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Investbank JSC

Annual Financial Statements

As at 31 December 2021

With 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, 2021, 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 accompanying financial statements give a true and fair view of the financial position of the Bank as of December 31, 2021, 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).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those 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 within the meaning of 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 correct 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 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 adopted approach for impairment and provisioning policy by the Bank and the compliance of the approach with the requirements of IFRS 9;

loss model). The application of the standard is a complex process and has a serious effect on the financial statements of banking and non-banking financial institutions. The application of significant judgments and assumptions by the management, and the possibility for selection of a particular model in measuring the Bank's financial assets implies that this issue should be defined as a key audit issue. The granting of freedom to choose a model for accrual of provisions that directly affect the financial condition of the Bank is reflected in the following areas: - **Regular review of the classifiedd financial instruments:** 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. Both regular review and analysis have 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:** The implemented model of the Bank calculates the expected credit losses based on probabilities, which are dependent on historical statistical information. The statistical information is derived from both models used by the Bank - the corporate credit rating model and the credit scoring model. At the national level, some mitigation mechanisms have been proposed to those industries affected by the pandemic. Banks offered their customers opportunities to defer and settle their debts. This has led to the need to apply even more precise analysis and assessments when granting new loans or renegotiating loans that meet the conditions for rescheduling. The loans and advances granted to customers as of December 31, 2021, amounted to BGN 929 592 thousand and accounted for 36.55% of the	- Review and evaluation of the policies and procedures developed for the implemented models for expected credit loss calculation of the of financial assets, including those for the loans and advances granted We reviewed the amended policies and procedures and models for calculating expected credit losses on financial assets, including loans and advances, in response to the changed environment in which the Bank operates from COVID-19; - We gained an understanding of the credit exposure monitoring processes and the determination of loan impairment in response to the changed by Covid-19 environment in which the Bank operates. We reviewed the amended policies and procedures for monitoring credit exposures. - We reviewed the rules and management decisions to strengthen the processes and capacity to meet the effects of the pandemic, as well as to create new processes and regulations in response to the challenges of the COVID-19 pandemic; - Review of the implementation of the guidelines issued by the supervisory authorities - the Bulgarian National Bank (BNB) and the European Banking Authority (EBA) related to COVID-19; - Review and analysis of the way the Bank applies the Procedure for deferral and settlement of liabilities payable to banks and their subsidiaries, adopted by the Executive Board of the Association of Banks in Bulgaria (ABB) and approved by the BNB (the so-called moratoriums on loan payments). - Review and performance of comparative analysis of calculated provisions for different exposures in the Bank; - Performance of procedures for recalculating the currently charged provisions; - Review and evaluation of the credit classification processes and determining the necessary impairment on an individual

Bank's assets. 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 2021.	basis. - Verification, using a sampling principle, of specific receivables from the credit portfolio. Recalculation of provisions based on a specific model. We adopted a conservative approach to provisions recalculation. The applied specific model is in line with the regulation on provisioning. - We derived a summary of the result for the required impairment. - We reviewed the estimates made by the Bank's management of the expected credit losses on an individual basis and compared the results obtained with our expectations and estimates based on our professional judgment. - We communicated the estimated provisions with Bank's management and those charged with governance.

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 Chapter Seven of 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 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 June 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

Other Matter for Reporting under the Accountancy Act

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 Art. 100, para. 8, if applicable, of the Public Offering of Securities Act.

Statement 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;
(c) the corporate governance statement for the financial year for which the financial statements were prepared presents the information required by the Chapter Seven of the Accountancy Act and the Art. 100 (н), para. 8 of the Public Offering of Securities Act;
(d) the non-financial statement for the financial year for which the financial statements were prepared has been provided and prepared in accordance with the requirements of the Chapter Seven of the Accountancy Act.

Additional reporting under Ordinance No.58/2018 of the Financial Supervision Commission

Opinion in relation to 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
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 Articles 3-10 of the Ordinance No. 58 of the FSC and Articles 92 – 95 of the Financial Instruments Market Act with regard to the Bank's operations in its role as an investment intermediary.

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

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

- Audit – Correct LTD and Ecovis Audit Bulgaria LTD were appointed as mandatory joint auditors of the financial statements of Investbank JSC for the year ended 31 December 2021 by the General Meeting of Shareholders held on 20 May 2021, for a period of one year.
- The audit of the financial statements for the year ended 31 December 2021 of the Bank represents the third year of continuous commitment to a statutory audit of this entity performed by Audit – Correct LTD and Ecovis Audit Bulgaria LTD.
- In support of our joint audit opinion, in the Key Audit Matters section, we have provided a description of the most essential risks assessed, a summary of the joint auditors' reply and important observations on these risks, where appropriate.
- We confirm that our joint audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank in accordance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We confirm that we have not provided the banned services outside the audit as specified in Art. 64 of the Independent Financial Audit Act.
- We confirm that in the performance of the audit we have retained our independence from the Bank.

March 25, 2022

For Audit Correct LTD
Auditing company

Rositsa Trichkova
Managing Partner
Registered auditor in charge of the audit

Audit Correct OOD
Sofia 1164, No. 12 Vishneva Str.
+359 898 977 779
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www.auditcorrect.com

For Ecovis Audit Bulgaria LTD
Auditing company

Georgi Trenchev
Managing Partner
Registered auditor in charge of the audit

Ecovis Audit Bulgaria LTD
Sofia 1606, 69-73 General E.I. Totleben Blvd., floor 5, office 1
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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 064 ОДИТ-КОРЕКТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 114 ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

STATEMENT OF FINANCIAL POSITION (continued)

Liabilities	**Note**	**31/12/2021**	**31/12/2020**
Deposits from credit institutions	26	-	12
Financial liabilities measured at amortized cost		**2,272,495**	**1,947,300**
Deposits other than those of credit institutions	27	*2,267,802*	*1,940,725*
Other financial liabilities	27/1	*4,693*	*6,575*
Bond loans			
Other liabilities	28	**15,187**	**6,750**
including Provisions	29	*1,029*	*958*
Total liabilities		**2,287,682**	**1,954,062**
Equity			
Fixed capital		**155,572**	**155,572**
Reserves		**99,843**	**91,036**
including Retained earnings from past years		*(26,033)*	*(28,233)*
Current profit		*13,954*	*2,200*
Total equity	30	**255,415**	**246,608**
Total equity and liabilities		**2,543,097**	**2,200,670**

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

Svetoslav Milanov
Executive Director

Maya Stancheva
Executive Director

Mladen Ivanov
Compiler

In accordance with Auditor's Report dated 25 March 2022:

Rositsa Trichkova
Registered Auditor, responsible for the engagement

Audit Correct OOD
Audit Company

Georgi Trenchev
Registered Auditor, responsible for the engagement

Ecovis Audit Bulgaria LTD
Audit Company

PROFIT AND LOSS STATEMENT
In BGN '000

	Note	2021	2020
Interest revenues		31,339	29,789
Interest expenses		(8,582)	(5,443)
Net interest income	6	**22,757**	**24,346**
Fee and commission revenues		29,319	27,323
Fee and commission expenses		(3,537)	(3,093)
Net fee and commission income	7	**25,782**	**24,230**
Net revenues on trading operations	8	2,776	1,784
Net result from investment securities (Net gains or losses on the write-off of financial assets and liabilities not carried at fair value through profit or loss)	9	107	1,310
Other operating revenues	10	(2,552)	4,986
Net exchange rate differences		(229)	173
Total operating revenues		**48,641**	**56,829**
		(100,836)	**(55,928)**
Administrative expenses	11	*(36,740)*	*(39,049)*
Losses on impairment of financial assets	12	*(64,096)*	*(16,879)*
Net result from remeasurement of investment property	13	77,521	1,248
Gain or loss before tax on current operations		**25,326**	**2,149**
Taxation (Tax expenses or revenues related to the gain or loss on current operations)	14	(11,372)	51
Profit or loss after taxation for the year		**13,954**	**2,200**

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ОДИТОРСКО ДРУЖЕСТВО
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Рег. № 064
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Georgi Trenchev
Registered Auditor, responsible for the engagement

Ecovis Audit Bulgaria LTD
Audit Company

STATEMENT OF COMPREHENSIVE INCOME

In BGN '000

	2021	2020
Profit/(Loss) after tax	**13,954**	2,200
Items that may not be subsequently reclassified to profit or loss:		
Actuarial gains and losses	(23)	25
Change in the fair value of equity instruments measured at fair value through other comprehensive income	1	-
Items that are or may be subsequently reclassified to profit or loss:		
Debt instruments measured at fair value through other comprehensive income	(5,125)	(4,865)
Change in the fair value of available-for-sale financial assets		
Other comprehensive income	**(5,147)**	(4,840)
Total comprehensive income	**8,807**	(2,640)

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 064 ОДИТ-КОРЕКТ ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 114 ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

CASH FLOW STATEMENT	Note	2021	2020
Net cash flow from operating activities			
Profit/(Loss) after tax		13,954	2,200
Impairment losses		64,097	16,879
Depreciation		5,478	5,010
Expense/(Revenue) on taxes		11,372	(51)
		94,901	**24,038**
Changes in operating assets			
(Increase)/Decrease in financial assets carried at fair value through profit or loss		2,533	8,989
Decrease in deposits provided to credit institutions		20,742	823
(Increase)/Decrease in loans and advances to customers		(116,130)	(174,631)
(Increase)/Decrease in net investment in finance lease		599	(2,751)
(Increase)/Decrease in non-current assets held for sale		10,267	3,135
(Increase)/Decrease in other assets		70,241	12,893
Changes in operating liabilities			
Increase/(Decrease) in deposits from credit institutions		(12)	12
Increase/(Decrease) in deposits from customers		303,998	282,351
Increase/(Decrease) in other liabilities		8,436	734
Taxes (paid)/recovered		(11,372)	51
Net cash flows from core operations		**384,203**	**155,644**
Cash flows from investment operations			
(Purchase)/Sale of property, plant, equipment and investment property		(134,329)	(6,239)
(Purchase)/Sale of investment in investment portfolio		(54,327)	26,570
Net cash flows from investment operations		**(188,656)**	**20,331**
Cash flows from financial operations			
Increase/(Decrease) in fixed capital		-	23,905
Increase/(Decrease) in hybrid debt-equity instrument			
Increase/(Decrease) in bond loans		-	(39,416)
Net cash flows from financial operations		**-**	**(15,511)**
Net increase/(decrease) in cash and cash equivalents		**195,547**	**160,464**
Cash and cash equivalents at the beginning of the year		**420,327**	**259,863**
Cash and cash equivalents at the end of the year	**32**	**615,874**	**420,327**

