Investbank JSC.



Zdravka Ruseva  
Executive Director



Vesela Koleva-Dzhidzheva  
Executive Director



## CORPORATE GOVERNANCE STATEMENT

*Under Art. 40 of the Accountancy Act and Art. 100n, para. 8 of the Public Offering of Securities Act (POSA)*

### **Information under Art. 100n, para. 8, it. 1, letter “a”.**

The Bank shall comply expediently and without exceptions with the requirements of the National Corporate Governance Code published on the webpage of the Bulgarian Stock Exchange – Sofia AD ( <https://www.bse-sofia.bg/en/corporate-governance> ).

### **Information under Art. 100n, para. 8, it. 3**

The risk is an economic category inherent to any type of activities. It lies at the basis of every investment project and every investment decision. There is no line of financial activity which does not meet with the expectations for return on invested capital and is not characterized by specific risk characteristics.

One of the adopted classifications discerns between common, systematic and unsystematic types of risk.

**Common risks** are related to natural disasters, social catastrophes, wars, large-scale industrial accidents, ecological catastrophes and other force majeure circumstances. By rule, they are brought down to a minimum by using the relevant insurance products.

**Systematic risk** is the result of general conditions under which the economic entities tend to operate, therefore it can influence every business, institution and financial instrument. Its impact is external with regard economic subjects; hence it cannot be managed. This requires comprehensive study and analysis of the components of the systematic risk – macroeconomic, political, inflation, credit, currency, tax and other risks, and compliance of the investment policy of every entity with its impact.

**Unsystematic risk** – these are risks specific for the actual economic entity and related to the status and trends of development in the sector in which it operates. These risks are part of the general investment risk and may be managed by the management of the company, whereas they are:

#### *Credit risk*

The main source of risk for the Bank are the loans granted to customers. One factor that lowers the credit risk related to the overall credit activity of the issuer is the diversification of the credit portfolio. The purpose of the credit risk management by the Bank is to maximize the return on assets by maintaining the risk exposure within the frameworks of acceptable parameters.

The policy of the issuer for the assessment and classification of credit exposure is fully consistent with the regulatory requirements of IFRS 9.

#### *Liquidity risk*

The liquidity risk is related to discrepancy in the maturity structure of assets and liabilities. The liquidity risk results from the provision of funds for the activities of the Bank and the management of its positions. The Bank seeks to maintain balance between the maturity of the borrowed resources and flexibility in the use of a different maturity structure. The Bank shall perform ongoing assessments of the liquidity risk by identifying and monitoring the changes in the need for resources for achieving the goals underlying its overall strategy.

### *Interest rate risk*

The operation of the Bank is subject to risk from fluctuations in interest rates to the extent in which the interest-bearing assets and liabilities mature or undergo changes in the interest levels at various times and up to a various degree. The interest rate policy and interest rate levels are determined depending on the market situation, the condition of the credit market, price of resource, risk of each specific project and customer.

### *Capital risk*

The capital risk reflects the extent of indebtedness of a bank institution.

The capital of a banking institution plays a protective function for the creditors against possible losses of the bank. The asset quality of the Bank plays a major role for the minimization of the capital risk.

Potential investors must be well-acquainted with the risks related to investment in debt securities, as well as to consider each investment depending on their own readiness to assume risk based on the return they seek, the investment horizon, investment restrictions and goals.

The capital hybrid debt instruments issued by Investbank JSC are classified, measured and reported in compliance with IFRS 9.

### **Information under Art. 100n, para. 8, it. 4.**

The Bank does not have significant direct or indirect shareholdings within the meaning of Art. 85 (repealed) of Directive 2001/34/EC.

The Bank does not have shareholders holding shares with special control rights.

The Bank does not have any imposed restrictions on the voting rights of the shareholders.

The rules applied to the appointment or replacement of the Supervisory Board or the Management Board and the adoption of amendments to the Articles of Association of the Bank shall be:

- Articles of Association of Investbank JSC
- Rules of procedure of the Supervisory Board
- Rules of procedure of the Management Board
- Rules of procedure of the Selection Committee
- Policy on selection and evaluation of the fitness and suitability of the persons holding senior management, control and key positions in Investbank JSC

The powers of the Members of the Supervisory Board and the Management Board of the Bank have been set forth in:

- Articles of Association of Investbank JSC
- Rules of procedure of the Supervisory Board of Investbank JSC
- Rules of procedure of the Management Board of Investbank JSC

The Members of the Supervisory Board and the Management Board of the Bank shall not be entitled to take decisions for the issuance or repurchase of shares.

