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Investbank JSC

Annual Financial Statements

As at 31 December 2018

With an Independent Auditor's Report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Investbank JSC
Sofia City, No. 85 Bulgaria Blvd.

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Investbank JSC** (the "Bank"), comprising the statement of financial position as of December 31, 2018, and the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended that date, as well as the explanatory notes to the financial statements, also including a summary disclosure of the significant accounting policies.

In our opinion, the attached financial statements present a true and fair view of the financial position of the Bank as of December 31, 2018, and its financial performance and its cash flows for the year ended that date, in accordance with the International Financial Reporting Standards (IFRSs) adopted by the EU (European Union) and the Bulgarian legislation.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under these Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.
We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of financial statements in Bulgaria, and have fulfilled our other ethical responsibilities in accordance with the IFAA and the IESBA Code. We believe that the audit evidence obtained by us are sufficient and relevant to form a basis for our opinion.

Key audit matters

Key audit matters are those matters that according to our professional judgment, were of the greatest significance in auditing the current period's financial statements. These matters are addressed as part of our audit of the financial statements as a whole and the formation of our opinion thereon, and we do not provide a separate opinion on these issues.

Determination of the impairment of loans and advances granted, including the initial application of the requirements of IFRS 9 "Financial Instruments" (effective from 01.01.2018)	
Key audit matter	**How this key audit matter was addressed during our audit**
IFRS 9 "Financial Instruments" applies to annual periods beginning on 1 January 2018. The Standard introduces, with changes in the classification and measurement of financial assets, a new model for the calculation of impairment of financial assets (expected credit	During our audit, our audit procedures included, but were not limited to, the following: - Review of the Bank's criteria for classification and subsequent reporting of each category of financial assets and the compliance of these criteria with the

loss model). The introduction and implementation of the standard is a complex process and has a serious effect on the financial statements of banking and non-banking financial institutions. The initial effect of applying IFRS 9 shall be disclosed in accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and other applicable standards. The application of significant judgments and assumptions by the management in measuring the Bank's financial assets implies that this issue should be defined as a key audit issue. The key assumptions and uncertainties inherent in IFRS 9 are principally related to the following areas: - **Classification and initial valuation:** In the initial classification and valuation of financial instruments, the management has made its judgment on the business models for managing the Bank's financial assets and the characteristics of the contractual cash flows of the financial assets. The management has concluded that the cash flows of financial assets classified as loans and advances granted to customers are held only within a business model whose purpose is to aggregate the contractual cash flows that only represent principal and interest payments on the outstanding principal at set dates. The judgment is of significant importance since the loans and advances granted by the Bank constitute a significant part of the Bank's assets. This group of financial assets is subsequently measured at amortized cost. - **Expected Credit Loss Model:** IFRS 9 has resulted in a complicated, multi-valued and multi-assumption model for the calculation of expected credit losses that is appropriate to the size of the Bank's operations, its structure, economic significance, the risk profile of items and the specifics of the business environment in which it operates. The new model requires that the calculation of expected credit losses is based on future-oriented information on macroeconomic indicators based on which different scenarios are developed. The loans and advances granted to customers as of December 31, 2018, amounted to BGN 762,753 thousand and accounted for 36% of the	requirements of IFRS 9; - Review and evaluation of the policies and procedures developed for the new models for calculation of the expected credit losses of financial assets, including those for the loans and advances granted; - Review and evaluation of the adequacy of the results from the tests made on financial assets classified as loans and advances to customers. We have assessed whether the tested financial assets belong to a business model whose purpose is to aggregate the contractual cash flows that represent only principal and interest payments. We applied an alternative test on specific items from the loan portfolio, based on a sampling principle; - Performance of procedures for verifying whether the controls related to the monitoring of the loans granted have been constructed and implemented by the Bank, as well as for evaluating their operational efficiency; - Review and evaluation of the credit classification processes and determining the necessary impairment on both a collective and an individual basis by verifying, using a sampling principle, specific receivables from the loan portfolio and performing tests of the details as part of the substantive procedures with regard to the classification and value of the loans. We analyzed the financial situation of the borrowers and we investigated whether there were any deviations in the compliance with the contractual terms. We took into account the impact of the economic conditions, the valuation of the assets provided as collateral, and other factors that may influence the collectability of the loans and advances verified using a sampling principle. - Applying professional judgment to analyze and evaluate the key assumptions used in the application of the expected credit loss models and calculating impairments for loans and advances granted. We reviewed the estimates made by the Bank's management of the expected credit losses on both a collective and an individual basis and compared the results obtained with our expectations and estimates based on our professional

Bank's assets. The design and implementation of an Expected Credit Loss model require the use of a wide range of instruments based on significant judgments, assumptions, and uncertainties by the Bank's management. Therefore, we have identified the transition to IFRS 9 and the disclosure requirements as a key audit matter. Notes 2 Basics of the Accounting Policy, 3.a Credit Risk and 18 Loans and Advances to Customers to the financial statements present information about the judgments and assumptions of the Bank's management in the formation of the expected credit losses from the impairment of the loans and advances granted to customers of the Bank for 2018. Note 2.4.4 Financial Instruments presents the effect on the opening balances as of January 1, 2018, from the application of IFRS 9 "Financial Instruments".	judgment. - Evaluation of the adequacy of the disclosures in the financial statements, including disclosures of the underlying assumptions and judgments relating to the initial effect from applying IFRS 9, classification and impairment of financial assets and the Bank's exposure to credit risk.

Profit generation from a bargain purchase (negative goodwill) as a result of a business combination (merger of Commercial Bank Victoria EAD into Commercial Bank Investbank JSC)

Key audit matter	How this key audit matter was addressed during our audit
By Resolution No. 267/26 October 2018 the Bulgarian National Bank (BNB) Governing Council allowed Commercial Bank Victoria EAD to be transformed by a merger under the procedure of Art. 262 of the Commercial Act into Commercial Bank Investbank JSC. As a result of the merger of Commercial Bank Victoria EAD into Commercial Bank Investbank JSC as of December 31, 2018, profit was generated from a bargain purchase, which was presented in the financial statements as Other Income. Its amount was BGN 22,577 thousand. Note 2.16 Valuation of Assets and Liabilities in a Business Combination describes the recognition of goodwill from a business combination. Note 10 Other Operating Income presents the amount of profit from the bargain purchase (negative goodwill) as a result of the merger of Commercial Bank Victoria EAD into Commercial Bank Investbank JSC which	During our audit, our audit procedures included, but were not limited to, the following: - Review of the agreement for the purchase of Commercial Bank Victoria EAD by Commercial Bank Investbank JSC; - Review of Resolution No. 267/26 October 2018 of the Bulgarian National Bank (BNB) Governing Council, which allowed Commercial Bank Victoria EAD to be transformed by a merger under the procedure of Art. 262 of the Commercial Act into Commercial Bank Investbank JSC; - Review of the work plan for transformation through the merger of Commercial Bank Victoria EAD into Investbank JSC and the plan for informational infusion of data of Commercial Bank Victoria EAD into Commercial Bank Investbank JSC; - Verification of the correct reflection of the assets and liabilities of Commercial Bank Victoria EAD in Commercial Bank

amounted to BGN 22,577 thousand.	Investbank JSC given the differences in the accounting policies of the two banks; - Evaluation, different to the Bank as the acquirer, of the accurate identification of all assets, acquired and all liabilities assumed and recognition of any additional assets or liabilities identified during that review; - Review of the procedures used to measure the amounts that IFRS 3 "Business Combinations" requires to be recognized as at the date of the merger. The purpose of the review is to confirm that the valuations properly reflect the review of the entire information as at the date of the merger; - Participation in the inventarisation of the assets and liabilities that are subject to the merger. - Tracking the process of pooling the databases of Commercial Bank Victoria EAD and Commercial Bank Investbank JSC.

Information Other than the Financial Statements and Auditor's Report Thereon
The management is responsible for such other information. The other information consists of an activity report, including a corporate governance statement and a non-financial statement, prepared by the management in accordance with the Accountancy Act but does not include the financial statements and our auditor's report on them.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion about it unless expressly stated in our report and insofar as stated therein.
In relation to our audit of the financial statements, our responsibility consists of reading the other information and thus ascertaining whether such other information is materially inconsistent with the financial statements or with our knowledge acquired during the audit, or otherwise appears to contain material misstatement.
Where, based on the work we have done, we come to the conclusion that there is material misstatement in such other information, we are required to report this fact.
We have nothing to report in this respect.

Responsibilities of the management and the persons charged with general governance for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRSs) adopted by the EU and the Bulgarian legislation, and for such an internal control system as the management deems necessary to ensure the preparation of financial statements that do not contain any material misstatements, whether due to fraud or error.

In preparing the financial statements, the management is responsible for assessing the Bank's ability to continue operating as a going concern by disclosing, where applicable, matters related to the going concern assumption and using the accounting base based on the going concern assumption, unless the management intends to liquidate the Bank or wind up its operations, or unless the management has virtually no other alternative than doing so.

The persons charged with general governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our goals are to obtain a reasonable degree of assurance that the financial statements as a whole do not contain any material misstatements, whether due to fraud or error and to issue an auditor's report that includes our auditor opinion. A reasonable degree of assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with the ISAs and the Independent Financial Audit Act will always reveal a material misstatement where such exists. Misstatements may arise as a result of fraud or error and are to be accounted as material if it could be reasonably expected that they, either individually or in aggregate, could impact the users' economic decisions made on the basis of these financial statements.

As part of the ISA auditing, we use professional judgment and retain professional skepticism throughout the audit. We also:

- identify and measure the risks of material misstatements in the financial statements, whether due to fraud or error, develop and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and relevant to provide a basis for our opinion. The risk of failure to detect any material misstatement resulting from fraud is higher than the risk of failure to detect any material misstatement resulting from an error, since fraud may involve collusion, forgery, deliberate omissions, statements aiming to mislead the auditor, as well as neglect or circumvention of internal control;
- obtain an understanding of the internal control relevant to the audit in order to develop audit procedures that are appropriate given the specific circumstances, but not to express an opinion on the effectiveness of the Bank's internal control;
- assess the appropriateness of the accounting policies used and the reasonableness of the accounting estimates and related disclosures made by the management;
- come to a conclusion on the appropriateness of the management's use of the accounting base, on the basis of the going concern assumption and, on the basis of the audit evidence obtained on whether there is significant uncertainty related to events or conditions that could raise significant doubts about the Bank's ability to continue as a going concern. If we come to the conclusion that there is significant uncertainty, we are required to draw attention in our auditor's report to the disclosures in the financial statements related to such uncertainty or, in the event that such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained as of the date of our auditor's report. Future events or conditions may, however, cause the Bank to cease operating as a going concern;
- evaluate the overall presentation, structure, and content of the financial statements, including disclosures, and whether the financial statements present the underlying transactions, and events in a manner that achieves a fair presentation.

We communicate with the persons charged with general governance, among other issues, the envisaged scope and timing of the audit, and the material audit findings, including significant internal control deficiencies that we identify during our audit.

We also provide the persons charged with general governance with a statement that we have complied with the applicable ethical requirements in relation to independence, and that we will communicate with them all relationships and other matters that could reasonably be regarded as being relevant to our independence, and, where applicable, any associated precautions.

Among the issues communicated to the persons charged with general governance, we identify the issues that were most relevant to the audit of the current period's financial statements and which are therefore key audit issues. We describe such issues in our auditor's report, except in cases where a law or a regulation prevents the public disclosure of information on such issue or where, in extremely rare cases, we decide that a given issue should not be communicated in our report, since it could reasonably be expected that the adverse consequences of such action would outweigh the public interest benefits of such communication.

We are jointly and severally liable for the performance of our audit and for the audit opinion we express, in accordance with the requirements of the IFAA applicable in Bulgaria. Upon assuming and implementing the joint audit engagement in relation to which we are reporting, we were also guided by the Joint Audit Guidelines issued on 13.06.2017 by the Institute of Certified Public Accountants in Bulgaria and by the Commission for Public Oversight of Registered Auditors in Bulgaria.

Report on Other Statutory and Regulatory Requirements

In addition to our responsibilities and reporting under the ISAs described above in the Information Other than the Financial Statements and Auditor's Report Thereon section, in respect of the activity report, incl. the corporate governance statement and the non-financial statement, we have also performed the procedures added to those required under the ISAs pursuant to the Guidelines of the Professional Organization of Certified Public Accountants and Registered Auditors in Bulgaria - the Institute of Certified Public Accountants (ICPA). These procedures relate to verifications of the existence and verifications of the form and content of such other information in order to assist us in formulating opinions on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (Art. 100н, para. 10 of the POSA in conjunction with Art. 100н, para. 8, items 3 and 4 of the POSA) applicable in Bulgaria.

Opinion in relation to Art. 37, para. 6 of the Accountancy Act

Based on our procedures, our opinion is that:

(a) the information included in the activity report for the financial year for which the financial statements were prepared is consistent with the financial statements;

(b) the activity report has been prepared in accordance with the applicable legal requirements and, more specifically, the requirements of Chapter Seven of the Accountancy Act and of Art. 100н, para. 7 of the Public Offering of Securities Act, with the exception of the detailed information according to item 17 of Appendix 10 to Ordinance 2/17.09.2003, in conjunction with Art. 100 (н), para. 7, item 2 of POSA.

(c) as a result of the acquired knowledge and understanding of the Bank's operations and the environment in which it operates, we have not identified any cases of material misstatement in the activity report;

(d) the corporate governance statement for the financial year presents the information required by the relevant regulations, incl. the information under Art. 100 (н), para. 8 of the Public Offering of Securities Act;

(e) the non-financial statement has been provided and prepared in accordance with the requirements of the Accountancy Act.

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Opinion in relation to Art. 33 of Ordinance No. 38 of the Financial Supervision Commission of 25.07.2007 on the Requirements to the Activities of Investment Intermediaries, Art. 11 of Ordinance No. 58 of the Financial Supervision Commission of 28.02.2018 on the Requirements for the Protection of Client Financial Instruments and Cash, for Product Management and for the Granting or Receiving of Remunerations, Commissions, other Cash or Non-cash Benefits and the Financial Instruments Market Act

Based on our audit procedures and our acquired knowledge and understanding of the Bank's operations in the context of our audit of the financial statements as a whole, our opinion is that the organization created in relation to the custody of client assets complies with the requirements of Ordinance No. 38 of the FSC, Ordinance No. 58 of the FSC and the Financial Instruments Market Act with regard to the Bank's operations in its role as an investment intermediary.

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

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

- Audit – Correct OOD and Ecovis Bulgaria Audit LTD were appointed as mandatory joint auditors of the financial statements of Investbank JSC for the year ended 31 December 2018 by the General Meeting of Shareholders held on 19.06.2018 and on 27.11.2018 respectively, for a period of one year.
- The audit of the financial statements for the year ended 31 December 2018 of the Bank represents the first year of continuous commitment to a statutory audit of this entity performed by Audit – Correct OOD and Ecovis Bulgaria Audit LTD.
- In support of our joint audit opinion, in the Key Audit Matters section, we have provided a description of the most essential risks assessed, a summary of the joint auditors' reply and important observations on these risks, where appropriate.
- We confirm that our joint audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank in accordance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We confirm that we have not provided the banned services outside the audit as specified in Art. 64 of the Independent Financial Audit Act.
- We confirm that in the performance of the audit we have retained our independence from the Bank.