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Executive Director

Mladen Ivanov
Compiler

"ИНВЕСТБАНК" АД
ibank
ЦЕНТРАЛНО УПРАВЛЕНИЕ СОФИЯ

In accordance with Auditor's Report dated 25 March 2022:

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Registered Auditor, responsible for the engagement

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Audit Company

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Рег. № 114
ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

STATEMENT OF CHANGES IN EQUITY

In BGN '000	Note	Fixed capital	Statutory reserves	Retained earnings	Remeasurement reserve from financial assets carried at fair value through other comprehensive income	Remeasurement reserve of defined benefit plans	Total
Balance as at 1 January 2020		131,667	85,768	(28,233)	(1,002)	(106)	188,094
Total comprehensive income for the year							
Net profit for the year		0	0	2,200	0		2,200
Actuarial gains and losses		0	0	0	0	25	25
Other comprehensive income							
Remeasurement of financial assets carried at fair value through other comprehensive income					(4,865)		(4,865)
Total other comprehensive income		0	0	0	(4,865)	25	(4,840)
Total comprehensive income for the year		0	0	2,200	(4,865)	25	(2,640)
Transactions with shareholders recognised in equity							
Increase in registered capital		23,905	37,249	0	0		61,154
Total transactions with shareholders recognised in equity		23,905	37,249	0	0		61,154
Balance as at 31 December 2020		155,572	123,017	(26,033)	(5,867)	(81)	246,608
Total comprehensive income for the year							
Net profit for the year		0	0	13,954	0		13,954
Actuarial gains and losses		0	0	0	0	(23)	(23)
Other comprehensive income							
Remeasurement of financial assets carried at fair value through other comprehensive income		0	1	0	(5,125)	0	(5,124)

Total other comprehensive income/(profit)		0	1	13,954	(5,125)	(23)	8,807
Total comprehensive income/(profit) for the year		0	1	13,954	(5,125)	(23)	8,807
Transactions with shareholders recognised in equity							
Increase in registered capital		0	0	0	0		0
Total transactions with shareholders recognised in equity		0	0	0	0		0
Equity as at 31 December 2021	31	**155,572**	**123,018**	**(12,079)**	**(10,992)**	**(104)**	**255,415**

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ЕКОВИС ОДИТ БЪЛГАРИЯ ООД

GENERAL INFORMATION

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

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

1. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

1.1. Statement of compliance

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

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

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

According to data from the updated medium-term budget forecast for the period 2022 to 2024, in 2021 there is a recovery of the world economy from the crisis caused by the Covid-19 pandemic. An increase was reported in international trade, employment and income. The intensification of the vaccination process in many developed countries has resulted in easing of restrictions and, accordingly, in a significant increase in GDP.

In Q3 2021, the Bulgarian economy recovered compared to pre-pandemic levels. The real GDP growth forecast by the end of 2021 provides for 3.7% growth, with a positive contribution almost entirely from private consumption. The risks to the GDP growth forecast for the end of 2021 are assessed as balanced. Inflation accelerated its growth to 7.7% on an annual basis in Q4 2021. At the end of December 2021, the unemployment rate nationwide increased to 5.4%. The banking system in Bulgaria remained stable in a situation of global pandemic with the subsequent economic and social effects thereof and continued to maintain high levels of capital adequacy and liquidity. The total capital adequacy ratio at the end of September was 22.36% and the liquidity coverage ratio was 325.4% at the end of November 2021.

In 2021, lending to enterprises will accelerate compared to 2020 in line with the expectations of improved economic activity, but its growth will be limited by the emerging weak investment activity in the private sector. For households, the projected higher demand for loans is supported by the current development of consumption, construction and housing market. The annual growth of receivables from enterprises is projected to be approx. 4.2% and that of receivables from households - 12.6%. Overall, the private sector receivables growth in 2021 is expected to be 7.3%, compared to 4.5% at the end of 2020. In 2022, the growth of lending to households is expected to slow, considering the end of the private moratorium, the expectations provide for cooling in the housing market, slowing the growth of compensation of employees and consumer spending. In the period 2023 to 2024, lending to households will continue to grow at a relatively high but slowing pace. Lending to non-financial corporations will accelerate in the period 2022 to 2023 in line with the recovery of private investment, supported by the National Recovery and Sustainability Plan (NRSP). The growth of total receivables from enterprises is expected to be 4.8% at the end of 2022, and that of receivables from households - 9.4%. Total receivables from the private sector in 2022 will increase by 6.6%, and in 2023 - by 6.8%. In 2024, the total annual increase in receivables from enterprises will be 5.8%, and that in receivables from households - 8.3%.

The Management of Investbank JSC considers that the Company is going concern and the financial statements of the Bank have been prepared on the going concern principle.

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

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

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

- In connection with the state of emergency imposed in the Republic of Bulgaria as a result of the Covid-19 pandemic, in March 2020 the Credit Risk Management Directorate prepared a proposal for the adoption of an extraordinary, temporary procedure for facilitated consideration of renegotiation of loans extended to business customers and customers - natural persons. In 2021, under this procedure, 31 loans of the Bank were renegotiated with an agreed amount of BGN 3,698 thousand, which contributed to maintaining the purity of the Bank's portfolio.

Although the impact of the crisis on the Bulgarian economy is not uniform, as a result of which the recovery is not performed at a steady pace, the reported effects in reducing non-performing exposures as at 31 December 2021 are largely due to the regular quality monitoring of the entire credit portfolio (which are subject to monthly discussion at the Risk Management Board and the Management Board of credit exposures with a delay of more than 1 day for loans to legal entities and more than 30 days for loans to natural persons), resulting in taking appropriate measures to return exposures in regularity or taking action to enforce debt collection.

The total exposures renegotiated due to Covid-19 include 282 loans with a value of BGN 65.52 million before impairment (BGN 54.09 million from corporate customers and BGN 11.44 million from natural persons and households, respectively).

During the negotiations on the private moratorium, in 2021 the Bank continued to strictly observe its position towards each borrower in view of the possibilities for permanent loss of business and cash flow from the main activity of the borrower. The presence of early warning signals is effectively monitored in order to identify in a timely manner the probability that borrowers may be unable to service their liabilities, including by exposures subject to a moratorium, through the introduced rules for credit limit monitoring, identification of deteriorated / problematic exposures.

- Investbank JSC regularly assesses the macroeconomic situation in the country and in particular the impact of the crisis on the risks to the operations of the institution. The Bank analyses the impact of the crisis by sectors of the Bulgarian economy that are exposed to the most adverse impact on the credit quality and capital, such as Accommodation and Food Service Activities; Culture, Sports and Entertainment; Trade; Construction; etc.
- In 2021 Investbank JSC managed to significantly improve the quality of its loan portfolio by reducing non-performing exposures. The data reported in the table are exclusive of exposures to credit institutions.

31/12/2021	NPL Management Strategy, %	Reported data, BGN '000	Comment
NPL ratio	Natural persons – 12.4% Legal entities – 21.3% **Total - 19.2%**	Natural persons – 6.3% Legal entities – 13.2% **Total - 11.7%**	The achieved *lower level* of the indicator than the planned one is due to the reduction of non-performing exposures.
NPL (nominal value in BGN '000)	Natural persons - 33,291 Legal entities – 185,275 **Total - 218,566**	Natural persons - 13,168 Legal entities – 98,615 **Total - 111,783**	Gross value of non-performing exposures in value terms as of 31 December 2021, compared to the Bank's NPL Management Strategy for the period 2021 to 2023
Loan Portfolio in BGN '000	Natural persons - 268,911 Legal entities – 867,876	Natural persons - 207,499 Legal entities – 747,814	The decrease in the gross value of the loan portfolio is due to written-off receivables at the expense of

	Total - 1,136,787	**Total - 955,313**	provisions.

As at 31 December 2021, the Bank's total credit exposure amounts to BGN 1,159.5 million, of which BGN 995.3 million gross carrying amount in the loan portfolio, BGN 103.8 million off-balance sheet commitments (undrawn debt on loans) and BGN 60.4 million from the bank guarantees portfolio. The share of non-performing exposures is 11.7%, showing a very significant decrease compared to the end of 2020.

- An integral part of the monitoring of credit exposures in Investbank JSC comprises the review of loan collateral.
- Real estate market in 2021 can be described as revived, strong and unusually active, especially compared to the situation in 2020, with the predominance of demand over supply, which led to rising prices and increased number of transactions.
- Throughout 2021 the Bank maintains high liquidity (over 3 times the required one).
- At the end of 2021 Investbank JSC achieved an increase in its annual result by 6 times compared to the level of the previous year.
- By a decision of November 2021, the Bulgarian Credit Rating Agency (BCRA) increased the long-term rating of Investbank JSC by one degree from B to B +, and the outlook was again defined as "stable". The Agency also confirmed the short-term rating on the national scale C (BG) with a stable outlook.
- In 2021 the Bank has successfully implemented a number of projects related to the digital transformation of the Bank and offered its customers new innovative services. With its new mobile banking application Ibank Mobile, the Bank was awarded a prize in the Mobile Innovation category in the b2bMedia annual competition. The application is intended for natural persons and legal entities, providing options for access, review of banking products, various types of inquiries, making BGN and foreign currency transfers, utility bill payments, opening deposits and accounts, and other features aimed at achieving high level of customer satisfaction.
- The Internet banking service was also upgraded with new functionalities: a module for mass BGN payments for legal entities; payment of utility bills and channels for online products.
- In 2021 a new corporate website was built, with design and technology in line with modern trends.
- In the past year, Investbank JSC completed the project for modernization of its ATM network.

Pursuant to Decree of the Council of Ministers of the Republic of Bulgaria No. 215 of 27 March 2020, the funds from the capital increase of the Bulgarian Development Bank AD should be used for the implementation of measures to support the economy in connection with the Covid-19 epidemic, including issuance of portfolio guarantees to banks.

In 2020 Investbank JSC signed a financial agreement with the Bulgarian Development Bank AD under the Program for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the Covid-19 pandemic. The granted loans are fully covered by a portfolio guarantee issued by the Bulgarian Development Bank AD. As at 31 December 2021 Investbank JSC has granted 3,012 loans in the amount of BGN 14,549 thousand before impairment (2020: 1,165 loans of BGN 4,955 thousand).

The second agreement was entered into by and between Investbank JSC and the Bulgarian Development Bank AD under a portfolio guarantee program to support the liquidity of micro, small and medium-sized enterprises affected by the emergency situation and the Covid-19 epidemic. As at 31 December 2021 Investbank JSC has granted 16 loans in the amount of BGN 2,610 thousand before impairment (2020: 11 loans of BGN 1,973 thousand).