### **Information under Art. 100n, para. 8, it. 5**

The composition and operation of the managing and supervisory bodies, the Audit Committee, the Selection Committee, the Asset-Liability Committee (ALCO), the Risk Management Board, the Credit Board, the Remunerations Committee, Information Security



Committee and the Commission for customer reports, complaints and inquiries have been regulated in:

- Articles of Association of Investbank JSC;
- Rules of procedure of the Supervisory Board;
- Rules of procedure of the Management Board;
- Rules of procedure of ALCO;
- Rules of procedure of the Audit Committee;
- Rules of procedure of the Selection Committee;
- Rules of procedure of the Risk Management Board;
- Rules of procedure of the Credit Council;
- Rules of procedure of the Information Security Committee;
- Rules of procedure of the Remunerations Committee;
- Commission for customer reports, complaints and inquiries

**Information under Art. 100n, para. 8, it. 6.**

The Bank shall pursue diversity with regard administrative, management and supervisory bodies by way of:

- Balanced gender and age structure at any level of management and control;
- Education level and various fields of knowledge in line with the regulatory requirements
- Professional experience adequate for the positions held in compliance with the regulations.

Diversity lies in the combination of traditions and innovation in the field of banking, as regulated in:

- Corporate Governance Policy of Investbank JSC
- Code of Conduct
- Policy of selection and assessment of the fitness and suitability of persons holding senior management, control and key positions in Investbank JSC

Detailed information about the strategy and operations of Investbank JSC has been provided in the Annual Management Report of Investbank JSC for 2019, this Statement being an inseparable part thereof.

**ZDRAVKA RUSEVA**  
Executive Director

**VESELA KOLEVA-DZHIDZHEVA**  
Executive Director

## **Non-Financial Declaration**

*Under Art. 40 of the Accountancy Act*

This Non-Financial Declaration has been prepared in compliance with the requirements of Art. 41 of the Accountancy Act and is an inseparable part of the Annual Management Report of Investbank JSC for 2019.

### **Business model**

Investbank JSC (the Bank) is a universal commercial bank holding unlimited license for the provision of bank services in the country and abroad. The main priority of its activities is the provision of a comprehensive set of services to the customers, provision of loans to companies /incl. for EU programs/, retail banking, operations in the national and international monetary and capital markets /incl. as an investment intermediary/, comprehensive bank services to municipalities, budget spending units, etc.

The Bank has a pyramid organizational structure, as follows:

- General Meeting of Shareholders;
- Supervisory Board;
- Management Board;
- Chairperson of MB and Executive Director;
- Deputy Chairperson of MB and Executive Director;
- HO Directorates and Departments thereto;
- Financial centers of the Bank, offices and remote workplaces.

### **Company policies**

Investbank JSC places special importance on the integration between the economic, environmental and social aspects of its operation. The Bank acts with integrity and high social and ecological responsibility.

#### **I. Environmental policy**

Environmental protection is one of the most important issues addressed by the management of the Bank. The bank products and services on offer aim to guarantee safety by using technology compliant to environmental standards.

The environmental protection policy comprises of:

- Performance of the activities in a manner aiming to guarantee environmental protection;
- Assessment of the environmental impact of the processes and materials used in the operations;
- Control and management of the assessed aspects having environmental impact;
- Taking safety measures against possible environmental pollution;
- Assessment of environmental pollution and the efficiency of taken steps;

- Compliance with all laws and rules aiming to ensure the ecological balance in the area of operation of the company.

The management of the Bank is committed to create conditions so as to implement the goals of environmental protection.

## **II. Social policy.**

It is important for the Bank to provide favourable and acceptable working conditions, as well as social climate aimed to motivate employees and make them feel important and appreciated representatives of a tightly working team whose work defines the implementation of all goals set.

The management of the Bank considers social services and staff support as an important prerequisite enhancing the team work and qualified staff recruitment policies.

## **III. Staff policy.**

Guided by the challenges of modern market environment and seeking to meet the ever increasing customer demands, the management is of the opinion that successful business and stable growth are possible only by focusing on the quality of the full range of activities of the Bank and believes that the Bank's best employees must be given credit for the continued growth of the Bank.

Therefore, the management aims and puts in constant effort to make them feel satisfied by the working conditions and the opportunities for personal and professional development. Hence, daily care for the Bank employees has been pursued continuously. The available financial, human and technological resources are used efficiently to this end and proactive and targeted efforts have been made to implement the following major tasks:

### 1. Equality and human rights observation:

1.1. Abiding by the Constitution and the laws in the country and more specifically all legal acts regulating the legal employment relations with the staff;

1.2. Equality of employment and non-discrimination in any direct or indirect way based on gender, race, nationality, ethnicity, citizenship, origin, faith or denomination, convictions, political affiliation, personal or public status, disability, age, sexual orientation, family status, financial status or any other aspects.