March 29, 2019

For Audit Correct OOD
Auditing company

Rositsa Trichkova
Managing Partner
Registered auditor in charge of the audit

For Ecovis Bulgaria Audit LTD
Auditing company

Georgi Trenchev
Managing Partner
Registered auditor in charge of the audit

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 064 ОДИТ-КОРЕКТ ООД

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 114 ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

Statement of Profit and Loss

In BGN '000	Note	2018	2017
Interest income		43,476	53,558
Interest expense		(13,395)	(20,414)
Net interest income	6	30,081	33,144
Fee and commission income		28,143	26,814
Fee and commission expense		(3,259)	(2,439)
Net fee and commission income	7	24,884	24,375
Net income from trading operations	8	3,080	2,250
Net result of financial assets and liabilities not measured at fair value through profit or loss	9	2,444	7,175
Other operating income	10	28,382	2,186
incl. Negative goodwill	10	22,577	-
Total operating income		88,871	69,130
Administrative expenses	11	(39,259)	(39,799)
Financial asset impairment losses	12	(30,271)	(59,364)
Net result of investment property revaluation	13	666	958
Profit/ (Loss) before tax		20,007	(29,075)
Taxation	14	2,640	(258)
Profit/ (Loss) after tax		22,647	(29,333)

The statement of profit and loss is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 7 to 73.

Zdravka Ruseva
Executive Director

Vesela Koleva-Dzhidzhova
Executive Director

Tanya Glavashka
Compiler

In accordance with Auditor's Report of 29 March 2019

Rositsa Trichkova
Registered Auditor in charge of the engagement

Audit Correct OOD
Auditing company

Georgi Trenchev
Registered Auditor in charge of the engagement

Ecovis Audit LTD
Auditing company

Одиторско дружество София Рег. № 064 Одит-Корект ООД

Одиторско дружество София Рег. № 114

Statement of Comprehensive Income

In BGN '000	Note	2018	2017
Profit/ (Loss) after tax		22,647	(29,333)
Items that may not be subsequently reclassified in profit or loss:			
Actuarial gains and losses		(50)	(4)
Changes in the fair value of equity instruments measured at fair value through other comprehensive income		79	(4)
Items that are or may be subsequently reclassified in profit or loss:			
Debt instruments measured at fair value through other comprehensive income		(4,597)	(18)
Total other comprehensive income / (loss)		(4,568)	(22)
Total comprehensive income / (loss)		18,079	(29,355)

The statement of comprehensive income is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 7 to 73.

Zdravka Ruseva
Executive Director

Vesela Koleva-Dzhidzheva
Executive Director

Tanya Glavashka
Compiler

In accordance with Auditor's Report of 29 March 2019:

Rositsa Trichkova
Registered Auditor in charge of the engagement

Georgi Trenchev
Registered Auditor in charge of the engagement

Audit Correct OOD
Auditing company

Ecovis Audit LTD
Auditing company

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 064 ОДИТ-КОРЕКТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 114 ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

Statement of Financial Position

In BGN '000	Note	2018	2017
ASSETS			
Cash, cash balances with central banks and other deposits on demand	15	531,753	295,277
Receivables from banks	16	3,321	3,022
Financial assets measured at fair value through profit or loss	17	3,665	7,152
Loans and advances to customers	18	762,753	779,371
Net investment in finance leases	19	794	37,485
Financial assets measured at fair value through other comprehensive income	20	276,778	440,963
Debt securities measured at amortized cost	21	176,636	89,059
Property, plant and equipment	22	17,171	19,581
Investment property	22	77,738	71,863
Intangible assets	23	3,794	1,593
Assets held for sale	24	8,842	198,027
Other assets	25	258,794	10,736
Total assets		2,122,039	1,954,129
LIABILITIES			
Deposits from credit institutions	26	6	-
Deposits from customers	27	1,886,794	1,734,462
Bond loans	28	39,440	39,450
Debt-equity hybrid instrument	29	9,820	24,837
Other liabilities	30	5,713	3,193
Total liabilities		1,941,773	1,801,942
Equity			
Fixed capital		131,667	121,667
Reserves		48,599	30,520
Total capital and reserves	31	180,266	152,187
Total liabilities and equity		2,122,039	1,954,129

The statement of financial position is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 7 to 73.

Zdravka Ruseva
Executive Director

Vesela Koleva-Dzhidzheva
Executive Director

Tanya Glavashka
Compiler

In accordance with Auditor's Report of 29 March 2019:

Rositsa Trichkova
Registered Auditor in charge of the engagement

Audit Correct OOD
Auditing company

Georgi Trenchev
Registered Auditor in charge of the engagement

Ecovis Audit LTD
Auditing company

Одиторско дружество
София
Рег. № 084
Одит-Корект ООД

Одиторско дружество
София
Рег. № 114

Statement of Cash Flows
In BGN '000

	Note	2018	2017
Net cash flow from operating activities			
Profit / (Loss) after tax		22,647	(29,333)
Impairment losses	12	25,561	59,364
Depreciation and amortization	11	2,157	1,922
Tax income/expense		(2,640)	258
		47,725	32,211
Changes in assets involved in operating activities			
(Increase) / decrease in financial assets measured at fair value through profit or loss		3,487	(94)
Decrease in deposits provided to credit institutions		(300)	285
(Increase) / decrease in loans and advances to customers		(8,686)	(27,170)
(Increase) / decrease in net investment in finance leases		36,691	3,757
(Increase) / decrease in non-current assets held for sale		189,185	(45,611)
(Increase) / decrease in other assets		(248,058)	559
Changes in liabilities involved in operating activities			
Increase/(decrease) in deposits from credit institutions		6	(10,016)
Increase/(decrease) in customer deposits		152,332	76,989
Increase/(decrease) in other liabilities		2,521	611
Tax refund		2,640	(258)
Net cash flows from operating activities		200,683	31,263
Cash flows from investment activities			
(Purchase) / sale of property, plant and equipment and investment property		(7,823)	29,294
(Purchase) / sale of investments in investment portfolio		71,783	(37,128)
Net cash flows from investment activities		63,960	(7,834)
Cash flows from financing activities			
Increase / (decrease) in fixed capital		2,521 10,000	611 -
Increase / (decrease) in debt-equity hybrid instrument		(15,017)	5
Increase / (decrease) in bond loans		(10)	(294)
Net cash flows from financing activities		(5,027)	(289)
Net increase / (decrease) in cash and cash equivalents		236,476	23,140
Cash and cash equivalents at the beginning of the year	32	295,277	272,137
Cash and cash equivalents at the end of the year	32	531,753	295,277

The statement of cash flows is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 7 to 73.

Zdravka Ruseva
Executive Director

Vesela Koleva-Dzhidzheva
Executive Director

Tanya Glavashka
Compiler

In accordance with Auditor's Report of 29 March 2019:

Rositsa Trichkova
Registered Auditor in charge of the engagement

Georgi Trenchev
Registered Auditor in charge of the engagement

Audit Correct OOD
Auditing company

Ecovis Audit LTD
Auditing company

Одит-Корект ООД София Рег. № 064

София № 114

Statement of Changes in Equity

In BGN '000	Note	Fixed capital	Legal reserves	Retained earnings	Revaluation reserve of financial assets measured at fair value through other comprehensive income	Revaluation reserve on defined benefit plans	Total
Balance as at 1 January 2017	31	121,667	63,011	(989)	(2,115)	(32)	181,542
Total comprehensive income for the year							
Net profit for the year		-	-	(29,333)	-	-	(29,333)
Actuarial gains and losses		-	-	-	-	(4)	(4)
Other comprehensive income							
Revaluation of financial assets measured at fair value through other comprehensive income					(18)		(18)
Total other comprehensive income		-	-	-	(18)	(4)	(22)
Total comprehensive income for the year		-	-	(29,333)	(18)	(4)	(29,355)
Balance as at 31 December 2017		121,667	63,011	(30,322)	(2,133)	(36)	152,187
Total comprehensive income for the year							
Net loss for the year		-	-	22,647	-	-	22,647
Actuarial gains and losses		-	-	-	-	(50)	(50)
Other comprehensive income							
Revaluation of financial assets measured at fair value through other comprehensive income			79		(4.597)		(4.518)

Statement of Changes in Equity, ***Continued***

Total other comprehensive income / (profit)		-	79	22,647	(4,597)	(50)	18,079
Total comprehensive income / (profit) for the year		-	79	22,647	(4,597)	(50)	18,079
Increase in registered capital		10,000	-	-	-	-	-
Total transactions related to shareholders reported in equity		10,000	-	-	-	-	-
Balance as at 31 December 2018	31	131,667	63,090	(7,675)	(6,730)	(86)	180,266

The statement of changes in equity is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 7 to 73.

Zdravka Ruseva
Executive Director

Vesela Koleva-Dzhidzheva
Executive Director

Tanya Glavashka
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In accordance with Auditor's Report of 29 March 2019:

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Registered Auditor in charge of the engagement

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS

GENERAL INFORMATION

Investbank JSC is a joint-stock company having its registered office and business address at – Sofia city, Triaditsa Region, No. 85 Bulgaria Blvd., entered in the Commercial Register to the Registry Agency under UIC 831663282.

Investbank JSC is authorized to perform all types of banking transactions on the territory of the country and abroad, pursuant to a complete (universal) license.

General information about the merger of Commercial Bank Vicrotia into Investbank JSC

The transforming company was Commercial Bank Victoria EAD, a joint-stock company with sole shareholder, having its registered office and business address at – Sofia city, 1606, No. 4 Layosh Koshut Str., entered in the Commercial Register to the Registry Agency under UIC 831595828;

The accepting company was Investbank JSC, a joint-stock company having its registered office and business address at – Sofia city, Triaditsa Region, No. 85 Bulgaria Blvd., entered in the Commercial Register to the Registry Agency under UIC 831663282.

On 21.11.2018 the transformation of Commercial Bank Victoria EAD through merger into Investbank JSC within the meaning of Art. 262, para. 1 of the Commercial Act was entered in the Commercial Register.

The profit generated from the bargain purchase (negative goodwill) as a result of a business combination (the merger of Commercial Bank Victoria EAD into Investbank JSC) amounted to BGN 22,577 thousand.

1. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

1.1. Applicable standards

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) adopted by the Commission of the European Union, which according to the Accountancy Act are applicable on the territory of the Republic of Bulgaria.

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

1.3. Functional and reporting currency

These financial statements have been presented in BGN (Bulgarian Levs), rounded to the nearest thousands. The Bulgarian Lev is the functional and reporting currency of Investbank JSC.

1.4. Use of estimates and judgments

The preparation of financial statements in compliance with the IFRSs requires that the Bank's management make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from such estimates. The estimates and key assumptions are to be reviewed on an ongoing basis. Adjustments to accounting estimates are to be recognized in the period in which the estimates have been adjusted and in all future periods affected.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.5. New standards, interpretations and amendments effective from 1 January 2018

These standards and interpretations include:

The following new standards, amendments and interpretations to IFRSs developed and published by the International Accounting Standards Board (IASB) and adopted by the EU are applicable to the current period:

- IFRS 2 "Share-based Payment" (as amended) effective from 1 January 2018, adopted by the EU;
- IFRS 4 "Insurance Contracts" (as amended) effective from 1 January 2018, adopted by the EU;
- IFRS 9 "Financial Instruments" effective from 1 January 2018, adopted by the EU. From 01.01.2018 the Bank applies the Standard, with the effects of its application being presented in Note 2, item 2.4;
- IFRS 15 "Revenue from Contracts with Customers" effective from 1 January 2018, adopted by the EU. The Standard replaces IAS 18 "Revenue", IAS 11 "Construction Contracts" and income-based interpretations. It was applied retrospectively without recalculation, and in case of a cumulative effect from initial application, the same was recognized as an adjustment to the opening balance of retained earnings as of 1 January 2018. The adoption of IFRS 15 had no effect on the opening balance of the Bank's retained earnings. Revenue from services provided by the Bank was classified in the manner presented below and the application of IFRS 15 primarily affected revenue from fees in payments, annual fees, transfer fees and account and transaction charges;
- IAS 40 "Investment Property" (as amended) - Transfer of investment property effective from 1 January 2018, adopted by the EU;
- IFRIC 22 "Transactions and Prepayments in Foreign Currency" effective from 1 January 2018, adopted by the EU;
- Annual improvements to IFRS 2014-2016, effective from 1 January 2018, adopted by the EU.

New Standards, Interpretations and Amendments effective from 1 January 2019

- IFRS 9 "Financial Instruments" (as amended) – Prepayment features with negative compensation, effective from 1 January 2019;
- IFRS 16 "Leases" - adopted by the EU on 31 October 2017 (applicable to annual periods beginning on or after 1 January 2019); According to the new Standard, an asset (right to use the leased property) and a financial liability for lease payments shall be recognized. The only exceptions are short-term and low-value lease contracts.

  Investbank JSC will apply the Standard from the date of its mandatory adoption from 1 January 2019. The Bank intends to apply the Simplified Transitional Approach and will not recalculate the comparative amounts for the year prior to the first adoption. The assets for the right to use property leases will be measured at transition as if the new rules had always been applied. Investbank JSC created a project team that reviewed all lease contracts of the Bank over the past year in the light of the new lease reporting rules in IFRS 16. The Standard will mainly reflect the reporting of the operating lease of the Bank. Investbank JSC expects to recognize assets for the right to use amounting to approximately BGN 10,369 thousand on 1 January 2019, lease liabilities amounting to BGN 10,369 thousand.

Documents issued by the IASB/IFRIC that have not yet been approved for application by the EU

The following new or revised standards, new interpretations and amendments to existing standards that have been issued by the IASB as at the reporting date have not yet been approved for application by the EU and therefore have been taken into account by the Bank in the preparation of its financial statements.

- IFRS 14 "Deferred Accounts at Regulated Prices" effective from 1 January 2016;

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

- IFRS 17 "Insurance Contracts" effective from 1 January 2021;
- IAS 19 "Employee Benefits" (as amended) - Change in plan, redundancy or settlement - effective from 1 January 2019;
- IAS 28 "Investments in Associates and Joint Ventures" (as amended) - Long-term interests in associates and joint ventures effective from 1 January 2019;
- IFRIC 23 "Uncertainty over Income Tax Treatments" effective from 1 January 2019;
- Annual improvements to IFRS 2015-2017, effective from 1 January 2019.

2. BASIC ELEMENTS OF THE ACCOUNTING POLICY

2.1. Recognition of interest income and expense

Interest income and expense is recognized in the statement of profit or loss for all interest-bearing assets and liabilities on an accrual basis using the effective interest rate method.

The effective interest rate (EIR) is the interest rate that accurately discounts forecasted future cash flows (including all fees and other allowances or rebates) for the expected life of the financial asset up to its gross carrying amount, and for a financial liability up to its amortized cost.

2.2. Foreign currency transactions

The financial statements have been presented in BGN (Bulgarian Levs), which is the functional currency of presentation of the Bank.

Foreign currency transactions are measured at the official rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are measured at the official exchange rate of the day. Foreign exchange differences arising as a result of the revaluation are recognized in the statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are transformed at the official exchange rate of the day. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are transformed into the reporting currency at the rate valid on the acquisition date.

2.3. Fee and commission income and expense

Fee and commission income consists mainly of charges on money transfers in BGN and foreign currencies, cash operations, electronic payment services and credit facilities, and are generally recognized on an accrual basis or on the transaction date.

Fee and commission income and expenses that are an element of the effective interest rate of financial assets or liabilities are included in the calculation of the effective interest rate.

2.4. Financial instruments

IFRS 9 Financial Instruments became effective from 01.01.2018, replacing IAS 39 Financial Instruments: Recognition and Measurement.

2.4.1 Classification of financial assets

IFRS 9 introduced a new approach to financial assets based on the combination of the asset's cash flow characteristics and the business model underlying it.

As from 01.01.2018, the Bank classifies and reports its financial assets in any of the following categories that have substituted the IAS 39 classification categories previously applied:

- Financial assets measured at amortized cost

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

2.4.2. Impairment of financial assets

Investbank JSC uses the general three-stage impairment approach that reflects the change in the credit quality of financial instruments since its initial recognition. The amount of expected credit losses recognized as a corrective amount for impairment depends on the instrument's credit risk upon its initial recognition and on the change in credit risk in subsequent reporting periods.