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

The strategic goal in the development of Investbank JSC is the establishment of a sustainable business model, allowing the formation of such an income structure that will allow for the internal generation

of capital and increase of the market price of the shareholding while simultaneously pursuing a moderately conservative policy in adopting risk and maintaining an acceptable risk profile of the Bank's assets and liabilities.
The strategic plan for 2022-2024 is based on balanced and realistic goals. The forecasts for the development of the Bulgarian economy in 2022, the expected economic growth of 4.8% and growth in the banking system of 7% are reported.
The plan for 2022-2024 projects that Investbank JSC fully cover the current regulatory requirements for the period, the required capital and liquidity ratios.

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

1.3. Sovereign debt

The update to the IMF's global database for 2021 documents the highest one-year jump in debt since World War II. As the countries were affected by the pandemic, the global debt rose to $ 226 trillion, or by 256 percent of GDP in 2020. The government borrowings account for just over half of that increase, as the global public debt increased by 20 percent. The share of the public debt in the global debt has reached new peaks, unprecedented for more than 50 years, reflecting a large cumulative increase since the global financial crisis. The private debt rose by 10 percent in 2020, partly reflecting the support from the central banks and the government. The debt growth varies considerably from country to country, considering the very unequal capacity of the governments and the central banks to support households and businesses during the pandemic and the deep economic recession.

<u>Sovereign debt of the Republic of Bulgaria (updated medium-term budget forecast for the period 2022-2024)</u>

Debt management will be tailored to the specific market conditions and will aim to minimize the liquidity risks in the implementation of the budget and to maintain the sustainability of the key debt parameters. The determination of the specific characteristics of the newly incurred debt will be in line with the current situation on the government securities market and the profile of debt in circulation, taking into account the possibilities for reducing the risk of refinancing the sovereign debt and avoiding additional payment concentration in the years with busy repayment profile. Debt financing of the budget is planned to be secured by providing highly liquid debt instruments positioned in different maturity segments and providing an option to negotiate financing with government loans under EU instruments. With regard to the financing of investment projects and specific programs with state and state-guaranteed loans, the application of a conservative approach will continue.
At the end of 2020, the level of sovereign debt amounted to BGN 27.5 billion. As a result of the operations on budget debt financing in 2021, the nominal amount of the sovereign debt reached BGN 31.2 billion, which is within the projected debt limit of BGN 31.9 billion for 2021 in the State Budget Act of the Republic of Bulgaria. The increase by BGN 3.7 billion compared to the level registered at the end of 2020 results from the repayments of sovereign debt to external and domestic creditors in the amount of BGN 1.1 billion, the new debt taken in the amount of 3.8 million on the domestic government securities market and the funds utilized in May 2021 in the amount of EUR 511.0 million (BGN 999.4 million) under the government loan agreement already signed and ratified in 2020 under the European Temporary Support Instrument in order to mitigate the risks of unemployment in the extraordinary circumstances following the outbreak of Covid-19. The trend of increasing debt is expected to continue and by the end of 2022 it is expected to reach a level of BGN 35.5 billion. The sovereign debt-to-GDP ratio comes to 22.9% and 23.9% at the end of 2020 and 2021, respectively, with expectations to reach 24.8% by the end of 2022. In 2020 and 2021, the external sovereign debt amounts to BGN 21.9 billion and BGN 22.6 billion, respectively, and is expected to reach BGN 24.2 billion by the end of 2022. An upward trend is also observed in terms of domestic debt – at levels of BGN 5.6 billion and BGN 8.6 billion for 2020 and 2021, an increase to BGN 11.3 billion is expected by the end of 2022.

A new sovereign debt of BGN 7.3 billion is planned to be taken in 2022, and the debt in circulation, which is to be refinanced, amounts to BGN 3.0 billion. Debt financing of the budget in the form of government securities and/or negotiation of financing with government loans under EU instruments

of BGN 9.1 billion per year is planned in 2023-2024, with the amount of maturing debt in circulation reaching 3.0 - 3 .5 billion per year. The maturing Eurobonds over the next three years are as follows: BGN 2.4 billion in 2022, BGN 2.2 billion in 2023 and BGN 2.9 billion in 2024. The projected possibility for taking new sovereign debt in volumes higher than the repayments in the period 2022 to 2024 is aimed to finance the planned deficits in the state budget. Based on the assumptions and the projected net debt financing in 2022-2024, sovereign debt is expected to reach BGN 47.1 billion at the end of the period, and the sovereign debt-to-GDP ratio to 29.3%, a gradual increase in the average residual debt maturity, as well as an increase in the share of domestic sovereign debt in the debt structure (from 20.5% at the end of 2020 to 34.6% at the end of 2024).
Pursuant to Art. 9(1) of the Export Insurance Act (EIA), the State Budget of the Republic of Bulgaria Act for the respective year provides funds from the central budget for payment of insurance benefits under Art. 3 EIA (activity at the expense of the state). For the period 2022-2024, the amount funds is planned to increase compared to that in 2021, as follows: BGN 130.0 million for 2022, BGN 135.0 million for 2023 and BGN 140.0 million for 2024. In accordance with the mission and goals of the Bulgarian Export Insurance Agency (BEIA) as a state agency to support Bulgarian exporters, the Company focuses on the development of the supply of insurance products at the expense of the state. For the implementation of the set indicators, BEIA needs the respective insurance capacity to cover the needs of the Company. The measures for gradual increase of the funds allocated in the state budget aim at increasing the insurance capacity of BEIA on the activity at the expense of the state in compliance with the EIA, and are necessary as prevention with regard to reaching the insurance capacity and impossibility to conclude insurance contracts or urgent increase of funds in the current year.
On 7 October 2020 the Republic of Bulgaria concluded a credit line agreement with the Single Restructuring Board in pursuance of the commitments of the Republic of Bulgaria in connection with the country's accession to the Single Supervisory Mechanism (SSM) and the Single Restructuring Mechanism (SRM). The agreement was signed by the Minister of Finance subject to subsequent ratification. All Member States participating in the Banking Union provide national credit lines as a form of bridge financing to provide financing necessary for the possible restructuring of only banks in the relevant Member State during the transitional period until the Single Restructuring Fund (SRF) target is reached as at 31 December 2023. The credit line between the Republic of Bulgaria and the Single Restructuring Board amounts to EUR 113,499 thousand (approximately BGN 221,985 thousand). The amount is planned in the operations in the part of financing the budget balance in the 2021 budget. The credit line can be activated only as a last resort - in case of lack of funds in the Single Restructuring Fund and after all other sources of funding have been exhausted. The system of national credit lines guarantees the protection of taxpayers and is fiscally neutral in the medium term, as the banking sector of the Member State concerned is responsible for repaying the amounts withdrawn under the credit line.

Bulgaria's credit rating

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

1.4. Functional and reporting currency

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

1.5. Presentation of financial statements

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

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

1.7. New standards, interpretations and amendments in force from 1 January 2021

1.7.1. New standards in force from 1 January 2021

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

Amendments to IFRS 4 Insurance Contracts - Deferral of Effective Date of IFRS 9, in force from 1 January 2021, adopted by the EU
The effective date of the initial application of IFRS 17 is deferred by two years for annual periods beginning on or after 1 January 2023 and changes the fixed date of the expiry of the temporary exemption in IFRS 4 Insurance Contracts for the application of IFRS 9 Financial Instruments so that the companies will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2, in force from 1 January 2021, adopted by the EU
The proposed amendments address issues that could affect the financial statements following the interest rate benchmark reform, including its replacement by alternative reference interest rates. Phase 2 of the project dealt with replacement issues, so the published amendments address issues that may affect financial reporting when the existing base interest rate is actually replaced.

Amendments to IFRS 16 Lease: Covid-19 Related Lease Discounts after 30 June 2021, in force from 1 April 2021, adopted by the EU
Covid-19 lease discounts are extended by one year after 30 June 2021 pursuant an amendment of May 2020, which gives the lessees an exemption from the process of assessing whether lease discounts in the Covid-19 context constitute a lease modification. The amendments to Lease Discounts in the context of Covid-19 after 30 June 2021 (Amendment to IFRS 16) amend IFRS 16 to

- allow the lessee to apply the practical expediency of the Lease Discounts in the context of Covid-19 to lease concessions for which any reduction in lease payments only affects payments initially due on or before 30 June 2022 (rather than only payments initially due on or before 30 June 2021);
- require the lessee, applying the amendment, to do so for annual periods beginning on or after 1 April 2021;
- require the lessee, applying the amendment, to do so retrospectively, recognizing the cumulative effect of the initial application of the amendment as an adjustment to the opening balance of the retained earnings (or another component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee applies the amendment for the first time;
- and specify that during the reporting period in which the lessee first applies the amendment, the lessee is not required to disclose the information required in para. 28 (f) of IAS 8.

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

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

- the vague presentation of the essential information or the mixing of essential information with non-essential information has the same effect as the omission of important information or its incorrect presentation. The entities decide which information is material in the context of the financial statements as a whole; and

1.7.2. "the main users of general purpose financial statements" are those to whom the financial statements are directed and include "existing and potential investors, lenders and other creditors" Standards, amendments and clarifications issued by the IASB and approved by the EU or not yet entered into force and not applied from an earlier date by the Company

As at the date of approval of these financial statements, new standards, amendments and interpretations to existing standards have been published but have not entered into force or adopted by the EU for the financial year beginning on 1 January 2021 and have not been applied from an earlier date by the Company. The Management expects all standards and amendments to be adopted in the Company's accounting policies for the first period beginning after the date of their entry into force.

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

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

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

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

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

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

either additional costs for the performance of that contract or an allocation of other costs that are directly attributable to the performance of the contracts.

Annual improvements 2018-2020, effective from 1 January 2022, adopted by the EU

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

Amendments to IFRS 4 Insurance Contracts - Deferral of Effective Date of IFRS 9, in force from 1 January 2023, adopted by the EU

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

IFRS 17 replaces IFRS 4 Insurance Contracts. It requires an ongoing measurement model in which estimates are reviewed each reporting period. Contracts are assessed using the following main elements:

- discounted probabilistic weighted cash flow estimate;
- explicit risk adjustment, and
- contractual service margin ('CSM'), representing the unrealized gain on the contract recognized as income during the coverage period.