### 2. Healthy and safe working conditions:

2.1. Assessment of health and safety related risks;

2.2. Preventive approach is applied to health and safety, as well as to decision-making, implementation of any activities posing risk for the health and safety, so as to prevent injuries and illnesses that might affect the employees working for the Bank;

2.3. Healthy and safe working conditions are ensured in compliance with the requirements of the applicable legislation, and these are further enhanced, when possible.

### 3. Professional growth.

The Bank has been providing conditions for training, increase of qualification and professional growth of the employees, thus organizing mandatory trainings as well as trainings aimed to raise the



qualification of employees throughout 2019. A total of 151 employees, who account for 24% of the actively working bank staff, have taken part therein.

#### 4. Community work:

4.1. Regular donations to schools, municipalities, sports clubs, foundations and non-profit organizations;

4.2. Participation and sharing experience at various specialized forums of our employees;

4.3. Provision of opportunities to work on diploma papers and course projects locally with the support of our specialists.

#### 5. Gender equality at managerial positions:

5.1. The equal treatment of men and women for appointment at responsible positions in the structural units of the Bank.

In 2019, the women directly supervised by the executive directors have been, as follows:

- Central management - 53 % of directors of directorates;
- Branch network – 42 % of directors of branches;
- At Bank level – 46 %.

5.2. Well-balanced representation of men and women in the process of decision-making with regard social policy of the company.

#### **IV. Anti-corruption policy.**

The Bank stands firmly against any acts whatsoever related to giving or receiving bribes and condoning corruption thus committing to the highest level of ethical conduct.

In order to protect the interests of its customers, shareholders and staff and to bring down to a minimum the risk for the good reputation of the Bank related to default on obligations, the Bank commits to act in a lawful manner, with integrity and fairness in all its business operations and relations based on the following principles:

- Non-engagement in giving/receiving bribes and corruption practices in any form whatsoever, directly or indirectly;
- Intolerance to any possible damage of the interests of a customer of the bank in favour of another customer, administrator of employee of the Bank or the interests of the Bank in favour of the interests of the management and key officers;
- Intolerance to the abuse of power entrusted to employees by meeting certain functions, as well as to the abuse of information obtained in connection with the exercise of powers and act and/or decision that might result in a conflict of interests and absence of loyalty;
- Non-participation in unregulated payments aiming at facilitation/speeding up of deadlines for a process/procedure;
- Gifts, recreation and other benefits: no gifts, recreation or any other benefits shall be offered or authorized and received without the necessary supervision;
- Charity acts: no charity acts shall be offered or authorized as a cover-up for any form of bribery.

All employees and third parties working with the Bank are expected to abide by the above principles during the implementation of their official duties for or on behalf of the Bank.

The Bank also has clear policies and processes for making reports so as to guarantee that any person may submit information confidentially when there is doubt of bribery and corruption practices, as well as to guarantee that these doubts will be investigated and treated appropriately.

#### **V. Main risks related to environmental and social issues.**

##### 1. Main ecological risks.

The main ecological risks related to the activity of the Bank may be defined as:

- Ecological risk – a change in the environment as a result of tipping balance between man and nature;
- Technical and ecological risk – the growth of technosphere, including accidents and emergencies;
- Social and ecological risk – conditioned by emerging social needs of society, as a result of violation of ecological standards;
- Ecological legal risk – resulting from non-compliance with ecological standards and laws of society.

##### 2. Main social risks.

The main risk ahead of the Bank will be the risk of increasing the average age of staff. Other risks related to the employees are: staff turnover risk and risk of low qualification of the newly appointed employees.

Future tasks ahead of the Bank:

1. to attract new qualified employees and lower the average age of the staff;
2. to bring down to a minimum the staff turnover at the Ban by introducing incentives for achieved results and expanding the social benefits;
3. to train the newly appointed employees.

#### **VI. Non-financial key performance indicators for ecology, production environment and staff at the Bank.**

##### 1. Non-financial key ecological indicators.

The region of operation of the Bank is well-developed, the buildings are accommodated to the requirements for architecture and city planning, the employees of the Bank meet the adopted rules and laws applicable to the environmental policy of the Bank.


##### 2. Non-financial key performance indicators of the staff:

- The average number of employees on payroll at the Bank is 637 of whom 469 women;
- 73,6 % of the staff are women, their average age is 44,6 years, 26,4% are men and a total of 34 employees are at an average 50 years of age;
- The breakdown of the staff at the Bank based on education is:
  - ✓ 81 % - higher/semi-higher education;
  - ✓ 19 % - secondary education.

The Bank abides by all its adopted environmental and social policies, hence, no additional statements and facts about its operation are necessary or required.



**ZDRAVKA RUSEVA**  
Executive Director



**VESELA KOLEVA-DZHIDZHEVA**  
Executive Director