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

- Stage 1 (Regular Items) – Financial assets without an indication of an increase in credit risk relative to the initial valuation are classified here. All credit items at this stage are in place, there is no event directly related to any potential portfolio losses and therefore the Bank devaluates the assets on a portfolio (collective) basis. The Bank recognizes 12-month expected credit losses for financial assets classified in Stage 1.
- Stage 2 - Impairments are calculated based on expected credit losses over the entire term of the instrument, weighted based on the probability of default. Devaluation is on a portfolio (collective) basis (events have occurred that could lead to potential portfolio losses). The transition from Stage 1 to Stage 2 is associated with a relative change in credit risk (transition from low risk to high risk), or where the arrears of agreed payments exceed 30 days.
- Stage 3 - Financial assets with a significant increase in credit risk and objective evidence of impairment (items for which there is "default") are classified here. Impairments are calculated based on expected credit losses over the entire remaining term of the instrument on an individual basis. Assets with objective evidence of credit impairment are classified in this stage, with credit losses being expected for each asset. There are arrears of interest and/or principal of over 90 days and/or enforcement actions have been taken to collect the amounts due. The items are non-performing and the Bank believes that it is rather unlikely that the debtor would be able to fully repay its liabilities without taking action to enforce the collateral.

2.4.3. Assessment of expected credit losses

Credit losses are treated as an integral part of the lending process and therefore, depending on the credit quality of the borrower, the Bank calculates and charges impairment for credit risk as early as the initial recognition of the financial instrument. Expected credit losses should have a direct impact on the value of the contracted interest rate, that is, there is a direct dependence in pricing.

The assessment of the expected credit loss and the calculation of the loan impairment losses is made based on Policy for assessing risk provisions and determining the amount of the necessary impairment approved by the Bank.

2.4.4. Derecognition of financial instruments

Derecognition of financial assets

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

- the contractual rights to the cash flows from the financial asset have expired; or
- the contractual rights to receive cash flows from the financial asset have been transferred or the contractual rights to receive cash flows from the financial asset have been retained, however, a contractual obligation has been assumed to pay all the collected cash flows without substantial delay to a third party to a transfer transaction, where:

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(b) The Bank has neither transferred nor retained substantially all the risks and rewards associated with the ownership of the financial asset but has not retained control of it.

Derecognition of financial liabilities

The Bank derecognises a financial liability where and only where it has been extinguished, that is, where:

- it has settled its liability
- the liability has expired
- the liability defined in a contract has been canceled or ceased to be due

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

The accounting treatment of financial liabilities has substantially remained unchanged from that regulated in IAS 39 and, at present, the Bank has no change in its classification of financial liabilities.

The carrying amounts of financial instruments reported under IAS 39 and their reclassification in accordance with the requirements of IFRS 9 as at 1 January 2018 are presented in the below table.

Assets	**2017-12-31**	**IFRS 9**	**2018-01-01**
			Recalculated
Cash and cash balances with central banks.	295 277		295 277
Deposits on demand.	3 022		3 022
Financial assets held for trading.	7 152	-7 152	-
Financial assets measured at fair value through other comprehensive income.	440 963		440 963
Financial assets to be measured at fair value through profit or loss.	-	7 152	7 152
Financial assets measured at amortized cost, except loans and advances.	89 059	-267	88 792
Loans and advances to customers.	816 856	-939	815 917
Tangible assets.	91 444		91 444
Intangible assets.	1 593		1 593
Tax assets.	299		299
Other assets.	10 437		10 437
Non-current assets and disposal groups classified as held for sale.	198 027		198 027
TOTAL ASSETS	**1 954 129**	**-1 206**	**1 952 923**
Liabilities	**2017-12-31**	**IFRS 9**	**2018-01-01**
Financial liabilities measured at amortized cost.	1798 749		1798 749

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Provisions.	331		331
Other liabilities.	3 193		3 193
TOTAL LIABILITIES	**1 801 942**		**1 801 942**
Capital	**2017-12-31**	**IFRS 9**	**2018-01-01**
Capital.			121 667
Paid-in capital.	*121 667*		121 667
Undistributed profits from previous years.	-989	-1 206	- 2 195
Accumulated other comprehensive income.			-2 169
Reserve from revaluation of available-for-sale financial assets.	*-2169*		*-2169*
Current profit.	-29 333		-29 333
TOTAL EQUITY	**152 187**	**-1 206**	**150 981**
TOTAL EQUITY AND TOTAL LIABILITIES	**1 954 129**	**-1 206**	**1 952 923**

Reconciliation of the closing balance of the corrective amount for losses under IAS 39 with the corrective amount for losses on the date of transition (01.01.2018) to IFRS 9 is as follows:

Category (IAS 39) / Category (IFRS 9)	**Corrective amount for losses under IAS 39 31.12.2017**	**Changes in the corrective amount for losses resulting from the transition to IFRS 9**	**Corrective amount for losses under IFRS 9 01.01.2018**
Available-for-sale financial assets (IAS 39) / Amortized cost (IFRS 9)	**0**	267	267
Government securities			
Loans and receivables (IAS 39) / Amortized cost (IFRS 9)	61 495	939	62 434
Loans and advances to credit institutions			
Loans and advances other than those to credit institutions	61 495	939	62 434
Credit commitments and financial guarantees (off-balance sheet commitments)			

The effect of applying the new impairment model under IFRS 9 as at 1 January 2018 on retained earnings is as follows:

	Retained earnings
Final balance as at 31.01.2017 - IAS 39	-989
Adjustments resulting from the application of IFRS 9.	-267
Increase in impairment losses on loans and receivables.	-939
Decrease in deferred tax assets in respect of a derecognized revaluation reserve of available-for-sale assets.	0
Opening balance as at 01.01.2018 - IFRS 9	-2 195

2.5. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash deposited with the Central Bank and receivables from banks with original maturities of up to three months.

2.6. Finance lease receivables

A lease contract is reported as finance lease where under the contract the lessor transfers to the lessee all essential risks and rewards incidental to the ownership of the asset. The typical indicators that the Bank examines in order to determine whether all essential risks and rewards have been transferred include: the present value of the minimum lease payments in relation to the fair value of the leased asset at the commencement of the lease contract; the duration of the lease contract in relation to the economic life of the leased asset; and whether the lessee will acquire title of ownership of the leased asset at the end of the lease period.

All other lease contracts that do not transfer substantially all the risks and rewards incidental to the ownership of the asset are classified as operating leases.

2.7. Securities borrowing and lending agreements, repo transactions

Investments lent under securities lending agreements are accounted for in the statement of financial position and are measured in accordance with the accounting policy applicable to assets held for trading or available-for-sale assets, respectively. The cash received as collateral in the lending of securities is recognized as liabilities to banks or other customers. Investments borrowed under securities borrowing agreements are not recognized as an asset of the Bank. The cash under securities borrowing agreements is recognized as loans and advances to banks or other customers. Income and expense arising from securities borrowing or lending transactions are recognized on an accrual basis for the period in which the transactions are carried out as interest income or expense. The retained amount paid by the customer, exclusive of VAT, is recognized as income from rent through profit.

Repo transaction agreements

The Bank enters into contracts for the purchase (sale) of investments under resale/repurchase agreements for identical investments on a predetermined future date at a fixed price. The purchased investments subject to resale on a certain future date are not recognized in the statement of financial position.

The amounts paid are reported as loans to banks or other customers. Receivables are reported as collateralized by the relevant securities. Investments sold under repurchase agreements continue to be reported in the statement of financial position and are measured in accordance with the accounting policy as assets held for trading or available-for-sale assets. The proceeds from the sale are reported as liabilities to banks and other customers.

2.8. Attracted funds

Deposits from banks, customers and subordinated liabilities are financial instruments representing cash attracted by the Bank, payable on demand or after a certain period of time, and bearing agreed interest and are reported in the statement of financial position at amortized cost after applying the effective interest rate method.

2.9. Investment property

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

2.10. Property, plant and equipment

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

Depreciation is accrued on a straight-line basis using prescribed norms to fully depreciate the cost of assets over their useful life. The annual depreciation rates used are presented further below:

Assets	%
▪ Buildings	4
▪ Plant and equipment	30
▪ Computers, related peripheral and mobiles	15
▪ Business inventory and all others	15
▪ Vehicles	25

2.11. Intangible assets

Intangible assets acquired by the Bank are reported at cost less accumulated depreciation. Depreciation is accrued on a straight-line basis over the useful life of the asset. The annual depreciation rates used are presented further below:

Assets	%
▪ Software and software use rights	50
▪ Other intangible assets - repairs of leased buildings	30
▪ All others	15

2.12. Assets acquired from collateral on loans

The classification of assets acquired by the Bank from collaterals on loans is based on the intentions of the Bank's management for the future benefits of the asset. The decision to classify/reclassify assets acquired from collateral on loans will be taken by the Bank's management.

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

- **Investment property** – assets to earn rental income or capital gains;
- **Inventories** – presented in the "Other Assets" section in the balance sheet. This category includes the assets acquired from collaterals on loans that the Bank will not use in its ordinary business and that are not investment property, they are held for sale within a period longer than 12 months.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

- **Non-current assets held for sale** - the Bank presents in this group only property for which the Management has initiated intensive buyer search and the negotiations on the sale are at an advanced stage.

Non-current assets held for sale are measured at the lower of their carrying amount and their fair value less costs to sell the asset. Assets classified as non-current assets held for sale are not amortized.

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

The Bank reassesses the assets acquired from collaterals on loans at least once a year, based on a market valuation prepared by an independent licensed valuer.

Change in classification – a reclassification is made where there is a change in the intended use of an asset.

2.13. Taxation

The profit tax for the period includes current and deferred tax. The current tax includes the amount of tax payable on the expected taxable income for the period based on the effective tax rate or the tax rate applicable on the date of preparation of the statement of financial position and any adjustments to the tax payable for previous periods.

Deferred tax assets

Deferred tax is calculated on the basis of the tax rates that are expected to apply when the asset has been realized or the liability has been settled. The effect on deferred tax resulting from any change in tax rates is recognized in the statement of profit or loss except where it relates to amounts previously charged or stated directly in equity.

A deferred tax asset is recognized only to the extent to which it is probable that future taxable profits will be obtained against which unused tax losses or tax credit can be utilized. Deferred tax assets are reduced in line with the decrease in probability of realizing tax benefits.

The carrying amount of deferred tax assets is reviewed at each subsequent reporting/balance sheet date and should be reduced to the extent to which it is no longer probable that sufficient taxable profit will be realized. Any such reduction is restored to the extent to which it is again probable that there will be sufficient taxable profits.

To determine the amount of deferred tax as at 31 December 2018, the tax rate applicable to 2018 was used - 10% (2017 - 10%).

2.14. Employee benefits

Defined benefit plans for post-employment benefits are plans under which

- The Bank has the obligation to provide the contracted benefits to its current and future employees (personnel);
- Pension (retirement benefits) is based on a formula that is not simply based on the contributions made, but the Bank retains the risk that such contributions may not be sufficient to pay the pensions subsequently (cost of benefits = the present value of the earned right of benefits). Comprehensive calculations are needed, with multiple variables having effect thereon, such as pre-retirement and average benefits, and so on;
- The statistical actuarial risk (that the benefits will cost more than expected) and the investment risk are essentially borne by the Bank;
- The ultimate cost to the Bank as an employer is more difficult to predict.

The Bank has the obligation to pay benefits upon leaving to those employees who retire in accordance with the requirements of the Labor Code.

Termination benefits

Termination benefits are recognized as an expense where the Bank has clearly committed, with no real possibility of withdrawal, to a formal detailed plan to either terminate business relationships prior to the normal retirement date or provide termination benefits as a result of a proposal made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognized as an expense if the Bank has made a formal proposal for voluntary redundancy, and it is probable that the proposal will be accepted and the number of acceptances can be reliably estimated. If benefits are payable for more than 12 months after the end of the reporting period, they are discounted to their present value.

Short-term employee benefits

Liabilities for short-term employee benefits are measured on an undiscounted basis and are reported in expense where their related services are provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has the legal or constructive obligation to pay such amount as a result of prior services provided by an employee and the obligation may be reliably estimated. The Bank recognizes as a liability the undiscounted amount of estimated costs on paid annual leave expected to be paid out to employees in exchange for their work for the past reporting period.

2.15. Dividends

Dividend income from interests in the capital of other companies is recognized where the Bank's right to receive the relevant dividend has been established.

2.16. Measurement of assets and liabilities in a business combination.

All acquired identifiable assets and assumed liabilities and contingent liabilities in a business combination are measured initially at their fair value at the date of exchange. Any excess of the cost of acquiring the subsidiary over the share of the acquiring company at the fair value of the net identifiable assets, liabilities and contingent liabilities acquired is treated and recognized as goodwill. If the share of the acquiring company in the fair value of the net identifiable assets acquired exceeds the cost of the business combination, such excess shall be recognized immediately in the consolidated income statement of the Group. Any non-controlling interest in a business combination is measured on a pro-rata share in the net assets of the acquired company.

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY

Introduction and overview

Risk management is based on a Risk Management Strategy that defines the Bank's target risk profile and risk appetite (the overall level of risk that the Bank is capable of assuming within its risk-taking capacity). The aim is to limit the risk assumed, so that neither the short-term, nor the long-term future of the Bank is endangered. This is achieved by maintaining sustainable levels of regulatory and economic risk coverage means and ensuring that the Bank maintains a good risk-taking capacity at all times. In addition, the Strategy clearly defines the risk structure that is relevant to the business model, including by determining a risk profile and defining rules to deal with significant risks of concentration. Thus, the aim is 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 risk concentration is maintained within the established limits as described in detail in the Concentration Risk Rules (Limit Framework).

Investbank JSC manages its risk exposures in accordance with the regulatory capital adequacy requirements. Capital and capital components, respectively, shall be maintained in accordance with the Minimum Required Ratios under Regulation (EU) No. 575/2013 and the Additional Capital Requirements Calculated within Internal Capital Adequacy Analysis (ICAA) so as to:

- meet the regulatory requirements for adequacy in the normal course of business;
- ensure sufficient capital buffer to overcome stress conditions without jeopardizing business continuity;
- limit the development of extremely high concentrations of credit or other types of risk.

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

In all spheres of occurrence and manifestation of risks, the Bank uses effective means of managing them. The methods used, the organizational rules and the information systems, enable the Bank to identify risks in a timely manner and to take appropriate measures to limit them. This is particularly relevant for the early identification of the significant risks to which the Bank is exposed.

Risk Management Policy

The Bank's Risk Management Policy aims to identify, analyze, measure and control the risks to which the Bank is exposed. It is based on the Fundamental Principles for Efficient Banking Supervision of the Basel Committee on Banking Supervision, BNB Regulatory Requirements, and the Internal Banking Regulation. The activities of identifying, monitoring, managing the credit risk and limiting its negative manifestation are regulated in the adopted internal normative documents - policies, rules and procedures, which are adopted by the Management Board and approved by the Supervisory Board of Investbank JSC and are subject to regular review to reflect any changes in the regulatory framework, the market conditions, the products and services offered, and so on. They specify the procedures for the general risk management process:

- Risk identification (establishment) (by type of risk and/or business units);
- Risk measurement - quantified against required capital or set thresholds;
- Risk management (risk tolerance) - a system of limits, pre-limit thresholds and adequacy of capital position management processes;
- Risk monitoring and control - a centralized approach to monitoring set limits and/or selected key indicators and ratios;
- Risk reporting - a framework for the form and periodicity of accountability related to the occurrence of risks.