The standard allows for a choice between recognizing the amendments in the discount rates or in the income statement or directly in other comprehensive income.
The new rules will affect the financial statements and the key performance indicators of all companies that issue insurance contracts.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Disclosures of Accounting Policies in force from 1 January 2023, not yet adopted by the EU

The entity is required to disclose its material accounting information instead of its significant accounting policy; the amendments clarify that accounting policy information may be material due to its nature, even if the amounts involved are insignificant. The amendments clarify that accounting policy information is material if the users of the entity's financial statements are required to understand other material information in the financial statements and if the entity discloses non-material information about the accounting policy, that information should not obscure the material information about the accounting policy.

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates, in force from 1 January 2023, not yet adopted by the EU

The amendments introduce the definition of accounting estimates and include other amendments to IAS 8 to help entities distinguish the changes in the accounting estimates from the changes in the accounting policies.
The amendments will help companies to:

- improve the accounting policy disclosures so that to provide more useful information to investors and other key users of financial statements; and
- distinguish the changes in the accounting estimates from the changes in the accounting policies.

Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction, in force from 1 January 2023, not yet adopted by the EU

The entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, deferred tax is recognized for all temporary differences related to lease and decommissioning obligations, and the cumulative effect of the initial application of the amendments is recognized as an adjustment to the opening balance of the retained earnings (or other component of equity, as appropriate) as at that date.

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

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

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

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

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

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

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

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

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

Amendments to IFRS 17 Insurance Contracts: Initial Application of IFRS 17 and IFRS 9 - Comparative Information, in force from 1 January 2023, not yet adopted by the EU
This amendment is a transitional option related to comparative information on financial assets provided in the initial application of IFRS 17. The amendment aims to help entities avoid temporary accounting mismatches between financial assets and liabilities under insurance contracts and therefore improve the usefulness of the comparative information for the users of financial statements.

IFRS 17 and IFRS 9 Financial Instruments present different transition requirements. For some insurers, these differences may lead to temporary accounting mismatches between the financial assets and liabilities under insurance contracts in the comparative information they present in their financial statements while first applying IFRS 17 and IFRS 9.

The amendment will help insurers avoid these temporary accounting mismatches and will therefore improve the usefulness of the comparative information for investors. This is achieved by enabling insurers to provide comparative information on the financial assets.

2. BASIC PRINCIPLES OF THE ACCOUNTING POLICY

2.1. Interest revenue and expense recognition

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

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

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

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

2.2. Foreign currency transactions

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

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

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

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

2.3. Fee and commission revenues and expenses

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

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

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

2.4. Financial instruments

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

2.4.1. Classification of financial assets

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

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

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

2.4.2. Impairment of financial assets

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

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

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

2.4.3. Estimation of expected credit losses

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

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

2.4.4. Write-off of financial instruments

Write-off of financial assets

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

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

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

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

Write-off of financial liabilities

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

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

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

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

2.5. Cash and cash equivalents

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

2.6. Financial lease receivables

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

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

2.7. Securities borrowing and lending agreements, repurchase transactions

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

Repurchase agreements

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

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

2.8. Borrowed funds

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

2.9. Investment properties

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

2.10. Property, plant and equipment

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

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

Assets	%
• Buildings	4
• Plant and equipment	30
• Computer, related peripheral equipment and mobiles	15
• Fixtures and fittings	15
• Transport means	25
• Repairs of leased assets	30

Assets with right of use are depreciated according to the term of the lease contract.
In 2021 a change in the applied accounting policy was made as the capitalized expenses on repair of leased assets are reclassified from intangible assets to the group of property, plant and equipment.

2.11. Intangible assets

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

Assets	%
• Computer software and rights	50
• Other intangible assets	15

2.12. Assets acquired from loan collateral

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

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

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

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

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

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

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

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

2.13. Taxation

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

Deferred tax assets

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

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

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

In order to calculate the amount of deferred taxes as at 31 December 2021, the Bank uses the tax rate applicable for year 2021- 10% (year 2020: 10%).

2.14. Personnel revenues

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

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

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

Termination benefits

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

Short-Term Employee Remunerations

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

3. DISCLOSURE OF RISK MANAGEMENT POLICY

Introduction and overview

Investbank JSC aims to implement the best practices related to corporate governance, taking into account and complying with the legal and regulatory requirements of Basel Committee on Banking Supervision, European Banking Authority, European Central Bank, Bulgarian National Bank and all decisions of other competent authorities responsible for the supervision of the Bank.

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

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

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

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

Risk organization and management

The risk management organization in Investbank JSC ensures the existence of clear and precise responsibilities, effective division of functions and protection against conflicts of interest at all levels, including at the level of Management Board, senior management, as well as at the level of customers and shareholders.

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

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

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

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

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

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

The Internal Audit function, which reports directly to the Supervisory Board, complements the risk management structure, acting as an independent control level, focusing on the effectiveness of the risk management structure and the control environment. The Audit Committee is a specialized supervisory body which operates on behalf of the shareholders independently of the Bank's Management Board and the Supervisory Board. It is elected by and reports to the General Meeting of Shareholders and performs its functions in compliance with the relevant regulatory requirements. Its main role is to monitor the objectivity of the financial reporting process, the effectiveness of internal control systems, including the practices related to internal audit and risk management, and the effectiveness of the independent financial audit and procedures established by the Bank's governing bodies to protect shareholders' interests.

Risk Management Policy

The Risk Management Policy of Investbank JSC regulates the main framework of the risk management activity and is consistent with the effective regulatory and legal requirements, aiming at achieving an optimal “return/risk” ratio and preservation of the share capital. The Bank pursues a unified and coherent risk management policy, which is consistent with its size and complies with the approved development strategy in order to meet the objectives set in the business plan. The Bank's risk management strategy is, in essence, an instrument of senior management that ensures the control, monitoring and mitigation of risks inherent in the ordinary course of banking business in order to ensure adequate governance in relation to the Bank's objectives. Risk management is a process in which the development of existing risks is investigated, analysed and monitored, in order to avoid them or to reduce the negative effect of their possible occurrence.

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

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

Principles and goals for managing the risks borne by the Bank

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

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

Investbank JSC is exposed to the following types of risk as a result of its transactions in financial instruments:

- Credit risk;
- Market risk;
- Liquidity risk;
- Operational risk.

The various types of risk are managed and controlled by the Bank's specialized units in compliance with the internal regulations for risk management and the effective legislation of the Republic of Bulgaria, thus all aspects of risk are adequately covered, monitored and controlled.

The credit risk management aims to preserve the share capital and achieve a return relevant to the risk profile, based on the adopted lending policy, rules for competences and workflow organization with respect to loan transactions, rules of credit risk concentration management, credit risk monitoring system and limits framework, collateral policy and problem loan exposure management and ongoing monitoring rules. The credit process in the Bank is based on the division of responsibilities between the business process and the credit risk management functions. To reduce the risk, the Bank requires collateral and applies appropriate risk mitigation techniques and adheres to the approved credit risk limits. The Bank's lending operations are subject to relevant rules and procedures approved by the relevant competent authorities which ensure coverage, monitoring and control of all aspects of credit risk. The Bank supports all economic sectors in Bulgaria, but in order to diversify the risk, the credit exposure to any economic sector/industry may not exceed the set limit/percentage of the total exposure of the corporate segment (this does not include the corporate securities portfolio), which is duly defined in the "Limit Framework" to the Concentration Risk Rules.

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

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

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

Basic principles in credit risk management in Investbank JSC:

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

The primary objective of **liquidity risk management** is to ensure that the Bank can meet in a timely manner its payables (commitments) at a reasonable price and with minimal risk. Liquidity risk management is based on defining and monitoring funding ratios, maturity mismatches, composition and amount of liquidity buffers, internal pricing, including direct and indirect liquidity-related expenses, and analysis of the results of the quarterly liquidity stress tests and liquidity ratios under Regulation 575 (LCR & NSFR). Prudent liquidity risk management and appropriate control are important for the effective management of the Bank. The main goal of the Bank is to maintain a stable liquidity position and to be able to implement all its liabilities at a reasonable price, even in adverse market conditions. Sufficient liquidity access should be maintained at all times (LDP - liquidity potential) in order to ensure that Investbank can service its debt and refinance at any time. Liquidity Coverage Potential quantifies the amount and timing for possible liquid fund-raising, thus measuring the ability of the Bank to cover the traditional liquidity risk. The focus of the liquidity risk management is to prevent liquidity shortages. In the event of a shortage, liquidity shall have priority over return in the hierarchy of objectives. An additional objective is to maintain at all times the required supervisory liquidity ratios. The Bank uses a Recovery Plan developed and approved by the Management Board / Supervisory Board (pursuant to the Credit Institutions Act, Art. 6 of the Recovery and Resolution of Credit Institutions and Investment Firms Act, and Art. 25 of BNB Ordinance No.7 on risk organization and management in banks), which analyses the impact of adverse events that may severely affect the financial condition of the Bank, including crises affecting the entire financial market or the Bank, and/or the corporate structure to which it belongs. This plan identifies the sources of liquid funds and the sequence of actions to be followed, notes the factors that affect the liquidity of the Bank and identifies the functions of all managers and employees involved in the process of using/attracting liquidity in a liquidity crisis.

The Assets and Liabilities Committee (ALCO) is the main responsible body with powers to implement the strategic management of assets and liabilities in order to effectively manage the Bank's liquidity risk, as well as to ensure regular and timely settlement of current and future liabilities both in normal situations and in crisis situations. The ALCO regularly reviews liquid assets and buffers, sources and consumers of liquidity and liquidity forecasts, the deposit base and external financing, the price of the resource, as well as local and international markets and macroeconomic forecasts. In addition, it has the authority to take all necessary decisions on interest rate policy, liquidity, asset and liability management, and to set targets for potential external financing.

Liquidity risk measurement includes risk assessment under normal market conditions and under stress conditions. The results of the conducted stress scenarios play an important role in the development of the liquidity crisis action plans and analyse the adequacy of the Bank's liquidity to address crisis situations (e.g. in case of significant outflow of deposits) and assess the available liquidity buffer. In preparing stress test scenarios, the Bank applies a conservative approach to assumptions, taking into account not only the historical events but also hypotheses based on expert assessment with factors reflecting future market conditions, as well as idiosyncratic ones. The results are presented to the Bank's management and are part of the overall liquidity management strategy.

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

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

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

The operational management of market risk is carried out by the Assets and Liabilities Committee (ALCO) that implements the policy adopted by the Bank. To manage and limit the level of market risk, the Bank applies a system of acceptable levels/limits subject to adoption by the ALCO and approval by the Management Board of the Bank. The system for allocation of responsibilities and decision-making ensures the market risk management, providing it with the necessary flexibility combined with clarity of responsibilities at all levels of management in the Bank. The main task of the market risk monitoring system is to achieve a sufficiently fast and adequate response by the Bank to external and internal changes and fluctuations in the financial markets, in order to minimize losses / prevent potential ones and achieve optimal profitability from operations in financial instruments while maintaining the established level of risk. The control on the compliance with the established rules and procedures for market risk management is carried out within the internal control system established in the Bank and is based on the principles of comprehensiveness of internal control and coverage with control procedures at all levels in the Bank's organizational structure. The minimization of market risk is carried out through a set of measures aimed at reducing the probability of the occurrence of events or circumstances that would lead to losses from market risk and/or reducing the amount of potential loss. To measure the level of market risk of the portfolio of securities, the Bank mainly uses the Value at Risk (VaR) indicator through the PMS system.

The Bank is exposed to the following main types of market risk: interest rate risk; foreign currency risk; price risk (risk of changes in the price of equity instruments). Measuring the level of market risk is focused on the main subclasses of this risk (interest rate, price and currency risk) and the components of market variables that affect them on the one hand and their mutual correlation on the other hand.

Interest rate risk is the current or potential risk to income and equity arising from a change in the volatility of interest rates/interest rate derivatives, the shape of the yield curve and the spread between interest rates. The main internal instrument used to measure, monitor, report and manage the Bank's exposure to interest rate risk is the "GAP Interest Rate Report", which is based on the requirements of the EBA Guidelines (EBA/GL/2018/02 "Guidelines on the Management of Interest Rate Risk Resulting from Activities Outside the Trading Portfolio", conducting regular stress tests to assess the impact of potential interest rate changes on the Bank's profit and economic value.

Foreign currency risk is the current or potential risk to income and equity arising from adverse movements in spot and forward exchange rates in the banking and trading portfolios. The Bank's open foreign currency positions are monitored on a daily basis. Investbank JSC calculates a capital requirement for foreign currency risk arising from positions in the banking and trading portfolios using the standardized approach described in Chapter Three (in compliance with Art. 351-354) of Regulation (EU) 575/2013. In order to limit the risk and to preserve the equity, the Bank sets a limit for the total net open foreign currency position which should not exceed ± 2% of its equity.

Price risk is the risk of loss as a result of adverse changes in market prices of securities and derivative financial instruments under the influence of factors related to both general fluctuations in market prices of financial instruments and the issuers of securities and instruments. The measurement of price risk is performed according to the foreign currency denomination of the securities and instruments.

Operational risk management - this is the risk of loss as a result of inadequate or malfunctioning internal processes, people or systems, as well as external events. The operational risk includes legal risk. The established system of internal rules regulates the principles, methods and organization of the activities that ensure the effective management of the operational risk in Investbank JSC. The main focus is on recognizing the operational risks in time and mitigate their effects, as well as on preventing their recurrence in the future, while increasing the rate of voluntary reporting of occurring operational risk related events. The specialized internal body of the Bank in the field of operational risk management and control is the Risk Management Board.

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

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

The Management Board determines the risk management framework, periodically reviews and changes it in accordance with the changes in its risk profile.

- ***(a) Credit risk***

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

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

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

The table below summarizes the credit risk exposure:

Minimum credit risk exposure	**Loans and receivables from other customers, including net investments in finance lease**		**Loans and receivables from banks, including the Central Bank**		**Investment in securities carried at fair value**		**Off-balance sheet commitments**	
In BGN '000	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**	**31 Dec 2021**	**31 Dec 2020**
Carrying amount	929,592	875,469	568,290	369,883	423,206	350,205	103,779	64,539
Contingent liabilities	164,258	132,813		-		-		-
Total:	**1,093,850**	**1,008,282**	**568,290**	**369,883**	**423,206**	**350,205**	**103,779**	**64,539**

Credit risk is the main risk to which the Bank is exposed and covers 92.7% (in 2020: 91.4%) of the total amount of risk exposures (RPE) as at 31 December 2021. The main volume of counterparty credit risk occurs with the Bank's business customers, while the volume of counterparty risk from operations with banking and non-banking financial institutions is relatively limited.

Credit risk measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loan portfolio structure, excluding financial lease transactions

In BGN '000	**Amount before impairment**		**Impairment**		**Carrying amount**	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Individually impaired						
Phase 3	109,704	188,628	21,083	49,396	88,621	139,232
Total individually impaired	109,704	188,628	21,083	49,396	88,621	139,232
Collectively impaired						
Phase 1	261,158	213,296	683	1,399	260,475	211,897
Phase 2	4,681	14,276	99	193	4,582	14,083
Total collectively impaired	**265,839**	**227,572**	**782**	**1,592**	**265,057**	**225,980**
Overdue, but not impaired						
Phase 1	29,377	10,695		-	29,377	10,695
Phase 2	35,597	8,014		-	35,597	8,014
Total overdue, unimpaired	**64,974**	**18,709**		**-**	**64,974**	**18,709**
Individually unimpaired						
Phase 1	506,139	454,524		-	506,139	454,524
Phase 2	4,801	37,024		-	4,801	37,024
Total individually unimpaired	**510,940**	**491,548**		**-**	**510,940**	**491,548**
Total	**951,457**	**926,457**	**21,865**	**50,988**	**929,592**	**875,469**

Structure of financial lease transactions

In BGN '000	Amount before impairment		Impairment		Carrying amount	
	2021	2020	2021	2020	2021	2020
Individually impaired						
Phase 3	2,076	1,406	250	3	1,826	1,403
Total individually impaired	2,076	1,406	250	3	1,826	1,403
Overdue, but not impaired						
Phase 1	0	798	0	-	0	798
Total overdue, unimpaired	**0**	**798**	**0**	**-**	**0**	**798**
Individually unimpaired						
Phase 1	1,783	2,007	0	-	1,783	2,007
Total individually unimpaired	**1,783**	**2,007**	**0**	**-**	**1,783**	**2,007**
Total	**3,859**	**4,211**	**250**	**3**	**3,609**	**4,208**

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

Types of collateral on loans and lease

Type of collateral	Classified exposures		Regular and unimpaired	
	2021	2020	2021	2020
Mortgage	63,988	74,456	124,711	135,112
Cash deposits and government securities	61,589	30,429	571,888	491,033
Other collateral*	48,655	83,882	77,196	88,516
Unsecured	2,523	20,773	4,766	6,468
Total	**176,755**	**209,540**	**778,561**	**721,129**

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

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

	2021	2020
Individually impaired		
Qualifying collateral	198,663	189,341
Other collateral	451,425	890,715
Collectively impaired		
Qualifying collateral	149,148	143,716
Other collateral	1,449,862	1,238,546
Overdue, but not impaired		
Qualifying collateral	127,280	39,413
Other collateral	201,010	61,132
Not impaired individually /Regular/		
Qualifying collateral	876,568	813,325
Other collateral	3,442,842	3,076,564

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

(a) Credit risk, continued

Residential mortgage lending

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

In BGN '000	**31 Dec 2021**	**31 Dec 2020**
Loan to value (LTV) based on the market value		
LTV ≤ 50 %	78,781	77,749
50 % < LTV ≤ 70 %	5,576	5,226
70 % < LTV ≤ 90 %	612	886
90 % < LTV ≤ 100 %	1,202	575
100 % > LTV	537	2,199
Total	**86,708**	**86,635**

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

Industry	*Total exposure 2021*	*Relative share 2021*	*Total exposure 2020*	*Relative share 2020*
Administrative and support activities	1,427	0.17%	2,719	0.35%
Extractive industry	195	0.02%	970	0.12%
Water supply; sewerage, waste management and remediation activities	34,473	4.12%	19,028	2.43%
Other activities	1,004	0.12%	596	0.08%
General government	7,795	0.93%	7,495	0.96%
Culture, sport and entertainment	9,401	1.12%	10,179	1.30%
Education	280	0.03%	981	0.13%
Real estate operations	69,840	8.36%	73,774	9.41%
Processing industry	75,224	9.00%	83,443	10.64%
Production and distribution of power and heat energy and gas fuels	155,984	18.66%	93,955	11.98%
Professional, scientific and technical activities	5,448	0.65%	7,881	1.01%
Agriculture, forestry and fishing	84,298	10.09%	91,895	11.72%
Construction	92,056	11.01%	62,132	7.92%
Creation and distribution of information and creative products; telecommunications	356	0.04%	423	0.05%
Transport; warehousing and postal services	35,541	4.25%	27,761	3.54%
Trade; repair of cars and motorcycles	151,219	18.09%	154,555	19.71%
Financial and insurance activities	17,849	2.14%	99,424	12.68%
Accommodation and food service activities	46,970	5.62%	43,962	5.61%
Health and social work	46,491	5.56%	3,006	0.38%
Total amount	835,851	100.00%	784,179	100.00%

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

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

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

The table below shows the carrying amount of the portfolio by country as at 31 December 2021 and 31 December 2020. Assets are presented without any possible impairment.

In BGN '000	Bulgaria	Germany	Spain	Italy	Luxembou rg	Ireland	USA	France	Finland	Slovenia	Poland	Total
31 Dec 2021												
Trading portfolio*	426											426
vestment portfolio												
-at fair value	280,943	19,430	62,730	29,128	9,318	12,635	33,117	60,677	3,484	11,294	35,546	558,302
Total	**281,369**	**19,430**	**62,730**	**29,128**	**9,318**	**12,635**	**33,117**	**60,677**	**3,484**	**11,294**	**35,546**	**558,728**

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

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

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

In BGN '000	2021	2020
Government securities	426	2,959
BBB		
Total	**426**	**2,959**

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

Maturity structure of investments by country of the issuer as at 31 December 2021 (by residual maturity): ***In BGN '000***	**Up to 1 month**	**1 to 3 m**	**3 m to 1 y**	**1 year to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Financial assets carried at fair value through profit or loss							
Government securities							
Bulgaria				426			426
Total				426			426
Financial assets carried at fair value through other comprehensive income							
Government securities							
Bulgaria		33,196		116,890	83,990		234,076
Spain				24,771	37,959		62,730
Italy				29,128	0		29,128
France				6,952	0		6,952
Ireland				0	12,635		12,635
Slovenia				0	11,294		11,294
Poland				0	35,546		35,546
Finland					3,484		3,484
Corporate equity instruments							
Bulgaria						7,672	7,672
USA					2,370	2,389	4,759
Luxembourg						9,318	9,318
Corporate debt instruments							0
Bulgaria				5,186			5,186
Total	**0**	**33,196**	**0**	**182,927**	**187,278**	**19,379**	**422,780**
Total financial assets	**0**	**33,196**	**0**	**183,353**	**187,278**	**19,379**	**423,206**

Maturity structure of investments by country of the issuer as at 31 December 2020 (by residual maturity): *In BGN '000*	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Financial assets carried at fair value through profit or loss							
Government securities							
Bulgaria		1,502		1,457			2,959
Total	**-**	**1,502**	**-**	**1,457**	**-**	**-**	**2,959**
Financial assets carried at fair value through other comprehensive income							
Government securities							
Bulgaria			15,916	136,217	58,735		210,868
Spain				24,898	17,537		42,435
France				7,010	-		7,010
Ireland					14,249		14,249
Slovenia					12,695		12,695
Poland					38,420		38,420
Corporate equity instruments							
Bulgaria						6,047	6,047
USA					2,193	2,218	4,411
Luxembourg						10,962	10,962
Corporate debt instruments							
Bulgaria					149		149
Total	**-**	**-**	**15,916**	**168,125**	**143,978**	**19,227**	**347,246**
Total financial assets	**-**	**1,502**	**15,916**	**169,582**	**143,978**	**19,227**	**350,205**

Credit risk mitigation tools

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

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

- financial and other collateral such as cash deposit, securities (shares and bonds), tangible assets such as machinery, equipment, vehicles, as well as real estate, real property rights, etc.;
- guarantees provided by third parties, such as bank guarantees, sureties, letters of credit, insurance contracts, insurance of export insurance agencies, etc.