Principles in managing the risks assumed by the Bank

- application of clearly defined decision making rules and processes in assuming risk and strict application of the "four eyes" principle;
- risk management is completely independent of the Bank's business activities, both in functional and in organizational terms;
- the basis of credit risk management is the analysis of the customers' risk profile, which enables the Bank to select its customers in advance;
- limiting the probability for the occurrence of large, unexpected, hardly predictable losses, as well as the concentration of the risk assumed by the Bank through the use of certain risk tolerance values (limits);
- periodic review of the principles and the existing processes in the Bank for their implementation in order to adapt to the constantly changing market and competitive environment.

Credit risk management is based on the adopted credit policy, competence rules and organization of business processes related to credit transactions, concentration risk management rules, credit risk monitoring system and limit framework, collateral policy, as well as rules for the management of problematic exposures and conduct of ongoing monitoring.

Investbank JSC has adopted and is guided in its operations by its credit policy, which stipulates:

- the establishment and implementation of rigorous credit procedures;
- the maintenance of an adequate credit administration;
- a continuous process of monitoring, measurement and control of credit risk.

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

Due to the risky nature of the Bank's credit activities, procedures for ongoing analysis and monitoring of both the quality of credit exposures and the overall business development of customers have been developed. To maintain the credit risk within acceptable limits as well as to ensure a balanced manifestation of risk, profitability, impairment and liquidity losses, a Limit System has been developed and implemented that defines thresholds by products in the retail segment, by industries in a corporate or selected risk indicator, collateral, size in both segments. To minimize credit risk, a credit assessment methodology for assessing the creditworthiness of physical persons (scoring system) and legal persons (rating system) for determining the internal rating of borrowers is applied.

Risk organization and management

The Supervisory Board of Investbank JSC approves and periodically reviews the strategies and policies adopted to assume, manage, monitor and mitigate the risks, which the Bank is exposed or may be exposed to, including risks arising from the macroeconomic environment.

The Risk Committee continuously monitors, analyzes and assesses the risk factors accompanying banking activities in line with the Fundamental Principles for Efficient Banking Supervision of the Basel Committee on Banking Supervision. It advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's risk appetite and assists the control of its implementation by the senior management.

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

The Risk Management Board assigns the development and adopts the Bank's Risk Strategy, Risk Exposure Management Policy and Credit Policy. It carries out ongoing monitoring of the capital adequacy of the Bank and performs strict supervision of the application of the Risk Exposure Assessment Policy through the principles of reporting financial assets established in accordance with IFRS 9. It performs periodic review of risk exposures and the amount of provisions made in compliance with the methodological framework for recognizing losses on credit exposures. It offers solutions related to the risk exposures quality management and, in the case of any established deviations in or violations of the approved limits, proposes specific measures to eliminate them.

(a) Credit risk

<u>The nature of credit risk</u> – it represents a potential risk to revenue and capital arising from the inability of a counterparty in a financial transaction to fulfill its contractual obligations in a timely manner and in full volume. The more significant risk sub-types are:

- ✓ Counterparty risk - failure by or unwillingness of the customer/counterparty to repay its obligations in full volume to the Bank on the agreed date;
- ✓ Concentration risk – resulting from poor diversification of portfolios by sectors, industries, sizes or other risk indicators. A consequence of large exposures to related parties or a group of counterparties with similar characteristics whose probability of default is a consequence of common factors - sector, market, suppliers, customers, etc.;
- ✓ Settlement risk - this is the risk that a third party may not be able to fulfill its obligations on the agreed date or makes a payment on a later date due to reasons other than bankruptcy;
- ✓ Collateral risk – it derives from the type of collateral received, the degree of liquidity, the volatility of its value and the control exercised over it.

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

The below table provides information on the maximum exposure to credit risk:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Loans and receivables from other customers, incl. net investment in finance lease		**Loans and advances from banks, incl. from the Central Bank**		**Investments in securities measured at fair value**		**Off-balance sheet commitments**	
	31 Dec. 2018	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2018**	**31 Dec. 2017**
In BGN '000								
Book value	763,547	816,856	492,046	251,410	280,443	448,115	28,637	63,232
Contingent commitments	111,109	147,480	-	-	-	-	-	-
Total:	874,656	964,336	492,046	251,410	280,443	448,115	28,637	63,232

Credit risk is the major risk, which the Bank is exposed to, and covers 91.8% of the total amount of RPE as of 31.12.2018. The main volume of counterparty credit risk arises with business customers of the Bank, while the volume of counterparty risk from operations with banking and non-banking financial institutions is relatively limited.

Credit risk measurement

Credit risk is measured by determining the creditworthiness of counterparties based on financial quantitative and qualitative indicators by credit risk analysts having the necessary professional qualifications for and experience in the assessment and measurement of credit risk.

(a) *Credit risk, continued*

From 01.01.2018 Investbank JSC reports its financial assets in accordance with International Financial Reporting Standard (IFRS) 9 - Financial Instruments (Regulation (EU) 2016/2067 of the European Commission). Risk exposures are valued at their occurrence and provisioning is based on an expected credit loss model and is future-oriented, unlike IAS 39 - Financial Instruments: Recognition and Measurement, which was based on an incurred loss model.

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

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

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

A financial asset is measured at amortized cost if the instrument is held to maturity with the purpose of receiving the agreed cash flows, which are only principal and interest payments on the outstanding principal amount - established through a SPPI test. To pass the test, cash flows must include the cash value over time (reward for the elapsed time only), allowance for a credit and/or liquidity risk, allowance for covering expense and profit margins. Sales of assets held for the purpose of collecting the contractual cash flows performed to manage the credit concentration risk, without any increase in credit risk, are compatible with the business model if such sales are rare and their value is not significant.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

A financial asset is measured at fair value through other comprehensive income if the business model has as an objective both collection of contractual cash flows and sales of financial assets. Under the contractual terms of the financial asset, at specific dates, cash flows arise, which are only principal and interest payments on the outstanding principal amount. This business model aims to both manage the daily liquidity needs and maintain interest rate yields. Under this business model, sales of financial assets are expected to take place more frequently and at higher value.

A financial asset is measured at fair value through profit or loss if it is not held within the above described two business models. Active purchases and sales of assets from this portfolio are expected to take place. The financial instrument management aims to generate cash flows from the sales of assets rather than from the collection of the contracted cash flows.

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

Financial asset impairment approach - Investbank JSC uses the general three-stage impairment approach that reflects the change in the credit quality of financial instruments since its initial recognition. The amount of expected credit losses recognized as a corrective amount for impairment depends on the instrument's credit risk upon its initial recognition and on the change in credit risk in subsequent reporting periods.

All financial assets are categorized into three stages taking into account the credit risk deterioration, with specific requirements being set for each stage, according to which at each reporting date it will be ascertained to which stage each individual asset relates. When determining the amount of credit losses, the cash value over time will be taken into account using the effective interest rate determined at the initial recognition of the instrument.

In 2018 a system was implemented for assessing the creditworthiness of customers at Investbank JSC, including a Scoring System for Physical Persons and a Rating System for Legal Persons. In addition, a Credit Risk Assessment and Expected Credit Loss Subsystem was developed in accordance with IFRS 9 Financial Instruments.

The assessment of credit risk for legal persons is based on a set of indicators grouped into three main groups (financial risk, business risk and general risk) involved with different weight in the overall final assessment. After determining the overall assessment of the customer, as a sum of the assessments of the three groups of risks, according to a table approved by the MB (Management Board)/SB (Supervisory Board) of Investbank JSC, the customer's rating is determined. The scale applied by the Bank is based on 7+1 degrees in accordance with Regulation 575.

The credit risk assessment for physical persons represents a customer's assessment based on a risk profile and the credit transaction's compliance with the standard product parameters. To determine the risk and to prepare a customer profile, a set of criteria is applied, each having a digital rating, and their sum forming the overall assessment of the customer.

The developed and operating internal rules and procedures for the organization of the different types of activities, the responsibilities, powers, control and guarantee mechanisms defined in them ensure the minimization of the risks associated with the banking activities. The business and risk units are jointly responsible for the Bank's credit operations. Their joint responsibility is actually reflected in the preparation of credit proposals and opinions for the approval of transactions involving credit risk taking, and also in the generation of profit after provisions. Assuming credit risk is based on a centralized approach.

The amounts included in the table (loans and advances to customers reported at amortized cost) represent the maximum accounting loss that will be recognized at the date of the financial statements if the parties to the transaction fail to fully fulfill their contractual obligations, without taking into account the value of the collaterals presented. Consequently, the amounts significantly exceed the expected losses that are included in the impairment of uncollectible receivables.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Credit Portfolio Structure

In BGN '000	Value before impairment		Impairment		Carrying amount	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Individually impaired						
Stage 3	260,469	109,831	84,396	57,283	176,073	52,548
	260,469	109,831	84,396	57,283	176,073	52,548
Collectively impaired						
Stage 1	182,651	226,934	851	1,243	181,800	225,691
Stage 2	40,264	5,234	1,364	28	38,900	5,206
	222,915	232,168	2,215	1,271	220,700	230,897
Overdue, but not impaired						
Stage 1	22,101	63,375	-	-	22,101	63,375
Stage 2	8,922	107,529	-	-	8,922	107,528
	31,023	170,903	-	-	31,023	170,903
Not impaired individually						
Stage 1	329,431	325,023	-	-	329,431	325,023
Stage 2	5,526	-	-	-	5,526	-
	334,957	325,023	-		334,957	325,023
Total	849,364	837,925	86,611	58,554	762,753	779,371

(a) Credit risk, continued

The gross value of the renegotiated loans for 2018 amounts to BGN 317,613 thousand and the total volume of renegotiated exposures as at 31.12.2018 amounts to BGN 495,947 thousand, as compared to BGN 360,022 thousand for 2017. The below table shows the gross amount of loans and advances to customers, including finance leases, granted by type of collateral:

Types of loan collateral

Type of collateral	Classified exposures		Regular and not impaired	
	2018	**2017**	**2018**	**2017**
Mortgage	146,180	154,983	197,598	270,125
Cash deposits and government securities	4,151	1,468	215,560	71,405
Other collateral*	120,263	117,971	144,159	236,203
Unsecured	21,610	21,166	642	5,030
Total	292,204	295,588	557,959	582,763

*Insurance with the BEIA (Bulgarian Export Insurance Agency), pledge of receivables, pledge of assets and guarantees.

The below table shows the fair values of the collaterals provided to the Bank divided into groups of risk exposures:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2018	2017
Individually impaired		
Qualifying collateral	189,817	53,635
Other collateral	1,351,962	938,077
Collectively impaired		
Qualifying collateral	106,495	110,040
Other collateral	1,161,855	1,048,632
Overdue, but not impaired		
Qualifying collateral	62,947	209,703
Other collateral	109,302	556,384
Not impaired individually (Regular)		
Qualifying collateral	649,793	462,805
Other collateral	1,014,557	1,151,303

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(a) Credit risk, continued

Residential mortgage lending

The below table shows credit exposures from residential and mortgage loans to physical persons according to the Loan-to-Value (LTV) ratio. LTV is calculated as the ratio between the gross loan value and the market value of the collateral. The collateral measurement does not include future costs for acquiring and realizing the collateral.

In BGN '000	**31 December 2018**	**31 December 2017**
Loan to value (LTV) ratio based on market value		
LTV ≤ 50 %	22,228	19,825
50 % < LTV ≤ 70 %	31,123	27,723
70 % < LTV ≤ 90 %	32,564	31,397
90 % < LTV ≤ 100 %	3,089	2,303
100 % > LTV	14,760	14,311
Total	103,764	95,559

The below table shows the concentration by economic sectors:

Industry Sector	*Total Exposure 2018*	*Relative Share 2018*	*Total Exposure 2017*	*Relative Share 2017*
Administrative and auxiliary services	1,148	0.14%	-	0.00%
Mining industry	18,830	2.36%	16,645	2.10%
Water supply; Sewerage services, Waste management and recovery	24,731	3.11%	0,00	0.00%
Other activities	2,451	0.31%	19,741	2.50%
Government	5,996	0.75%	11,089	1.40%
Culture, sport and entertainment	3,554	0.45%	-	0.00%
Education	260	0.03%	262	0.00%
Real estate operations	84,750	10.64%	83,468	10.60%
Processing industry	99,027	12.44%	97,446	12.40%
Production and distribution of electrical energy, heat energy and gaseous fuels	69,198	8.69%	66,268	8.40%
Professional activities and scientific research	6,792	0.85%	0,00	0.00%
Agriculture, forestry and fisheries	70,689	8.88%	66,203	8.40%
Construction	124,933	15.69%	121,415	15.40%
Creation and dissemination of information and creative products; Telecommunications	2,501	0.31%	-	0.00%
Transport; warehousing and mailing	61,790	7.76%	63,511	8.10%
Trade; Repair of automobiles and motorcycles	153,319	19.25%	163,895	20.80%
Financial and insurance activities	38,309	4.81%	48,887	6.20%
Hotel and restaurant business	25,400	3.19%	28,311	3.60%
Human healthcare and social work	2,583	0.32%	1,398	0.20%
Total Amount	**796,261**	**100,00%**	**788,539**	**100%**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(a) Credit risk, continued

The Bank introduces limits by industry sectors related to the concentration risk in a particular sector, a single size limit and the deterioration in the quality of exposures in a particular sector. For all sectors that have reached and/or exceeded the specified risk thresholds, approval of new credit limits is suspended. Exceptions are only allowed upon the approval of the MB. The latter does not apply to loans against subsidies in agriculture (including standard credit products).

In order to prevent the operating limits being exceeded, the Bank controls the utilization of the limits through the process described below:

The Risk Control Directorate conducts monthly control and monitoring of the industry sector limits, submitting reports to the RMB (Risk Management Board)/MB and sending to the Business Units information on the free limit. When an exposure/portfolio close to the specified limit has been identified or the limits have been reached, the Risk Control Directorate will immediately inform the relevant Business Unit. New transactions may only be concluded if there is enough free limits after coordination with the Risk Control Directorate and approval by the MB of Investbank JSC. Upon a refusal of a transaction for which a sectoral/regional limit has been blocked, the Business Unit shall notify the Risk Control Directorate that the limit will not be used, and then the blocked portion will be released.

The performance of Art. 45 of the Credit Institutions Act, in conjunction with Art. 392 of Regulation (EU) No. 575/2013, obliges the Bank to comply with the legal constraints and the special decision-making procedure for large exposures formed against a single person or economically related persons (risks equal to or exceeding 10% of the Bank's capital base).

The Business and Risk Units involved in proposing and approving exposures are responsible for monitoring compliance with the legal constraints related to large exposures, their formation and accountability.

In recent years, uncertainty has emerged about credit risk related to government debt in Eurozone countries. The Bank carefully managed this risk during the year, and as a result, the overall quality of the government debt portfolio is sound. The Bank does not hold any government debt to Eurozone countries with an increased risk.

The below table shows the carrying amount of the government debt portfolio by country as at 31 December 2018 and 31 December 2017. Assets are reported without taking into account any possible impairment.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(a) Credit risk, continued

In BGN '000	Bulgaria	Germany	Spain	Italy	Luxembourg	Romania	USA	Total
31 Dec. 2018								
Trading portfolio	3,665	-	-	-	-			3,665
Investment portfolio								
- at fair value	187,049	19,669	59,038	94,573	1,098	1,912	29,726	453,414
Total	190,714	19,669	59,038	94,573	1,098	1,912	29,726	457,079

In BGN '000	Bulgaria	Romania	Germany	France	Hungary	Spain	Italy	USA	Lithuania	Croatia	Total
31 Dec. 2017											
Trading portfolio	7,152	-	-	-	-			-	-	-	7,152
Investment portfolio											
- at fair value	194,104	19,712	19,715	69,238	2,032	50,001	28,845	25,254	921	12,273	422,095
Total	201,256	19,712	19,715	69,238	2,032	50,001	28,845	25,254	921	12,273	429,247

The Bank holds assets in its trading portfolio in order to manage credit risk. Below is a credit quality analysis of the maximum credit exposure based on ratings of Standard & Poor's rating agency:

In BGN '000	**2018**	**2017**
Government securities		
BBB	3,665	7,152
Total	3,665	7,152

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(a) Credit risk, continued

The tables below show the assets in the Bank's trading portfolio and the investments by maturity and country of registration of the issuer.

Maturity structure of investments by country of the issuer as at 31 December 2018 (by residual maturity):

In BGN '000	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Without maturity	Total
Financial assets measured at fair value through profit or loss							
Government securities							
Bulgaria	1,710	-	-	1,955	-	-	3,665
Total	1,710	-	-	1,955	-	-	3,665

Financial assets measured at fair value through other comprehensive income							
Government securities							
Bulgaria	15,360	-	-	85,070	68,314	-	168,744
Spain	-	-	-	-	59,039	-	59,039
Italy	-	-	-	-	27,580	-	27,580
Romania	-	-	-	-	1,912	-	1,912
France	-	-	-	6,935	-	-	6,935
Corporate equity instruments							
Bulgaria	-	-	-	-	-	8,051	8,051
USA	-	-	-	-	-	3,138	3,138
Luxembourg	-	-	-	-	-	1,098	1,098
Corporate debt instruments							
Bulgaria	-	-	-	281	-	-	281
Total	15,360	-	-	92,286	156,845	12,287	276,778
Total financial assets	17,070	-	-	94,241	156,845	12,287	280,443

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(a) Credit risk, continued

Maturity structure of investments by country of the issuer as at 31 December 2017 (by residual maturity):

In BGN '000	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Without maturity	Total
Financial assets held for trading							
Government securities							
Bulgaria	-	2,044	-	5,014	-	-	7,058
Total	-	2,044	-	5,014	-	-	7,058
Financial assets measured at fair value through other comprehensive income							
Government securities							
Bulgaria	-	2,989	-	58,460	91,437	-	152,886
Spain	-	-	-	57,780	-	-	57,780
Italy	-	-	-	28,976	-	-	28,976
Germany	-	-	7,867	19,847	-	-	27,714
Netherlands	-	-	17,718	-	-	-	17,718
France	-	-	-	34,714	-	-	34,714
USA	-	-	28,812	-	-	-	28,812
Lithuania	-	-	-	3,157	-	-	3,157
Croatia	-	-	-	-	4,003	-	4,003
Corporate equity instruments							
Bulgaria	-	-	-	-	-	14,648	14,648
Corporate debt instruments							
Bulgaria	-	-	-	151	10,334	-	10,485
Total	-	2,989	54,397	203,085	105,774	14,648	380,893
Total financial assets	-	5,033	54,397	208,099	105,774	14,648	387,951

Instruments for limiting credit risk

Investbank's credit risk management policy requires the assumption of credit risk arising from operations with counterparties whose cash flow is sufficient to provide timely and complete performance of the assumed monetary liabilities. In order to limit the risk of a possible limited or incomplete solvency of the counterparty, the Bank requires from it the provision of appropriate collateral. The following instruments are used to limit credit risk: collaterals, risk transfer, netting, and collateral arrangements in connection with transactions with derivative financial instruments, etc. In the loan agreements with its counterparties, the Bank settles the issue of accepting various collaterals. Such collaterals may take the form of tangible assets or payment obligations undertaken by third parties that limit the risk of failure by business partners to fulfill their payment obligations. In practice, collaterals are an alternative source of funds to cover payment obligations in the event of their non-performance. The existence of collateral, however, does not mean an exemption from the obligation to a comprehensive analysis and assessment of the solvency of the Bank's counterparties, of their creditworthiness, that is, of their ability to perform their payment obligations through funds from the generated income.

Accepted collaterals fall within the following two categories:

• financial and other collaterals such as cash deposits, securities (stocks and bonds), tangible assets such as machinery, equipment, vehicles, and real estate, assigned real rights, etc.

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

(b) Liquidity risk

Liquidity management has as its major objective the provision of optimal liquidity in balancing cash inflows and outflows to ensure the day-to-day performance of the Bank's liabilities. Liquidity management is performed in accordance with the rules and methodology for identifying and monitoring liquidity buffers.

The principles and internal rules are based on:

• Proper structuring of the business portfolio;

• Ensuring stable financing, using own funds;

• Balancing the short-term cash flow and maintaining a sound financial position.

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

The Bank's liquidity status is displayed on a four-stage scale in different colors and provides a summarized overview of the Bank's liquidity position. With regard to the system of limits and early warning indicators, the status draws attention to the increasing liquidity risks over time.

• Normal situation - green:

All liquid indicators are within the limit and there is no sign of any circumstance threatening the liquidity position of the Bank. Major measures to prevent the deterioration of the liquidity position and to optimize liquidity are taken by the LIS Directorate.

• Risky situation - yellow (Early Warning Level):

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

• Dangerous situation - orange (Liquidity Crisis Level):

There is a significant risk that the Bank will become insolvent or unable to attract the required amount of financing, which may result in significant financial loss through forced liquidation or increased financing costs.

The Liquidity Management Plan for Adverse Circumstances and the Liquidity Crisis scenario apply. Rapid measures must be taken, effectively and timely, to improve the liquidity position backed by an appropriate communication policy. Ensuring the necessary liquidity and reducing risk take priority over the profitability aspects.

• Emergency situation - red:

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(b) Liquidity risk, continued

A limit status that can only be reached with manual change of the limit level. The Bank's solvency is directly threatened. In order to ensure the survival of the Bank, liquidity temporarily becomes a major factor in decision-making. The Liquidity Management Plan in Adverse Circumstances applies.

The main methodological tool for monitoring and accountability of liquidity risk is the analysis of liquidity discrepancies based on original (agreed maturities), which are supplemented by simulations of possible transactions (model future cash flows) in order to maximize the correct presentation of the expected cash flow. Liquidity risk is measured by comparing the maximum cumulative outflow and its liquidity coverage potential that can be realized within the short term through the liquidity report. Different economic assumptions are modeled through separate stress scenarios.

These scenarios include a combination of a severe global market and liquidity crisis and a severe individual bank crisis, and the Stress Scenario is modeled on individual currencies (BGN, EUR, USD, and all the others in aggregate) as well as in general for all currencies in the Bank.

Specific product assumptions on the allocation of cash inflows and outflows are detailed in the Liquidity Modeling Manual.

Liquidity ratios under Regulation No. 575 (LCR & NSFR).

□ LCR (Liquidity Coverage Ratio) – The Liquidity Coverage Ratio is a short-term liquidity indicator designed to ensure a sufficiently high level of liquid assets needed for survival in the event of a significant stressful scenario over a period of 1 month. The purpose of this ratio is to ensure that the Bank maintains an adequate level of unblocked (unpledged) high quality liquid assets that can be converted into cash to cover the required liquidity for 30 calendar days under a much more severe liquidity stress scenario.

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

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

□ NSFR (Net Stable Funding Ratio) – Net Stable Funding Ratio designed to promote flexibility over a longer time horizon by creating additional incentives for banks to finance their operations with more stable sources of financing on an ongoing basis. The one-year time horizon was designed to provide a robust maturity structure for assets and liabilities and to avoid the concentration of highly liquid assets only within the 1-month zone (defined by the LCR), by providing such outside the 30-day period.

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

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(b) Liquidity risk, continued

The Bank's assets and liabilities analyzed for the remaining period from the reporting date to the date of subsequent negotiation or foreseen maturity are as follows:

31 December 2018

In BGN '000	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Without maturity	Total
Assets							
Cash, cash balances with central banks and other deposits on demand	531,753	-	-	-	-	-	531,753
Receivables from banks	-	-	-	-	-	3,321	3,321
Financial assets measured at fair value through profit or loss	1,710	-	-	1,955	-	-	3,665
Loans and advances to customers	6,474	37,591	156,082	173,654	388,952	-	762,753
Net investment in finance leases	-	-	-	794	-	-	794
Financial assets measured at fair value through other comprehensive income	15,359	-	-	92,287	156,844	12,288	276,778
Debt securities measured at amortized cost	-	-	-	66,993	109,643	-	176,636
Property, plant and equipment and investment property	-	-	-	-	-	94,909	94,909
Intangible assets	-	-	-	-	-	3,794	3,794
Non-current assets held for sale	-	-	-	-	-	8,842	8,842
Other assets	-	-	-	-	-	258,794	258,794
Total assets	555,296	37,591	156,082	335,683	655,439	381,948	2,122,039
Liabilities							
Deposits from credit institutions	6	-	-	-	-	-	6
Deposits from customers	1,065,835	181,563	508,329	127,000	67	-	1,882,794
Bond loans	205	30	-	-	-	39,205	39,440
Debt-equity hybrid instrument	41	-	-	9,779	-	-	9,820
Other liabilities	5,713	-	-	-	-	-	5,713
Total liabilities	1,071,800	181,593	508,329	136,779	67	39,205	1,937,773
Difference in the maturity of assets and liabilities	(516,504)	(144,002)	(352,247)	198,904	655,372	342,743	184,266
Cumulative difference	(516,504)	(660,506)	(1,012,753)	(813,849)	(158,447)	184,266	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Off-balance sheet commitments	(103,005)	(12,198)	(40,192)	(50,002)	(20,072)
Cumulatively with off-balance sheet commitments	(619,509)	(672,704)	(1,052,945)	(863,851)	(178,549)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(b) Liquidity risk, continued

31 December 2017

In BGN '000	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Without maturity	Total
Assets							
Cash, cash balances with central banks and other deposits on demand	295,277	-	-	-	-	-	295,277
Receivables from banks	-	-	-	-	-	3,022	3,022
Financial assets held for trading	939	-	3,001	1,795	1,417	-	7,152
Loans and advances to customers	16,385	46,404	86,926	223,301	406,355	-	779,371
Net investment in finance leases	-	-	-	1,519	35,966	-	37,485
Financial assets measured at fair value through other comprehensive income	17,656	27,417	28,845	210,519	148,100	8,426	440,963
Debt securities measured at amortized cost	21,599	-	-	67,460	-	-	89,059
Property, plant and equipment and investment property	-	-	-	-	-	91,444	91,444
Intangible assets	-	-	-	-	-	1,593	1,593
Non-current assets held for sale	-	-	-	-	-	198, 027	198,027
Other assets	-	-	-	-	-	10,736	10,736
Total assets	351,856	73,821	118,772	504,594	591,838	313,248	1,954,129
Liabilities							
Deposits from credit institutions	-	-	-	-	-	-	-
Deposits from customers	878,649	196,816	530,346	122,378	6,273	-	1,734,462
Bond loans	214	31	-	-	-	39,205	39,450
Debt-equity hybrid instrument	58	-	15,000	9,779	-	-	24,837
Other liabilities	3,193	-	-	-	-	-	3,193
Total liabilities	882,114	196,847	545,346	132,157	6,273	39,205	1,801,942
Difference in the maturity of assets and liabilities	(530,258)	(123,026)	(426,574)	372,437	585,565	274,043	152,187
Cumulative difference	(530,258)	(653,284)	(1,079,858)	(707,421)	(121,856)	152,187	
Off-balance sheet commitments	(189,470)	(13,031)	(44,356)	(68,820)	(50,603)		
Cumulatively with off-balance sheet commitments	(719,728)	(666,315)	(1,124,214)	(776,241)	(172,459)		

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk

In trading with financial instruments, market risk arises, i.e. the risk of their possible impairment as a result of changes in market conditions. Impairment of financial instruments in the Bank's trading portfolio leads to the formation of losses that affect the income generated from its trading operations.

The Bank manages its financial instruments for trading purposes (its trading portfolio) to limit market risk with the help of limits.

(i) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations insofar as interest-bearing assets (including investments) and interest-bearing liabilities mature or experience changes in interest rates at different times and to different degrees. In the case of floating rate assets and liabilities, the Bank is exposed to the risk of changes in the basic interest points used to determine the interest rates that are defined as the difference between the characteristics of the variable interest rate indices, such as SOFIBOR, the Base Interest Rate, six-month LIBOR or different interest rates. The risk management policy aims to optimize net interest income and achieve market interest rate levels consistent with the Bank's strategy.

The procedures for managing the interest rate risk in relation to the balance between borrowed and lent resources are applied in terms of the Bank's sensitivity to changes in interest rates. This means to what extent, upon the rise of interest rate levels, the margins achieved will decrease as the amount of debt changes.

As at 31 December 2018 and 31 December 2017, the interest-bearing assets and liabilities are predominantly at fixed interest rates, have a similar maturity structure and interest rate change dates.

The weighted average interest rate on assets as at 31 December 2018 is in the amount of 2.13% (2017: 2.77%), and on liabilities it is 0.72% (2017: 1.15%).

The below table summarizes the Bank's positions with respect to residual maturity of interest-bearing assets and liabilities as at the date of preparation of the financial statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(i) Interest rate risk, continued

31 December 2018				Fixed interest rate instruments				
In BGN '000	**Total**	**Non-interest bearing instruments**	**Floating interest rate instruments**	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**
Assets								
Cash, cash balances with central banks and other deposits on demand	531,753	505,657	-	26,096	-	-	-	-
Receivables from banks	3,321	3,321	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	3,665	-	-	1,710	-	-	1,955	-
Loans and advances to customers	762,753	30,830	492,798	548	8,994	41,532	58,464	129,587
Net investment in finance leases	794	-	81	-	-	-	713	-
Financial assets measured at fair value through other comprehensive income	276,778	12,288	-	15,359	-	-	92,287	156,844
Debt securities measured at amortized cost	176,636	-	-	-	-	-	66,993	109,643
Property, plant and equipment and investment property	94,909	94,909	-	-	-	-	-	-
Intangible assets	3,794	3,794	-	-	-	-	-	-
Non-current assets held for sale	8,842	8,842	-	-	-	-	-	-
Other assets	258,794	258,794	-	-	-	-	-	-
Total assets	2,122,039	918,435	492,879	43,713	8,994	41,532	220,412	396,074
Liabilities								
Deposits from credit institutions	6	-	-	6	-	-	-	-
Deposits from customers	1,886,794	726,036	-	339,799	185,563	508,329	127,000	67
Bond loans	39,440	-	-	205	30	-	-	39,205
Debt-equity hybrid instrument	9,820	-	-	41	-	-	9,779	-
Other liabilities	5,713	5,713	-	-	-	-	-	-
Total liabilities	1,941,773	731,749	-	340,051	185,593	508,329	136,779	39,272
Cumulative interest gap	180,266	186,686	492,879	(296,338)	(176,599)	(466,797)	83,633	356,802

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3.DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(i) Interest rate risk, continued

The table below summarizes the Bank's positions with respect to residual maturity of interest-bearing assets and liabilities as at the date of preparation of the financial statements.