Additional information on credit risk and impairment

Review of impairment

31/12/2021	Increases due to occurrence and acquisition	Changes due to change in credit risk (net)	Total for the current year
Impairment of financial assets		(22,311)	(22,311)
Debt securities		(198)	(198)
Loans and advance payments made		(22,113)	(22,113)
Provisions		258	258
Commitments and guarantees		258	258
Impairment of non-financial assets		771	771
Other		771	771

Review of impairment

31/12/2020	Increases due to occurrence and acquisition	Changes due to change in credit risk (net)	Total for the current year
Impairment of financial assets		(51,246)	(51,246)
Debt securities		(255)	(255)
Loans and advance payments made		(50,991)	(50,991)
Provisions		254	254
Commitments and guarantees		254	254
Impairment of non-financial assets		704	704
Other		704	704

Movement of adjustments and provisions for credit losses

31/12/2021	**Opening Balance 01/01/2021**	Decrease of the adjustments due to write-off	Increases due to occurrence and acquisition	Changes due to change in credit risk (net)	**Balance at the end of the period**
Impairment of financial assets					
Debt securities	(255)	-	-	(2,076)	(2,331)
Loans and advance payments made	(50,991)	90,879		(62,001)	(22,113)
Provisions					-
Commitments and guarantees	254	-	207	(203)	258

31/12/2020	**Opening Balance 01/01/2020**	Decrease of the adjustments due to write-off	Increases due to occurrence and acquisition	Changes due to change in credit risk (net)	**Balance at the end of the period**
Impairment of financial assets					
Debt securities	(275)	-	-	20	(255)
Loans and advance payments made	(63,027)	27,833		(15,797)	(50,991)
Provisions					
Commitments and guarantees	215	-	1	38	254

Credit exposure and collateral

	31/12/2021 Maximum credit exposure	**31/12/2020** Maximum credit exposure
Equity instruments	21,749	21,420
Debt instruments	536,979	492,737
Loans and advance payments made	929,592	875,469
Unutilized credit commitments	103,778	64,539
Total	**1,592,098**	**1,454,165**

Security held as per the credit register

	31 Dec 2021 / 31 Dec 2020	
	Fair value of the security held	Fair value of the security held
Financial assets	6,896,798	6,452,752
Loans and advance payments made	6,896,798	6,452,752

Security obtained for possession during the period

	31/12/2021	31/12/2020
Non-current assets held for sale, acquired, including reclassified	847	6,514
Total	**847**	**6,514**

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

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

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

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

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

- *(b) Liquidity risk*

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

The principles and internal rules are based on:

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

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

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

- Normal situation - green:

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

- Risk situation - yellow (early warning level):

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

- Dangerous situation - orange (liquidity crisis level):

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

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

- Emergency situation - red:

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

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

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

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

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

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

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

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

Date	12/2020	12/2021
LCR	286%	411%

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

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

Date	12/2020	12/2021
NSFR	178%	205%

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

(b) Liquidity risk, continued

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

31 December 2021

In BGN '000	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Assets							
Cash, balances with central banks and other deposits on demand	615,874	0	0	0	0	0	615,874
Receivables from banks	0	0	0	0	0	3,721	3,721
Financial assets carried at fair value through profit or loss	0	426	0	0	0	0	426
Loans and advances to customers	5,425	54,610	131,503	222,914	515,140	0	929,592
Net investment in finance lease	0	0	0	0	3,609	0	3,609
Financial assets carried at fair value through other comprehensive income	0	33,196	0	177,890	187,278	24,416	422,780
Debt securities carried at amortised cost	0	83,817	51,705	0	0	0	135,522
Property, plant, equipment and investment property	0	0	0	0	0	276,505	276,505
Intangible assets	0	0	0	0	0	2,668	2,668
Non-current assets held for sale	0	0	0	0	0	847	847
Other assets	0	0	0	0	0	151,553	151,553
Total assets	**621,299**	**172,049**	**183,208**	**400,804**	**706,027**	**459,710**	**2,543,097**

Liabilities

Deposits from credit institutions						0	0
Deposits from customers	196,525	204,500	533,066	109,984	1,530	1,222,197	2,267,802
Other financial liabilities, including:	0	97	523	4,073	0	0	4,693
Payables on financial lease contracts							0
Payables on operating lease contracts under IFRS 16		97	523	4,073			4,693
Bond loans							0
Hybrid debt-equity instrument							0
Other liabilities	15,187	0	0	0	0	0	15,187
Total liabilities	211,712	204,597	533,589	114,057	1,530	1,222,197	2,287,682
Difference in maturity of assets and liabilities	409,587	(32,548)	(350,381)	286,747	704,497	(762,487)	255,415
Cumulative difference	409,587	377,039	26,658	313,405	1,017,902	255,415	
Off-balance sheet commitments	(195,986)	(38,112)	(41,640)	(70,364)	(48,011)		
Cumulative difference including off-balance sheet commitments	213,601	338,927	(14,982)	243,041	969,891		

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

(b) Liquidity risk, continued

31 December 2020

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

Liabilities

Deposits from credit institutions	-	-	-	-	-	12	12
Deposits from customers	344,269	179,263	552,560	87,903	737	775,993	1,940,725
Other financial liabilities, including:	2	21	116	5,397	1,040	0	6,575
Payables on financial lease contracts		21	30				51
Payables on operating lease contracts under IFRS 16	2	0	86	5,397	1,040	0	6,524
Bond loans							0
Hybrid debt-equity instrument							0
Other liabilities	6,750						6750
Total liabilities	351,023	179,326	552,822	98696	2,816	775,954	1,960,638
Difference in maturity of assets and liabilities	96,091	(171,237)	(250,870)	306,156	630,110	(370,218)	240,033
Cumulative difference	96,091	(75,146)	(326,015)	(19,860)	610,250	240,033	
	2	21	116	5,397	1,040	0	6,575
Off-balance sheet commitments	(192,327)	(12,050)	(40,980)	(51,426)	(22,976)		
Cumulative difference including off-balance sheet commitments	(96,231)	(87,149)	(366,717)	(60,214)	600,425		

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

➢ *(c) Market risk*

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

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

(i) Interest rate risk

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

The weighted average interest rate on interest-bearing assets as at 31 December 2021 is 1.99% (year 2020: 1.97%) and for interest-sensitive liabilities, it is 0.24% (year 2020: 0.34%). The interest rate spread according to the GAP analysis in the market risk report (the difference between interest-bearing assets and interest-sensitive liabilities) is 1.75%, and the net interest margin (net interest income to interest-bearing assets) is 1.72%.

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

31 December 2021				**Fixed interest rate instruments**				
In BGN '000	**Total**	**Non-interest bearing instruments**	**With floating interest rates**	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Assets								
Cash, balances with central banks and other deposits on demand	615,874	589,778	-	26,096	-	-	-	-
Receivables from banks	3,721	3,721	-	-	-	-	-	-
Financial assets carried at fair value through profit or loss	426	-	-	-	426	-	-	-
Loans and advances to customers	929,592	28,416	808,958	651	11,513	9,167	21,822	49,065
Net investment in finance lease	3,609	-	-	-	-	-	-	3,609
Financial assets carried at fair value through other comprehensive income	422,780	24,416	-	-	33,196	-	177,890	187,278
Debt securities carried at amortised cost	135,522	-	-	-	83,817	51,705	-	-
Property, plant, equipment and investment property	276,505	276,505	-	-	-	-	-	-
Intangible assets	2,668	2,668	-	-	-	-	-	-
Non-current assets held for sale	847	847	-	-	-	-	-	-
Other assets	151,553	151,553	-	-	-	-	-	-
Total assets	**2,543,097**	**1,077,904**	**808,958**	**26,747**	**128,952**	**60,872**	**199,712**	**239,952**
Liabilities								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Deposits from customers	2,267,802	1,320,127	-	101,997	139,432	600,169	105,901	176
Other financial liabilities, including:	4,693	-	-	-	97	523	4,073	-
Payables on operating lease contracts under IFRS 16	4,693	-	-	-	97	523	4,073	-
Other liabilities	15,187	15,187	-	-	-	-	-	-
Total liabilities	**2,287,682**	**1,335,314**	**-**	**101,997**	**139,529**	**600,692**	**109,974**	**176**
Cumulative interest gap	**255,415**	**(257,410)**	**808,958**	**(75,250)**	**(10,577)**	**(539,820)**	**89,738**	**239,776**

31 December 2020				**Fixed interest rate instruments**				
In BGN '000	**Total**	**Non-interest bearing instruments**	**With floating interest rates**	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Assets								
Cash, balances with central banks and other deposits on demand	420,327	409,312	-	11,015	-	-	-	-
Receivables from banks	3,265	3,265	-	-	-	-	-	-
Financial assets carried at fair value through profit or loss	2,959	-	-	-	1,502	-	1,457	-
Loans and advances to customers	875,469	89,898	654,411	432	1,226	13,241	25,396	90,865
Net investment in finance lease	4,208	-	-	-	-	1,404	-	2,804
Financial assets carried at fair value through other comprehensive income	347,246	19,227	-	-	-	15,916	168,125	143,978
Debt securities carried at amortised cost	163,952	-	-	-	-	55,076	72,551	36,325
Property, plant, equipment and investment property	147,130	147,130	-	-	-	-	-	-
Intangible assets	3,192	3,192	-	-	-	-	-	-
Non-current assets held for sale	11,114	11,114	-	-	-	-	-	-
Other assets	221,808	221,808	-	-	-	-	-	-
Total assets	**2,200,670**	**904,946**	**654,411**	**11,447**	**2,728**	**85,637**	**267,529**	**273,972**
Liabilities								
Deposits from credit institutions	12	-	-	12	-	-	-	-
Deposits from customers	1,940,725	806,634	-	318,090	177,200	550,273	87,903	625
Other financial liabilities, including:	6,575	-	-	2	21	116	5,396	1,040
Payables on financial lease contracts	51	-	-	-	21	30	-	-
Payables on operating lease contracts under IFRS 16	6,524	-	-	2	-	86	5,396	1,040
Other liabilities	6,750	6,750	-	-	-	-	-	-
Total liabilities	**1,954,062**	**813,384**	**-**	**318,104**	**177,221**	**550,389**	**93,299**	**1,665**
Cumulative interest gap	**246,608**	**76,481**	**654,411**	**(291,576)**	**(174,493)**	**(466,156)**	**175,634**	**272,307**

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

(c) Market risk, continued

(i) Interest rate risk, continued

Sensitivity analysis – interest rate risk

The main method used by the Bank to monitor and assess the interest rate risk is based on a GAP analysis, which distributes interest-bearing assets and liabilities by maturity bands. The method measures the potential loss resulting from projected changes in market interest rates in the case of a parallel shift in interest rates. The stress tests are performed according to a scenario with 200 bps in parallel shifting of yield curves by individual currencies and for all currencies in total.
The calculated potential effect of the stress test in December 2021 represents 2.0% of the Bank's capital base, which is well below the specified risk ratio for interest rate risk exposure of 20% and shows a relatively low level of the Bank's exposure to interest rate risk:

- amendment of the net interest income due to increase in current interest rates of the Bank by +200 bps in the amount of - BGN 4.84 million, and in case of decrease in the current interest rates of the Bank by -200 bps in the amount of + BGN 4.84 million. The negative effect of the 200 bps increase is due to the significant liquid balances in accounts with financial institutions and BNB.

Investbank JSC calculates the capital requirements for market risk by applying the standardized approach, which includes calculation of the capital requirements for position, currency and commodity risk. Position risk is the risk of change in prices of debt and equity instruments in the trading portfolio and includes two components - specific position risk and common position risk. The specific position risk is the risk of change in prices of the instruments created by the issuer, while the common position risk is the risk of changing interest rates. As at 31 December 2021, the Bank's fair value portfolio through the profit or loss (trading portfolio) only includes government guaranteed Bulgarian securities. The carrying amount of the fair value portfolio through profit or loss amounts to BGN 0.4 million.
Along with the standardized market risk assessment approach in the trading portfolio, the Bank also applies the Value at Risk (VaR) method - a parametric and historical stress-test model for calculating VaR (using specialized software). The market risk assessment of the portfolio is determined by the calculated VaR showing the loss in the value that at a certain degree of probability will not be exceeded for a specific time horizon. VaR is calculated based on the variability of different risk parameters and takes into account the correlation of the parameters and calculates the change in the portfolio value compared to its current market value. The method used for calculation of VaR is "Monte Carlo Simulation", based on a standard scenario, one day holding period, 99% confidence level, and 2.33 standard deviation.

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

31/12/2021	**Weight pursuant to Regulation 575**	**Amount in BGN '000**	**Relative share**	**Weighted amount in BGN '000**
debt	0%	523,262	93.65%	-
corporation	100%	13,717	2.46%	13,717
Shares	100%	21,749	3.89%	21,722
TOTAL for counterparty's risk		558,728		35,439

31/12/2020	Weight pursuant to Regulation 575	Amount in BGN '000	Relative share	Weighted amount in BGN '000
debt	0%	482,335	93.81%	-
corporation	100%	10,402	2.02%	10,402
Shares	100%	21,402	4.17%	21,420
TOTAL for counterparty's risk		514,157		31,822

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

(ii) Currency risk

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

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

31 December 2021
In BGN '000

	BGN	EUR	Other currency	Total
Assets				
Cash, balances with central banks and other deposits on demand	162,951	433,408	19,515	615,874
Receivables from banks	98	3,005	617	3,720
Financial assets held for trading	426			426
Loans and advances to customers	395,785	509,299	24,508	929,592
Net investment in finance lease	2,328	1,280		3,609
Financial assets carried at fair value through other comprehensive income	14,967	403,053	4,760	422,780
Debt securities carried at amortised cost	13,902	93,240	28,380	135,522
Property, plant, equipment and investment property	275,981			275,981
Intangible assets	3,192			3,192
Non-current assets held for sale	847			847
Other assets	151,252	302		151,553
Total assets	**1,021,729**	**1,443,587**	**77,779**	**2,543,095**
Liabilities				
Deposits from credit institutions				-
Deposits from customers	1,391,535	799,257	77,006	2,267,799
Other financial liabilities, including:	4,693			4,693
Payables on financial lease contracts				-
Payables on operating lease contracts under IFRS 16	4,693			4,693
Other liabilities	14,164	984	38	15,186
Total liabilities	**1,410,393**	**800,241**	**77,044**	**2,287,679**
Net position	**(388,664)**	**643,346**	**735**	**255,417**

31 December 2020
In BGN '000

	BGN	EUR	Other currency	Total
Assets				
Cash, balances with central banks and other deposits on demand	120,602	280,776	18949	420,327
Receivables from banks	63	2,633	569	3,265
Financial assets held for trading	1,502	1,457	-	2,959
Loans and advances to customers	365,584	491,011	18,874	875,469
Net investment in finance lease	2,804	1,404	-	4,208
Financial assets carried at fair value through other comprehensive income	22,112	320,723	4,411	347,246
Debt securities carried at amortised cost	10,253	128,066	25,633	163,952
Property, plant, equipment and investment property	147,130	-	-	147,130
Intangible assets	3,192	-	-	3,192
Non-current assets held for sale	11,114	-	-	11,114
Other assets	221,505	303	-	221,808
Total assets	**905,861**	**1,226,373**	**68,436**	**2,200,670**
Liabilities				
Deposits from credit institutions	8	4	-	12
Deposits from customers	1,214,906	657,395	68,424	1,940,725
Other financial liabilities, including:	6,524	51	-	6,575
Payables on financial lease contracts	-	51	-	51
Payables on operating lease contracts under IFRS 16	6,524	-	-	6,524
Other liabilities	6,285	440	25	6,750
Total liabilities	**1,227,723**	**657,890**	**68,449**	**1,954,062**
Net position	**(321,862)**	**568,483**	**(13)**	**246,608**

- *(d) Operational risk*

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

- The loss from an operational event may take the form of: assets impairment – direct write-off or decrease in the carrying amount of financial assets as a result of theft, fraud or breach of internal regulations; external expenses – related to litigation, expert's appraisals on operational events; regulatory actions against the Bank – penalties, fines, employee benefits paid, compensations to customers or third parties; loss of right for counter-claim/recourse as a result of failed deals; suffered loss or damage on tangible assets, etc.

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

- At the same time, the Bank uses a two-dimensional model to accurately define and evaluate the operational events and to subsequently apply advanced models:
  - The first dimension aims at precise distribution of operational events that lead to loss, arranged by risk category and trigger event. The Bank uses seven major risk categories and twenty sub-categories.
  - The second dimension complies with Basel 3 requirements and classifies events (that incur losses or concern potential loss and unrealized gains only) by selected groups of activities (business lines).

- Investbank JSC maintains a database of operational events in order to provide sufficient detail and reliance in order to:
  - trace and detect events that incur loss, including events that affect numerous activities;
  - prepare reports for internal use regarding operational risk measurement and results from its management, including trends for loss and/or risk evaluation established by the data base;
  - develop new or improve existing control procedures.

- The Bank defines and observes basic key indicators causing operational risk:
  - human error – risk of fraud due to understated, non-existent or deficient control procedures, as well as unintentional mistakes due to ignorance of products, insufficient staff training, complexity of applicable procedures and lack of experience, negligence, intentional, staff shortages;

- information systems – use of incorrect models, incorrect data processing, use of erroneous data, use of system unsuitable for new products or introducing new data sources, levels of access to systems, data storage, breakdown in information and/or communication systems.
- organization of activity – inappropriate structure and delegation of duties, lack of appropriate procedures, violation of processes, violation of policies and procedures.
- external factors – misappropriation of assets, external fraud, intentional acts, natural disasters, etc.

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

4. DISCLOSURE OF EQUITY MANAGEMENT POLICY

(a) Equity management

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

Regulatory capital

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

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

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

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

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

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

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

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

From the mentioned capital buffers, as at 31 December 2021 the Bank allocated capital for preventive capital buffer (2.5%) and buffer for systemic risk (3%) considering the total amount of the risk weighted assets for credit, market and operational risk and a countercyclical capital buffer requirement of 0.5% of RPE.

Equity indicators

Equity (capital base)	**2021**	**2020**
In BGN '000		
Common Equity Tier I capital	**239,059**	**239,246**
Repaid equity instruments	155,572	155,572
Reserves	123,019	123,018
Deductions from Common equity Tier I Capital:		
Intangible assets	1,979	2,676
Accumulated other comprehensive income	37,553	36,668
Equity	**239,059**	**239,246**

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

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

- Quality initial assessment of business operations and, accordingly, proper definition and identification of operational risks;
- Implementation of effective control procedures in compliance with the regulatory framework and internal limits aimed at keeping the risk in the Bank's acceptable range;
- Timely assessment of all significant risks by calculating their impact on capital adequacy;
- Stress testing for evaluation of adverse, but plausible events on different business areas.

Capital ratios

	31 December 2021	**31 December 2020**
Total capital adequacy ratio	18.91%	19.93%
Common Equity Tier 1 capital ratio	18.91%	19.93%

The reported values for the amount of capital and capital adequacy as at 31 December 2021 are as follows:

Indicators	**BGN '000**
Common Equity Capital (CEC)	239,059
Common Equity Tier 1 Capital (CEC + Hybrid debt instruments issued)	239,059
Equity (capital base)	239,059

As at 31 December 2021, the capital surplus is estimated at:

Surplus (+) / Shortage (-) as at 31 December 2021 in BGN '000	Equity	After deducting the capital buffers
Surplus (+) / Deficit (-) of Common Equity Tier 1 Capital	182,180	110,283
Surplus (+) / Deficit (-) of Tier 1 Capital	163,220	91,323
Surplus (+) / Deficit (-) of the common equity	137,941	66,044

The Bank's risk profile as at 31 December 2021 is consistent with the moderately conservative policy for risk-taking adopted by Management. Credit risk accounted for the largest relative share of the risk matrix as at the reporting date (92.7% of RPE), followed by operational risk (7.3% of RPE).