31 December 2017				**Fixed interest rate instruments**				
In BGN '000	**Total**	**Non-interest bearing instruments**	**Floating interest rate instruments**	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**
Assets								
Cash, cash balances with central banks and other deposits on demand	295,277	269,181	-	26,096	-	-	-	-
Receivables from banks	3,022	3,022	-	-	-	-	-	-
Financial assets measured at fair value through profit or loss	7,152	-	-	939	-	3,001	1,795	1,417
Loans and advances to customers	779,371	6,983	499,699	4,723	6,771	23,485	86,583	151,127
Net investment in finance leases	37,485	-	148	-	-	-	1,371	35,966
Financial assets measured at fair value through other comprehensive income	440,963	90,482	10,077	17,656	-	28,845	145,804	148,099
Debt securities measured at amortized cost	89,059	-	-	21,599	-	-	67,460	-
Property, plant and equipment and investment property	91,444	91,444	-	-	-	-	-	-
Intangible assets	1,593	1,593	-	-	-	-	-	-
Non-current assets held for sale	198,027	198,027	-	-	-	-	-	-
Other assets	10,736	10,736	-	-	-	-	-	-
Total assets	1,954,129	671,468	509,924	71,013	6,771	55,331	303,013	336,609
Liabilities								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Deposits from customers	1,734,462	596,416	-	282,233	196,816	530,346	122,378	6,273
Bond loans	39,450	-	-	214	31	-	-	39,205
Debt-equity hybrid instrument	24,837	-	-	58	-	15,000	9,779	-
Other liabilities	3,193	3,193	-	-	-	-	-	-
Total liabilities	1,801,942	599,609	-	282,505	196,847	545,346	132,157	45,478
Cumulative interest gap	152,187	71,859	509,924	(211,492)	(190,076)	(490,015)	170,856	291,131

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3.DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(i) Interest rate risk, continued

Sensitivity analysis – interest rate risk
To manage interest rate risk and the limits of change in interest rates, monitoring is performed on the sensitivity of Investbank JSC's financial assets and liabilities to various standard scenarios for interest rate movements, on the basis of selected parameters and results from the implemented underlying scenarios for IRRBP (interest rate risk in bank portfolio).
Based on the defined methodology for determining interest-sensitive assets and liabilities as at 31.12.2018, the Bank has implemented the following scenarios to assess its vulnerability to adverse changes in the interest rate levels:
- standard shock – measuring the net positions by weighting ratios specified in the Basel Committee's table for all time intervals of 1 month to over 20 years, representing a parallel shock of approximately 200 bps. The calculated result is -2.13% of the Bank's capital base, which is significantly below the specified risk ratio for exposure to interest rate risk of 20%;
- change in the NII (net interest income) due to increase in current interest rates of the Bank by +200 bps. amounts to BGN -4,676 million, and upon the decrease in the Bank's current interest rates by -200 bps it amounts to BGN 4,676 million. The negative effect upon the increase by 200 bps is due to the significant liquidity balances on accounts with financial institutions and with the BNB.

Taking into account the current interest rates and the trends of their development in the banking sector and those of Investbank JSC, we think that in 2018 the Bank will be able to follow a balanced interest rate policy.
Based on the results of the applied stress test scenarios for determining the Bank's level of exposure to interest rate risk, no additional capital resources are needed.

Investbank JSC calculates the capital requirements for market risk of the instruments included in its trading portfolio by applying the standardized approach, which includes calculation of the capital requirements for position, currency and commodity risk. Position risk is the risk of change in prices of debt and equity instruments in the trading portfolio and includes two components – specific position and overall position risk. The specific position risk is the risk of change in prices of the instruments created by the issuer, while the overall position risk is the risk of change in interest rates. As at 31 December 2018, the Bank's trading portfolio includes Bulgarian government guaranteed securities only and amounts to BGN 3,665 thousand.
Along with the standardized market risk assessment approach in its trading portfolio, the Bank also applies:
- Duration approach – through the modified duration it determines the percentage change in the value of the portfolio as a result of a (small) change in the interest rates and respectively calculates the capital coverage;
- Value at Risk method – VaR (applied through the use of specialized software). The market risk assessment of the portfolio is determined by a single figure showing the loss in value which by a certain degree of probability will not be exceeded for a specific time horizon. It is calculated based on the variability of different risk parameters, taking into account the correlation between them, and on that base, the change in the portfolio compared to its current market value is determined. The model used to determine the VaR is "Monte Carlo Simulation" based on a standard scenario, a time horizon of one business day, a level of credibility of 99%, and a standard deviation of 2.33.

Capital allocation of the portfolio of securities and corporate securities kept by the Bank

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

3.DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(c) *Market risk, continued*

(i) *Interest rate risk, continued*

	Weight pursuant to Ordinance 8	Volume in BGN '000	Relative share	Weighted amount in BGN '000
Bonds	0%	142,011.09	31.07%	0.00
Bonds	20%	138,914.93	30.39%	27,782.99
Bonds	50%	0.00	0.00%	0.00
Bonds	100%	153,611.01	33.61%	153,611.01
Corporation	100%	10,254.69	2.24%	10,254.69
Shares	100%	12,287.64	2.69%	12,287.64
TOTAL risk to counterparty		**457,079**		**203,936**

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

3.DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(c) *Market risk, continued*

(ii) *Currency risk*

The Bank is not exposed to currency risk when executing transactions with financial instruments denominated in foreign currencies. Following the introduction of the Currency Board in the Republic of Bulgaria, the Bulgarian Lev is pegged to the Euro. Since the currency used by the Bank to prepare its financial statements is the Bulgarian Lev, the financial statements are affected by fluctuations in the exchange rates of the Bulgarian Lev to currencies other than the Euro.

The Bank monitors its open currency position in summary terms and by type of currency. As regards the currency risk, we consider that it is insignificant due to the maintenance at any time of an open bank currency position below 2% of the capital base. In order to manage currency risk, limits have been defined for open positions (by banks and transaction signatories) and an acceptable level of gap between asset and liability operations, maximum allowable "stop loss" to avoid a speculative open position, amount of one-off open speculative position, and term of its closing. The amount of open currency positions, as well as the compliance with their established limits, are being monitored and controlled daily.

The execution of foreign currency transactions give rise to foreign currency gains and losses that are recognized in the statement of profit or loss. Such exposures are the monetary assets and liabilities of the Bank denominated in a currency other than the currency used to prepare the Bank's financial statements. These exposures are as follows:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 December 2018

In BGN '000

	BGN	EUR	Other currencies	Total
Assets				
Cash, cash balances with central banks and other deposits on demand	405,092	42,576	84,085	531,753
Receivables from banks	497	2,229	595	3,321
Financial assets measured at fair value through profit or loss	3,221	444	-	3,665
Loans and advances to customers	292,008	448,497	22,248	762,753
Net investment in finance leases	81	713	-	794
Financial assets measured at fair value through other comprehensive income	40,386	233,254	3,138	276,778
Debt securities measured at amortized cost	9,974	140,074	26,588	176,636
Property, plant and equipment and investment property	94,909	-	-	94,909
Intangible assets	3,794	-	-	3,794
Non-current assets held for sale	8,842	-	-	8,842
Other assets	258,223	571	-	258,794
Total assets	1,117,027	868,358	136,654	2,122,039
Liabilities				
Deposits from credit institutions	-	6	-	6
Deposits from customers	1,129,701	662,799	94,294	1,886,794
Bond loans	39,440	-	-	39,440
Debt-equity hybrid instrument	-	9,820	-	9,820
Other liabilities	5,544	144	25	5,713
Total liabilities	1,174,685	672,769	94,319	1,941,773
Net position	(57,658)	195,589	42,335	180,266

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(ii) Currency risk, continued

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31 December 2017
In BGN '000

	BGN	EUR	Other currencies	Total
Assets				
Cash, cash balances with central banks and other deposits on demand	155,047	97,528	42,702	295,277
Receivables from banks	488	1,969	565	3,022
Financial assets held for trading	2,734	4,418	-	7,152
Loans and advances to customers	245,289	509,729	24,353	779,371
Net investment in finance leases	4,010	33,475	-	37,485
Financial assets measured at fair value through other comprehensive income	81,963	329,186	29,814	440,963
Debt securities measured at amortized cost	21,599	67,460	-	89,059
Property, plant and equipment and investment property	91,444	-	-	91,444
Intangible assets	1,593	-	-	1,593
Non-current assets held for sale	198,027	-	-	198,027
Other assets	10,479	120	137	10,736
Total assets	812,673	1,043,885	97,571	1,954,129
Liabilities				
Deposits from credit institutions	-	-	-	-
Deposits from customers	1,053,854	584,862	95,746	1,734,462
Bond loans	39,450	-	-	39,450
Debt-equity hybrid instrument	15,016	9,821	-	24,837
Other liabilities	2,835	334	24	3,193
Total liabilities	1,111,155	595,017	95,770	1,801,942
Net position	(298,482)	448,868	1,801	152,187

As regards monetary assets and liabilities denominated in foreign currencies that are not hedged, the Bank maintains an acceptable net exposure by buying and selling foreign currencies at spot rates when it is considered appropriate.

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or poor internal processes, people and systems or from external events, including legal risk. Operational events are those events that could lead to a negative financial result or additional expenses and deviation from the expected outcome due to errors or malfunctioning of systems, people, and processes. Loss from an operational event is the financial effect related to the occurrence of operational events and subject to disclosure in the Bank's financial statements, including lost profits. Investbank JSC has put in place appropriate mechanisms and requirements for the application of the modern standards for operational risk management and control. The main focus is on the timely recognition of operational risks in order to reduce possible negative influence and prevent their recurrence in the future. This is also achieved by increasing the share of voluntary reporting of emerging events related to operational risk.

3.DISCLOSURE OF THE RISK MANAGEMENT POLICY, CONTINUED

(d) Operational risk, continued

- The loss resulting from an operational event may take the form of: assets impairment – direct derecognition or decrease in the carrying amount of financial assets as a result of theft, fraud or breach of internal regulations; external expenses – related to litigation, the preparation of experts' appraisals on operational events; regulatory measures taken against the Bank – imposed penalties, fines; benefits paid to employees, customers or third parties; loss of the right to counter-claim/recourse as a result of failed transactions; suffered loss or damage of tangible assets, etc.

- Investbank JSC calculates its capital requirements for operational risk using the basic indicator method by multiplying the average gross annual income by 0.15. The average gross annual income is formed by the sum of the positive values of net interest and net non-interest income, averaged over the last three calendar years based on audited figures. The annual gross income for each individual year is calculated before deduction of provisions for impairment and operating expenses. The calculation of the gross annual income is exclusive of income from sales of securities in the Bank's portfolio, irregular and extraordinary income and compensations received under insurance policies.

- At the same time, for the purposes of accurate definition and evaluation of the operational events and subsequent application of advanced models, the Bank uses a two-dimensional model:

- The first dimension of the model aims at precise distribution of operational events leading to loss, arranged by risk category and trigger event. The Bank uses seven major risk categories and twenty sub-categories.

- The second dimension of the model complies with Basel 3 requirements and classifies events (leading to losses or concerning potential loss and lost profits only) by selected groups of activities (business lines).

- Investbank JSC maintains a database of operational events aiming to ensure sufficient depth and reliability in order to:

- trace and identify events leading to loss, including where an event leading to loss affects numerous activities;

- prepare reports for internal use regarding operational risk measurement and outcomes from its management, including trends for loss and/or risk assessment established by the database;

- develop new or improve the existing control procedures.

- The Bank has defined and monitors the basic key indicators causing operational risk:

- human error – risk of fraud due to understated, non-existent or deficient control procedures, as well as unintentional mistakes due to ignorance in respect of products, insufficient staff training, complexity of applicable procedures and lack of experience, negligence, intent, staff shortages;

- information systems – use of incorrect models, incorrect data processing, use of erroneous data, use of systems unsuitable for new products or introduction of new data sources, levels of access to systems, data storage, breakdown in information and/or communication systems;

- activity organization – inappropriate structuring and allocation of duties, lack of appropriate procedures, violation of established processes, failure to comply with the instructions and policies.

- external factors – abuse, external fraud, intentional acts, natural disasters, and other with external manifestation.

As regards the amount of losses incurred due to operational events, the Internal Rules define a materiality threshold of BGN 400. It determines the reporting method and format and the documents necessary to create an operational event file.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

4. DISCLOSURE OF THE CAPITAL MANAGEMENT POLICY

(a) Capital management

As of 1 January 2015, the regulations of CRD IV package are effective, which through Regulation (EU) No. 575 of 2013 on prudential requirements for credit institutions and investment firms and Directive 2013/36 of the European Parliament and the Council, on access to credit institutions' activities and on prudential supervision of credit institutions and investment firms, transposed into European law the provisions of the new banking capital standards – Basel III.

As a result, the regulatory requirements for the capital of Investbank JSC for 2018 are based on CRD IV.

(i) Regulatory capital

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

• Common equity consisting of the basic share capital, Reserve Fund and other reserves to a certain amount;

• Tier I capital (the whole sum is classified as a Tier I Common Equity) which consists of common equity and hybrid instruments, less the following deductions – valuation differences on equity instruments available for sale, intangible assets and other regulatory adjustments relating to items that are included in the balance sheet capital or assets of the Bank, but treated differently for the purposes of regulation of capital adequacy.

• Tier II capital: subordinated fixed-term debt, net of regulatory adjustments relating to items that are included in the balance sheet capital or assets of the Bank, but treated differently for the purposes of regulation of capital adequacy.

4. DISCLOSURE OF THE CAPITAL MANAGEMENT POLICY, CONTINUED

(a) Capital management, continued

(i) Regulatory capital, continued

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 risks. Tier I capital adequacy is the ratio between Tier I capital and risk-weighted assets.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

In accordance with Art. 92 of Regulation No. 575/2013, the minimum required capital adequacy ratios are as follows:

- Common Equity Capital (CEC) Ratio – 4.5%;
- Tier I Common Equity Capital (CETC I) Ratio – 6%;
- Total Capital Adequacy Ratio – 8%.

Ordinance No. 8 on bank capital buffers introduces the types of capital buffers and the terms and conditions for their formation and update. The capital buffers are as follows:

1. Preventive capital buffer;
2. Anti-cycling capital buffer specific to each bank;
3. Buffer for Global Systemically Important Institution (GSII);
4. Buffer for Other Systemically Important Institution (OSII);
5. Buffer for systemic risk.

From the capital buffers referred to above, 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 risks. From December 2019 there will be a requirement for capital coverage of a system risk buffer amounting to 0.5% of RPE.

4. DISCLOSURE OF THE CAPITAL MANAGEMENT POLICY, CONTINUED

(a) Capital management, continued

(ii) Capital indicators

Equity (capital base)

In BGN '000	**2018**	**2017**
Common Equity Tier I Capital	217,381	188,001
Repaid capital instruments	171,107	160,877
Reserves	63,090	63,011
Deductions from Common Equity Tier I Capital:		
Intangible assets	3,794	1,593
Accumulated other comprehensive income	13,022	34,294
	217,381	**188,001**
Tier II Capital		
Subordinated fixed-term debt	1,704	5,608
Accumulated other comprehensive income	-	-
Deductions from Tier II Capital:		
Equity	**219,085**	**193,609**

4. DISCLOSURE OF THE CAPITAL MANAGEMENT POLICY, CONTINUED

(a) Capital management, continued

(ii) Capital indicators

The capital plan of the Bank has been developed in accordance with the development objectives set and the achievement of certain quantitative and qualitative indicators. The development of the plan also takes into account the results of the periodic stress tests and the anticipated changes in the economic environment. The calculations also provide for and include the new regulatory requirements concerning additional capital buffers, which came into force as from 2015 along with the CRD IV legislation package. On this basis, the Bank expects that at the end of 2019 its capital adequacy ratio will exceed 17%.

The main points in the process of capital planning and maintaining consistently stable ratios may be summarized as follows:

- Quality initial assessment of business undertakings and, accordingly, proper definition and identification of operational risks;

- Implementation of effective control procedures subject to the regulatory framework and internal limits aimed at maintaining the risk within the Bank's acceptable limits;

- Timely assessment of all significant risks by calculating their impact on capital adequacy;

- Development of forecast options (three-month horizon) taking into account the expected change in active operations and their effect on the capital;

- Stress testing for evaluation of adverse but plausible events on different business areas.

Capital ratios	**31 December 2018**	**31 December 2017**
Total capital adequacy ratio	18.66%	16.58%
Common equity Tier I capital adequacy ratio	18.51%	16.10%

The reported values for the amount of capital and capital adequacy as at 31.12.2018 based on the reports prepared under CRD IV are as follows:

Indicators	BGN '000
Common equity capital (CEC)	177,941
Common equity Tier I capital (CETC I + hybrid debt instruments issued)	217,381
Equity	219,085

The capital requirements for credit risk cover credit risk and bank portfolio dilution risk, counterparty risk for overall operations and settlement risk in the trading portfolio.
The capital requirements for market risk include market risk in the trading portfolio, currency risk for overall operations and commodity risk for overall operations.

4. DISCLOSURE OF THE CAPITAL MANAGEMENT POLICY, CONTINUED

(a) Capital management, continued

(ii) Capital indicators

As at 31.12.2018 the capital surplus has been estimated at:

Surplus(+)/Deficiency(-) as at 31.12.2018 in BGN '000	Capital	After deduction of capital buffers
Surplus(+)/Deficiency(-) of CEC	127 395	64 909
Surplus(+)/Deficiency(-) of Tier I Common Equity	146 929	84 443
Surplus(+)/Deficiency(-) of Capital Base (Equity)	125 149	62 663

The Bank's risk profile as at 31.12.2018 is consistent with the moderately conservative policy for assuming risk as adopted by the management. The largest relative share in the risk matrix as at the reporting date is held by the credit risk (90.7% of RPE) followed by operational risk (9.1% of RPE). The structure is presented below on the "Distribution of risk-weighted exposures of Investbank JSC as at 31.12.2018" chart.
Operational risk is calculated by applying the Basic Indicator method and represents 15% of the average annual gross income for the last three financial years (2017, 2016 and 2015).
As at 31.12.2018 the capital coverage of risk exposure of the Bank is as follows:

Capital coverage of the Bank's risk exposure in BGN '000		Total capital adequacy	Capital buffers			Total capital coverage
		Capital coverage – 5%	Safety capital buffer – 2.5%	Buffer for systemic risk – 3.0%	Counter-cyclical buffer – 0.0%	
Total amount of risk-weighted exposures, including:	1,174,198	93,935	29,355	33,131		155,422
Credit risk, credit risk from counterparties	1,078,055	35,247	26,952	30,248		143,447
Position, currency and commodity risk	1,425	114	35	43		192
Operational risk	94,588	7,575	2,357	2,841		12,783

4. DISCLOSURE OF THE CAPITAL MANAGEMENT POLICY, CONTINUED

(a) Capital management, continued

(ii) Capital indicators

Total amount of risk-weighted exposures, including:	1,174,198	100.00%

Credit risk, credit risk from counterparties	1,078 085	91.82%
Position, currency and commodity risk	1,425	0.12%
Operational risk	94,688	8.06%

5. SIGNIFICANT ACCOUNTING ASSUMPTIONS AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

(iii) Fair value measurement

Fair value is the outgoing price and is based on the assumption that a sale operation will be realized either on the underlying market for that asset or liability or, in the case there is no underlying market, on the market most profitable for the asset or liability. Both the underlying and the most profitable markets are markets that the Bank necessarily has access to.

Measurement of fair value is based on the assumptions and judgments that potential market participants would make when they would determine the cost of the relevant asset or liability, assuming that they would act to achieve the best economic benefit from it for themselves. When measuring the fair value of non-financial assets, the baseline is always the assumption of what would be the best and most efficient use of the asset for the market participants.

The Bank applies different valuation techniques that would be appropriate to the specifics of the relevant conditions and for which it has a sufficient input database, seeking to maximize the available publicly observable information and minimize the use of unobservable information accordingly. The Bank primarily uses the market approach, with the most commonly applied valuation techniques being: direct and/or adjusted market prices, market analogues and discounted cash flows.

The Bank uses the following hierarchy to determine and disclose the fair value of financial instruments through a valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets and liabilities;

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

Level 3: techniques that use input information having a material effect on the reflected fair value and that are not based on observable marketable data.

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

The Bank uses the expertise of external licensed valuers to determine the fair values of the following assets and liabilities: real properties pledged as collateral in favor of the Bank, property acquired by or assigned to the Bank from the realization of collaterals.

The valuation methods used are on the market comparison approach and an income based approach.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

5.SIGNIFICANT ACCOUNTING ASSUMPTIONS AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES, CONTINUED

(iii) Fair value measurement, continued

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

As at 31.12.2018		Carrying amount					Fair value			
In BGN '000	*Note*	**Loans and receivables**	**Held for trading**	**Available for sale**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value			-							
Financial assets measured at fair value through other comprehensive income		-		276,778	-	276,778	273,525	-	3,253	276,778
Financial assets measured at fair value through profit or loss		-	3,665	-	-	3,665	3,665	-	-	3,665
Debt securities measured at amortized cost		-	176,636	-	-	176,636	166,662	-	9,974	176,636
		-	180,301	276,778	-	457,079	443,852	-	13,227	457,079
Financial assets not measured at fair value										
Cash on hand and in deposits with the Central Bank		531,753	-	-	-	531,753	531,753	-	-	531,753
Receivables from banks		3,321	-	-	-	3,321	3,321	-	-	3,321
Loans and advances to customers		762,753	-	-	-	762,753	-	-	780,536	780,536
		1,297,827	-	-		1,297,827	535,074	-	780,536	1,315,610

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Financial liabilities not measured at fair value									
Deposits from credit institutions	-	-	-	6	6	-	-	6	6
Deposits from customers	-	-	-	1,886,794	1,886,794	-	1,761,099	129,898	1,890,997
Debt-equity hybrid instrument	-	-	-	9,820	9,820	-	-	9,819	9,819
	-	-	-	1,896,620	1,896,620	-	1,761,099	139,723	1,900,822

5.SIGNIFICANT ACCOUNTING ASSUMPTIONS AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES, CONTINUED

As at 31.12.2017		Carrying amount					Fair value			
In BGN '000	*Note*	Loans and receivables	Held for trading	Available for sale	Other	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value			-							
Financial assets measured at fair value through other comprehensive income		-		440,963	-	440,963	429,219	10,442	1,302	440,963
Financial assets measured at fair value through profit or loss		-	7,152	-	-	7,152	7,152	-	-	7,152
Debt securities measured at amortized cost		-	89,059	-	-	89,059	89,059	-	-	89,059

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	-	96,211	440,963	-	537,174	525,430	10,442	1,302	537,174
Financial assets not measured at fair value									
Cash on hand and in deposits with the Central Bank	295,277	-	-	-	295,277	295,277	-	-	295,277
Receivables from banks	3,022	-	-	-	3,022	3,022	-	-	3,022
Loans and advances to customers	779,371	-	-	-	779,371	-	-	780,354	780,354
	1,077,670	-	-		1,077,670	298,299	-	780,3	1,078,653
Financial liabilities not measured at fair value									
Deposits from credit institutions	-	-	-	-	-	-	-	-	-
Deposits from customers	-	-	-	1,734,462	1,734,462	-	1,605,8	130,1	1,736,009
Debt-equity hybrid instrument	-	-	-	24,837	24,837	-	-	26,858	26,858
	-	-	-	1,759,299	1,759,299	-	1,605,8	157,0	1,762,867

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

6.NET INTEREST INCOME

In BGN '000

	2018	2017
Net interest income		
Interest income		
- Deposits provided to credit institutions	482	182
- Loans and advances to customers	35,544	47,207
- Net investment in finance leases	2,243	1,100
- Financial assets measured at fair value through other comprehensive income	3,484	4,177
- Financial assets measured at fair value through profit or loss	284	285
- Debt securities measured at amortized cost	1,439	607
	43,476	53,558
Interest expense		
- Deposits from credit institutions	(81)	(25)
- Deposits from customers	(10,193)	(16,868)
- Debt-equity hybrid instrument	(1,563)	(1,946)
- Bond loans	(1,558)	(1,575)
	(13,395)	(20,414)
Net interest income	30,081	33,144

As at 31.12.2018 Investbank reported a decrease in net interest income (BGN 3,063 thousand or a 9% decline) as compared to the previous year. The net interest income continues to be positively affected by the more substantial decline in interest expense rather than by interest income.

Interest income as at 31.12.2018 showed a decrease of BGN 10,082 thousand (a 19% decline) as compared to the previous year, which is due to: the lower average portfolio volume (BGN 27.6 million). As a result of the decrease in interest rates on borrowed funds from customers, interest expense declined significantly. As at 31 December 2018 interest expense decreased by BGN 7,019 thousand (a 34.4% decline) as compared to December 2017.

7.NET FEE AND COMMISSION INCOME

In BGN '000

	2018	2017
Fee and commission income		
- Credit-related income	5,820	6,773
- Income from fees for off-balance sheet commitments	1,649	1,361
- Fees related to payment services	20,465	18,555
- Other fees and commissions	209	125
	28,143	26,814

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Fee and commission expense		
- Clearing and settlement fees	(2,234)	(2,023)
- Other fees and commissions	(1,025)	(416)
	(3,259)	(2,439)
Net fee and commission income	24,884	24,375

In 2018, the Bank's net fee and commission income amounted to BGN 24,884 thousand, as compared to BGN 24,375 thousand at the end of 2017, thus showing an increase of 2.1%. The highest increase in absolute value was shown in the fees and commissions on transfer operations - BGN 1,509 thousand, or an increase of 30.68%, followed by the account service fees - BGN 1,122 thousand, or 44.25%. Lower than the same period of the previous year were the cash operation fees - by BGN 847 thousand (due to a change in the contract with Bulgarian Posts EAD) and those for loans granted (by BGN 953 thousand).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

8.NET INCOME FROM TRADING OPERATIONS

In BGN '000	**2018**	**2017**
Net income from operations with Financial assets measured at fair value through profit or loss	167	17
Income from change in the fair value of Financial assets measured at fair value through profit or loss	(346)	(224)
Net income from foreign currency transactions	3,259	2,457
Net income from trading operations	3,080	2,250

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

In BGN '000	**2018**	**2017**
Net profit from operations with financial assets	1,109	1,680
Net change in the fair value of financial assets	1,335	5,495
Net result from financial assets and liabilities not measured at fair value through profit or loss	2,444	7,175

10. OTHER OPERATING INCOME

In BGN '000	**2018**	**2017**
Negative goodwill	22,577	-
Dividend income	125	380
Gain on other non-financial services	7	34
Gain on sale of fixed assets	2	143
Gain on sale of non-current assets held for sale	2,603	52
Other income	3,068	1,577
Other operating income	28,382	2,186

At the end of 2018, the amount of other operating income amounted to BGN 28,382 thousand, as compared to BGN 2,186 thousand in 2017. This was mainly due to the bargain purchase (negative goodwill) as a result of a business combination (the merger of Commercial Bank Victoria into Investbank) amounting to BGN 22,577 thousand.

Other more significant revenues: the sale of the building of Commercial Bank Victoria amounting to BGN 2,728 thousand, rental income amounting to BGN 1,001 thousand.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

11. ADMINISTRATIVE EXPENSES

In BGN '000	2018	2017
Personnel expenses	(15,359)	(14,719)
Depreciation and amortization	(2,157)	(1,922)
Expenses for the Bank Deposit Guarantee Fund and the Bank Restructuring Fund	(6,777)	(6,652)
Tax and fee expenses	(3,421)	(3,301)
Expenses for office rentals and lease of other assets	(3,347)	(3,491)
Communication expenses	(1,174)	(881)
Security expenses	(1,100)	(1,068)
Other administrative expenses	(5,924)	(7,765)
Administrative expenses	(39,259)	(39,799)

At the end of 2018, the total administrative expenses were BGN 540 thousand, below their level as at the end of the previous year.

12. FINANCIAL ASSET IMPAIRMENT LOSSES

In BGN '000	2018	2017
Provisions for impairment losses set aside	(51,124)	(72,812)
	(51,124)	(72,812)
Provisions for impairment losses reintegrated	20,853	13,448
	20,853	13,448
Impairment losses	(30,271)	(59,364)

At the end of 2018, the Bank recognized impairment losses amounting to BGN 30,271, of which: impairment of loans and debt instruments measured at amortized cost amounting to BGN 25,561 thousand, impairment of financial guarantees amounting to BGN 633 thousand, provisions for litigation amounting to BGN 4,077 thousand.

13. NET RESULT FROM INVESTMENT PROPERTY REVALUATION

In BGN '000	2018	2017
Revaluation income	689	964
	689	964
Revaluation expense	(23)	(6)
	(23)	(6)
Net revaluation result	666	958

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

As at 31 December 2018, the Bank's management has assigned to independent external valuers to assess the fair value of its investment property and, accordingly, a revaluation amounting to BGN 666 thousand was accrued in the statement of profit or loss, while in 2017 the revaluation amounted to BGN 958 thousand. The valuers are members of the Chamber of Independent Valuers in Bulgaria and have the appropriate qualification for and experience in real estate valuation. The valuation results were obtained using the methods and references specified in the Valuation Standards for market certificates of transactions or bid prices of similar properties.

14. TAXATION

In BGN '000	**2018**	**2017**
Current tax expense	-	-
Income/(expense) from movement in deferred taxes	(320)	(258)
Total tax expense	(320)	(258)

In BGN '000		
Accounting profit/(loss)	22,647	(29,075)
Effect of tax asset accrued	2,933	(2,933)
Tax effect of permanent differences	(27)	(26)
Current tax income	2,640	(258)
Effective tax rate	0%	0%

The Bank accrued a deferred tax asset in the amount of BGN 2,933 thousand in respect of the tax loss that is subject to deduction over the next four years.

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

In BGN '000	**2018**	**2017**
Cash on hand	32,497	31,611
Cash in transit	7,210	12,256
Current accounts with banks (in BGN and foreign currencies)	26,078	27,860
Deposits with banks	32,306	26,096
Current accounts with the Central Bank	433,662	197,454
Total	531,753	295,277

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

As at 31.12.2018 the funds on accounts with the BNB also include the amount which represents the participation of Investbank JSC in the guarantee mechanism of the system handling payment transactions related to BORICA cards.

16. RECEIVABLES FROM BANKS

In BGN '000	**2018**	**2017**
Receivables from local banks	377	451
Receivables from foreign banks	2,944	2,571
Total	3,321	3,022

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

In BGN '000	**2018**	**2017**
- short-term and medium-term government securities denominated in BGN	3,221	2,734
- short-term and medium-term government securities denominated in foreign currencies	444	4,418
Total	3,665	7,152

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of borrower

In BGN '000	**2018**	**2017**
Other financial institutions	23,881	22,395
Physical persons	158,864	146,295
Public-financed enterprises	5,890	11,317
Private enterprises		
- Loans and advances	647,159	646,972
- Cession receivables	13,570	10,946
	849,364	837,925
Impairment loss	(86,611)	(58,554)
Total	762,753	779,371

(b) Impairment losses of loans and advances to customers

In BGN '000	**2018**	**2017**
Balance as at 1 January	58,554	31,308
Accrued	103,240	63,750
Reintegrated	(18,009)	(13,448)
Derecognized	(57,174)	(23,056)
Balance as at 31 December	86,611	58,554

From 1 January 2018, Investbank charges impairment charges pursuant to the now effective IFRS 9 Financial Instruments, reporting a corrective amount for its financial assets carried at amortized cost - loans and debt instruments, under financial guarantee contracts and other credit commitments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

19. NET INVESTMENT IN FINANCE LEASES

The Net investment in finance leases is obtained as the difference between the gross investment in finance leases less the unrealized finance income and accrued impairment.

In BGN '000	**2018**	**2017**
Gross investment in finance leases	1,061	49,635
- Impairment losses:		
- accrued		2,942
- reintegrated	-	-
- derecognized		
Unrealized finance income	(267)	(15,092)
Net investment in finance leases	794	37,485

The Net investment in finance leases is allocated as follows:

In BGN '000	**2018**	**2017**
Maturity within 1 year	-	-
Maturity from 1 to 5 years	794	1,519
Maturity over 5 years	-	35,966
Net investment in finance leases	794	37,485

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

In BGN '000	2018	2017
Stocks and shares in local enterprises	8,051	8,426
Stocks and shares in foreign enterprises	4,236	-
Bulgarian government securities denominated in BGN	32,184	63,310
Bulgarian government securities denominated in foreign currencies	136,559	130,794
Debt instruments – Bulgarian issuers	281	10,442
Debt instruments – foreign issuers	95,467	227,991
Total	276,778	440,963

21. DEBT SECURITIES MEASURED AT AMORTIZED COST

In BGN '000	2018	2017
Bulgarian government securities denominated in BGN	-	21,599
Debt instruments – Bulgarian issuers	9,973	-
Foreign government securities denominated in EUR	166,663	67,460
Total	176,636	89,059

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

22. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

In BGN '000	**Land and buildings**	**Equipment**	**Vehicles**	**Business inventory**	**Other**	**Investment property**	**Total**
Book value							
As at 1 January 2017	21,383	11,062	2,381	2,640	36,570	68,831	142,867
Increase	-	266	-	20	2,764	849	3,899
Decrease	(113)	(686)	(32)	(217)	(124)	(553)	(1,725)
Transfers (net)	-	(118)	-	-	(36,318)	2,348	(33,852)
Revaluation	-					957	957
As at 31 December 2017	21,270	10,760	2,349	2,443	2,892	72,432	112,146
As at 1 January 2018	21,270	10,760	2,349	2,443	2,892	72,432	112,146
Increase	-	3,346	1,214	308	1,091	13,085	19,044
Decrease	-	(305)	(109)	(195)	2,108)	(146)	(2,863)
Transfers (net)	-	-	-	-	(48)	(7,891)	(7,939)
Revaluation	-	-	-	-	-	666	666
As at 31 December 2018	21,270	13,801	3,454	2,556	1,827	78,145	121,053
Depreciation and amortization accumulated							
As at 1 January 2017	6,721	8,373	2,278	2,015	3	589	19,979
Accrued for the year	829	655	58	158	-	-	1,700
Derecognized	(46)	(673)	(26)	(212)	-	-	(977)
Transfers (net)	-	-	-	-	-	-	-
As at 31 December 2017	7,504	8,355	2,310	1,961	3	569	20,702
As at 1 January 2018	7,504	8,355	2,310	1,961	3	569	20,702
Accrued for the year	826	639	228	139	-	-	1,832
Derecognized	-	(298)	(108)	(190)	(3)	(260)	(859)
Transfers (net)		3,219	22	299	0	98	3,638
As at 31 December 2018	8330	11,915	2,452	2,209		(407)	25,313
Carrying value as at 1 January 2017	14,662	2,689	103	625	36,567	68,242	122,888
Carrying value as at 31 December 2017	13,766	2,405	39	482	2,889	71,863	91,444
Carrying value as at 31 December 2018	12,940	1,866	1,002	347	1,827	77,378	95,740

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The acquired tangible fixed assets as a result of the merger of Commercial Bank Victoria are reflected on the Increases line and amount to BGN 1,637 thousand.

23. INTANGIBLE ASSETS

In BGN '000	**Patents, licenses, trademarks**	**Software products**	**Other**	**Total**
Book value				
As at 1 January 2017	1,193	1,013	1,233	3,459
Increase	28	20	139	187
Decrease	-	-	(24)	(24)
Transfers (net)	-	271	-	271
As at 31 December 2017	1,221	1,304	1,348	3,873
As at 1 January 2018	1,221	1,304	1,348	3,873
Increase	5	4	8	17
Decrease	-	(3)	(223)	(226)
Transfers (net)	(405)	455	-	49
Transfers (net) from Victoria Bank		6,682		6,682
As at 31 December 2018	821	8,441	1,133	10,395
Depreciation and amortization accumulated				
As at 1 January 2017	636	965	473	2,074
Accrued for the year	21	76	126	223
Derecognized	-	-	(17)	(17)
Transfers (net)	-	-	-	-
As at 31 December 2017	657	1,041	582	2,280
As at 1 January 2018	657	1,041	582	2,280
Accrued for the year	22	191	129	318
Derecognized	-	(3)	(223)	(226)
Transfers	-	-	-	-
Transfers (net) from Victoria Bank	-	4,222	-	4,222
As at 31 December 2018	22	4,410	(111)	4,321
Carrying value as at 1 January 2017	557	48	760	1,365
Carrying value as at 31 December 2017	564	263	766	1,593
Carrying value as at 31 December 2018	142	2,989	662	3,794

The carrying value of the acquired intangible fixed assets as a result of the merger of Commercial Bank Victoria into Investbank amounts to BGN 2,460 thousand.

24. ASSETS HELD FOR SALE

In BGN '000	**2018**	**2017**
Balance as at 1 January	198,027	152,416
Reclassified	(196,405)	33,581
Acquired	7,220	18,921
Sold	-	(6,891)
Balance as at 31 December	8,842	198,027

Non-current assets held for sale as at 31.12.2018 amount to BGN 8,842 thousand, incl. the assets acquired as a result of the merger of Commercial Bank Victoria into Investbank amounting to BGN 7,220 thousand. Assets for which a sale procedure has been initiated are presented under this item.

25. OTHER ASSETS

In BGN '000	**2018**	**2017**
Accounts with customers	1,315	1,776
Assets acquired from collaterals	242,803	-
Various materials	1,185	1,181
Expenses for future periods	257	211
Tax assets	9,007	299
Other accounts and receivables	4,227	7,269
Total	258,794	10,736

Due to a change in the Bank's Accounting Policy in 2018, the assets acquired from collaterals on loans that the Bank does not intend to use in its core business and are not investment property but are held for sale or completed for sale within a period longer than 12 months, are presented under the "Other Assets" item pursuant to IAS 2 "Inventories". As at 31.12.2018, the assets acquired from collaterals amount to BGN 242,803 thousand, of which: land amounting to BGN 84,650 thousand, buildings under construction amounting to BGN 31,519 thousand, buildings amounting to BGN 113, 300 thousand and other amounting to BGN 13,334 thousand. The assets acquired as a result of the merger of Commercial Bank Victoria into Investbank amount to BGN 23,727 thousand.

26. DEPOSITS FROM CREDIT INSTITUTIONS

In BGN '000	**2018**	**2017**
Deposits		
- in local currency	6	-
Total	6	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

27. DEPOSITS FROM CUSTOMERS

In BGN '000	**2018**	**2017**
Physical persons	1,266,682	1,185,431
Institutions	620,112	549,031
Total	1,886,794	1,734,462

The funds attracted by customers as at the end of December 2018 amount to BGN 1,886,794 thousand, showing an increase of BGN 152,332 thousand (9%) compared to December 2017. As a result of the merger, the funds attracted from customers increased by BGN 4,120 thousand. The funds attracted from physical persons retained their structurally defined share in the total funds attracted from customers - 67.1% (68.3% as of December 2017).

28. BOND LOANS

In 2018 the Bank has not issued any private bond loans. As at 31 December 2018 the structure of the bond loans issued by the Bank includes:

Nominal value in BGN	**Currency**	**Interest rate**	**Date of issue**
30,110,000	BGN	4 %	30 April 2013
204,079		Accrued interest	
(2,000)		Depreciation fee	
30,312,079			
9,100,000	BGN	4 %	31 May 2013
30,333		Accrued interest	
(2,501)		Depreciation fee	
Nominal value in BGN	**Currency**	**Interest rate**	**Date of issue**

29. DEBT-EQUITY HYBRID INSTRUMENT

As at 31 December 2018, the Bank has attracted additional capital reserves amounting to BGN 9,820 thousand, including interest of BGN 41 thousand. As at 31 December 2017, the attracted additional capital reserves were in the amount of BGN 24,837 thousand, including interest of BGN 58 thousand.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

30. OTHER LIABILITIES

In BGN '000	2018	2017
Accounts with customers	2,271	1,349
Provisions	1,320	-
Tax liabilities	1,827	1,309
Payables to personnel	221	175
Other	74	360
Total	5,713	3,193

31. EQUITY

(a) Share capital

As at 31 December 2018, the Bank's share capital amounts to BGN 131,666,667 and is divided into 131,666,667 dematerialized registered shares, each having a nominal value of BGN 1.

In 2018, the Bank increased its capital by BGN 10,000,000. The capital increase is in line with the business development strategy of Investbank JSC, with a positive impact on the capital ratios and the total capital adequacy resulting from the capital support of the Bank's major shareholder - Festa Holding AD. The shareholding structure of Investbank JSC at the end of 2018 is as follows (% of shareholding): Festa Holding AD - 55.36%, Adil Shanfari - 31.65%, Petya Slavova - 12.46%, Other legal and physical persons - 0.53%.

(b) Reserves

• Statutory reserves

Statutory reserves are set aside in accordance with the local legislation. Pursuant to the local legislation, the Bank is required to maintain equity exceeding or equal to the amount of the capital requirements for credit risk; position risk; foreign currency and commodity risk; operational and other risks related to its operations.

• Retained earnings

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

In BGN '000	**2018**	**2017**
Reserve Fund	34,719	34,719
Premium reserves	28,333	28,333
Accumulated other comprehensive income	(6,816)	(2,169)
Retained earnings	(7,675)	(30,322)
Other reserves	38	(41)
Total	48,599	30,520

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

32. CASH AND CASH EQUIVALENTS

In BGN '000	**2018**	**2017**
Cash on hand	39,707	43,867
Deposits with banks with original maturity of up to 3 months	433,662	53,956
Current accounts with the Central Bank	58,384	197,454
Total	531,753	295,277

The current account with the Central Bank is used for direct participation in the money and treasury markets and for settlement purposes. It also includes the Bank's minimum required reserves. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, cash on current accounts and deposits with other banks and current accounts with the Central Bank with original maturity of up to three months.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

33. ENCUMBERED ASSETS

The encumbered assets for 2018 are described below:

	Carrying value of encumbered assets			Fair value of encumbered assets		Carrying value of unencumbered assets			Fair value of unencumbered assets	
		including: issued by other entities within the group	including: meeting the requirements of central banks		including: meeting the requirements of central banks		including: issued by other entities within the group	including: meeting the requirements of central banks		including: meeting the requirements of central banks
Loans on demand						459,740		459,740		
Equity instruments						12,288			12,288	
Debt securities	140,893			140,893	140,893	303,898		293,644	303,898	293,644
including: covered bonds										
including: asset-backed securities										
including: issued by the Government sector	140,893			140,893	140,893	293,644		293,644	293,644	293,644
including: issued by financial enterprises										
including: issued by non-financial enterprises						10,254			10,254	
Loans and advances other than loans on demand						795,239				
including: mortgage loans						438,885				
Other assets	1,967					408,014				
Total:	142,860					1,979,179		753,384		

As at 31.12.2018, the amount of blocked government securities to cover the borrowed funds on budget accounts amounts to BGN 140,893 thousand, of which Financial assets measured at fair value through profit or loss amounting to BGN 3,577 thousand, and Financial assets measured at fair value through other comprehensive income amounting to BGN 137,316 thousand.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

33. ENCUMBERED ASSETS, CONTINUED

The encumbered assets for 2017 are described below:

	Carrying value of encumbered assets			Fair value of encumbered assets		Carrying value of unencumbered assets			Fair value of unencumbered assets	
		including: issued by other entities within the group	including: meeting the requirements of central banks		including: meeting the requirements of central banks		including: issued by other entities within the group	including: meeting the requirements of central banks		including: meeting the requirements of central banks
Loans on demand						225,314		225,314		
Equity instruments						8,427			8,427	
Debt securities	138,006		138,006	138,006	138,006	390,743		380,300	390,743	380,300
including: covered bonds										
including: asset-backed securities										
including: issued by the Government sector	138,006		138,006	138,006	138,006	390,743		380,300	390,743	380,300
including: issued by financial enterprises										
including: issued by non-financial enterprises						10,443			10,443	
Loans and advances other than loans on demand						844,227				
including: mortgage loans						405,729				
Other assets	1,747					345,665				
Total:	**139,753**		**138,006**			**1,814,376**		**605,614**		

34. COMMITMENTS AND CONTINGENT LIABILITIES

Off-balance sheet commitments

The Bank provides financial guarantees and letters of credit to guarantee the performance of commitments made by its customers to third parties. These agreements have fixed limits and a term of validity generally up to one year. The terms of validity of such commitments are not concentrated.

The amounts related to guarantee agreements entered into and contingent liabilities are shown in the below table. The amounts shown in the table for commitments made imply that the liabilities have arisen in their full volume. The amounts of guarantees and letters of credit represent the maximum accounting loss amount to be recognized in the statement of financial position in the event that the counterparties have failed to fulfill their obligations.

In BGN '000	**2018**	**2017**
Bank guarantees and letters of credit		
- in Bulgarian levs	120,477	73,834
- in foreign currencies	76,325	10,414
Liabilities on undrawn loans	28,637	63,232
Total	225,439	147,480

These commitments bring off-balance sheet credit risk only since just service fees and the accruals for probable losses are stated in the statement of financial position until the expiry of the term of the commitment made or until the fulfillment thereof. Many of the contingent liabilities are expected to end without the need for a payment obligation occurring for the Bank. Therefore, the amounts do not represent future cash flows.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

35. RELATED PARTY TRANSACTIONS

31 December 2017

Related parties *In BGN '000*	Nature of legal relationship	Type of transaction	Residual balance
Festa Holding AD	Shareholders	1) Deposits granted	2,738
		2) Loans received	454
	Members of management bodies	1) Deposits granted	338
		2) Loans received	1,756
	Members of supervisory bodies	1) Deposits granted	3,045
		2) Loans received	23
	Other	1) Deposits granted	1,125
		2) Loans received	4,479

31 December 2018

Related parties *In BGN '000*	Nature of legal relationship	Type of transaction	Residual balance
Festa Holding AD	Shareholders	1) Deposits granted	245
		2) Loans received	42
	Members of management bodies	1) Deposits granted	93
		2) Loans received	601
	Members of supervisory bodies	1) Deposits granted	4,509
		2) Loans received	158
	Other	1) Deposits granted	9,278
		2) Loans received	17,911

The remunerations of the Executive Directors and the Management Board as at 31.12.2018 amount to BGN 458 thousand (2017: BGN 417 thousand), and those of the Supervisory Board amount to BGN 376 thousand (2017: BGN 376 thousand).

35. OTHER STATUTORY DISCLOSURES

Pursuant to the requirements of Art. 70, para. 6 of the Credit Institutions Act, banks are required to make certain quantitative and qualitative disclosures relating to key financial indicators and other indicators separately for their business in the Republic of Bulgaria and in other countries where the Bank has subsidiaries and/or branches. Investbank JSC has a complete license for the conduct of banking activities. In 2018 and 2017 the Bank had no subsidiaries or branches registered outside the territory of the Republic of Bulgaria. Summarized information about the statutory disclosures under the Credit Institutions Act and reference to the relevant notes in these financial statements or other required reports is as follows:

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

In BGN '000	**References to other Notes and reports**	**2018**	**2017**
Gross operating income	Notes 6, 7, 8, 9 and 10	88,871	69,130
Profit/(Loss) before tax	Statement of Profit or Loss	20,007	(29,075)
Tax refund	Note 14	2,640	(258)
Return on assets (%)	Annual Activity Report	(1,52)	(1,52)
Equated number of full-time employees as at 31 December	Note 11	725	740

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

Following the date of the statement of financial position, no significant events have occurred requiring any adjustments or disclosures.