Distribution of risk-weighted exposures of Investbank JSC as at 31 December 2021:

Total risk-weighted exposures, including:	**1,263,975**	**100.00%**
Credit risk, counterparty credit risk	1,171,587	92.69%
Position, currency and commodity risks	-	-
Operational risk	92,388	7.31%

As at 31 December 2021, the capital coverage of risk exposure of the Bank is as follows:

Capital coverage of the Bank's risk exposure in BGN '000		Total capital adequacy	Capital buffers			Total capital coverage
		Capital coverage 8%	Preventive capital buffer 2.5%	System risk buffer 3.0%	Anti-cyclic buffer 0.5%	
Total risk-weighted exposures, including:	1,263,975	101,118	31,599	34,357	5,941	173,015
Credit risk, counterparty credit risk	1,171,587	93,727	29,290	31,585	5,506	160,108
Position, currency and commodity risks	0	0	0	0	0	0
Operational risk	92,388	7,391	2,309	2,772	435	12,907

5. SIGNIFICANT ACCOUNTING ASSUMPTIONS AND ESTIMATES IN APPLYING ACCOUNTING POLICIES

Fair value measurement

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

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

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

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

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

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

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

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

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

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

(iii) Fair value measurement, continued

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

Fair value hierarchy

As at 31 December 2021	**Carrying amount**					**Fair value**				**Cumulative change in fair value before taxes**			
In BGN '000	**Loans and Receivables**	**Held for trading**	**Available for sale**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value													
Financial assets carried at fair value through other comprehensive income			422,780		422,780	406,113		16,667	422,780				0
Financial assets carried at fair value through profit or loss		426			426	426			426				0
Debt securities carried at amortised cost		135,522			135,522	126,990		8,531	135,521				0
	0	135,948	422,780	0	558,728	533,529	0	25,198	558,727	0	0	0	0
Financial assets not measured at fair value													
Cash on hand and in deposits with the Central Bank	615,874				615,874	615,874			615,874				
Receivables from banks	3,721				3,721	3,721			3,721				
Loans and advances to customers	929,592				929,592			939,824	939,824				
	1,549,187	**0**	**0**	**0**	**1,549,187**	**619,595**	**0**	**939,824**	**1,559,419**				
Financial liabilities not measured at fair value													
Deposits from credit institutions				0	0		0		0				
Deposits from customers				2,272,495	2,272,495		2,162,430	114,191	2,276,620				
Hybrid debt-equity instrument					0				0				
	0	**0**	**0**	**2,272,495**	**2,272,495**	**0**	**2,162,430**	**114,191**	**2,276,620**				

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

as at 31 December 2020	**Carrying amount**					**Fair value**				**Cumulative change in fair value before taxes**			
In BGN '000	**Loans and Receivables**	**Held for trading**	**Available for sale**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value													
Financial assets carried at fair value through other comprehensive income			347,246		347,246	333,980		13,266	347,246				-
Financial assets carried at fair value through profit or loss		2,959			2,959	2,959			2,959				-
Debt securities carried at amortised cost		163,952			163,952	153,699		10,253	163,952				-
	-	**166,911**	**347,246**	**-**	**514,157**	**490,638**	**-**	**23,519**	**514,157**	**-**	**-**	**-**	**-**
Financial assets not measured at fair value													
Cash on hand and in deposits with the Central Bank	420,327				420,327	420,327			420,327				
Receivables from banks	3,265				3,265	3,265			3,265				
Loans and advances to customers	875,469				875,469			887,024	887,024				
	1,299,061	**-**	**-**	**-**	**1,299,061**	**423,592**	**-**	**887,024**	**1,310,616**				
Financial liabilities not measured at fair value													
Deposits from credit institutions				12	12		12		12				
Deposits from customers				1,947,300	1,947,300		1,862,463	90,872	1,953,335				
Hybrid debt-equity instrument					-				-				
	-	**-**	**-**	**1,947,312**	**1,947,312**	**-**	**1,862,475**	**90,872**	**1,953,347**				

6. NET INTEREST REVENUES

In BGN '000	**31/12/2021**	**31/12/2020**
Interest revenues		
Deposits provided to credit institutions	6	125
Loans and advances from customers, including	**29,331**	**27,832**
Loans and advances from non-banking financial institutions	144	223
Loan and advances from budget spending units	183	294
Loans and advances from undertakings	20,318	19,034
Loans and advances from individuals and households	8,686	8,281
Net investment in finance lease	210	231
Financial assets carried at fair value through other comprehensive income	663	239
Financial assets carried at fair value through profit or loss	11	51
Debt securities carried at amortised cost, including	**1,118**	**1,311**
General government	818	1,011
Non-financial corporations	300	300
Total	**31,339**	**29,789**

In BGN '000	**31/12/2021**	**31/12/2020**
Interest expenses		
Deposits	(8,381)	(5,167)
Deposits from credit institutions	(1,655)	(201)
Deposits from customers	(6,726)	(4,966)
Loans and advance payments made	(3)	(19)
Central banks	(3)	(19)
Credit institutions		
Debt - equity (hybrid) instruments	-	-
Bond loans	-	-
Other liabilities	(198)	(257)
Total	**(8,582)**	**(5,443)**
Net interest revenues	**22,757**	**24,346**

Interest revenues as at 31 December 2021 account for an increase by BGN 1,550 thousand compared to the previous year. The growth in interest revenues on loans compared to the same period of the previous year is by BGN 1,499 thousand due to: higher average portfolio volume (BGN 88.89 million) - the factor affects by BGN 3,013 thousand , despite the lower average interest rate of the portfolio (3.37% as at December 2020 and 3.2% for 2021, respectively), with the effect of the difference in interest rates being BGN 1,514 thousand.

7. NET FEE AND COMMISSION REVENUES

In BGN '000	**31/12/2021**	**31/12/2020**
Fee and commission revenues		
Revenues on securities	240	207
Revenues on performing credit commitments	5,879	5,219
Revenues on fees for off-balance sheet commitments	938	826
Fees related to payment services	22,115	20,942
Other fees and commissions	147	129
Total	**29,319**	**27,323**
Fee and commission expenses		
Clearing and settlement fees	(3,052)	(2,556)
Other fees and commissions	(485)	(537)
Total	**(3,537)**	**(3,093)**
Net fee and commission revenues	**25,782**	**24,230**

In 2021 the Bank's net fee and commission revenues amount to BGN 25,782 thousand compared to BGN 24,230 thousand at the end of 2020. The introduction of a state of emergency (for the Republic of Bulgaria on 13 March 2020) should also be taken into account, which is a force majeure event worldwide and also has an impact on the Bank's activity. During the year, two new fees were introduced - a fee for co-management of BDB loans and a fee for cash in payment accounts for legal entities.

8. NET REVENUES ON TRADING OPERATIONS

In BGN '000	**31/12/2021**	**31/12/2020**
Net gains or losses on operations in financial assets and liabilities carried at fair value through profit or loss	9	41
Revenues on changes in the fair value of financial assets carried at fair value through profit or loss	(11)	(48)
Net income on foreign currency operations	2,778	1,791
Net revenues on trading operations	**2,776**	**1,784**

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

	31/12/2021	**31/12/2020**
Net gains / losses on operations in financial assets	(1,588)	(2,050)
Net change in the fair value of the financial assets	1,695	3,360
Total net result	**107**	**1,310**

10. OTHER REVENUES ON OPERATIONS

In BGN '000	31/12/2021	31/12/2020
Other operating revenues		
Revenues on dividends, including:	223	110
Available-for-sale financial assets	223	110
Gain on other non-financial services provided	2	5
Revenues on sale of fixed assets and investment property	(582)	806
Revenues on sale of non-current held-for-sale assets, including collateral	(4,660)	841
Revenues on rentals of investment properties	1,209	1,074
Other revenues	1,256	2,150
Total other revenues on operations	**(2,552)**	**4,986**

At the end of 2021, the amount of other net revenues comes to BGN (2,552) thousand, compared to BGN 4,986 thousand in 2020. The change is mainly due to a negative result from the sale of fixed assets and investment properties and the decrease in other revenues.

11. ADMINISTRATIVE EXPENSES

In BGN '000	**2021**	**2020**
Expenses on staff, including:	(14,218)	(14,076)
Remuneration and salaries	(11,984)	(11,879)
Social security contributions	(2,234)	(2,197)
Depreciation expenses	(5,478)	(5,010)
Expenses on Bulgarian Deposit Insurance Fund and BRF	(3,641)	(7,645)
Expenses on taxes and fees	(3,289)	(3,383)
Expenses on rental of offices and other assets	(224)	(172)
Expenses on security guards	(536)	(1,650)
Expenses on communications	(1,383)	(1,330)
Other administrative expenses	(7,971)	(5,783)
Total administrative expenses	**(36,740)**	**(39,049)**

As at 31 December 2021, the total amount of administrative expenses amounted to BGN 36,740 thousand, which is by BGN 2,309 thousand lower than their level as at December 2020. Savings were realized in the expenses for BDIF and BFR, as well as in the expenses for security.

Other administrative expenses	31/12/2021	31/12/2020
Expenses on business trips	(164)	(60)
Expenses on expert assessment	(9)	(29)
Expenses on subscriptions	(1)	(4)
Expenses on vehicles	(276)	(279)
Expenses on ATM and POS	(50)	(115)
Expenses on considerations of the SB	(405)	(387)
Expenses on fines and penalties	(20)	(11)
Expenses on donations and sponsorship	(52)	(9)
Expenses on vehicle insurance	(78)	(73)
Expenses on insurance of other assets	(354)	(400)
Expenses on building insurance	(202)	(189)
Expenses on cash collections	(172)	(198)
Expenses on consultancy services	(371)	(45)
Expenses on materials	(1,064)	(1,005)
Expenses on training	(22)	(14)
Expenses on auditing	(141)	(528)
Expenses on written-off receivables, shortages and waste	(1,208)	(10)
Expenses on maintenance of other assets	(190)	(212)
Expenses on maintenance of buildings	(115)	(198)
Expenses on software support	(811)	(635)
Expenses on cleaning	(415)	(327)
Advertising expenses	(251)	(482)
Other expenses	(1,600)	(573)
Total	**(7,971)**	**(5,783)**

In 2021 the Bank reports expenses on independent financial audit in the amount of BGN 141 thousand to the joint auditors.

12. LOSS ON IMPAIRMENT OF FINANCIAL ASSETS

In BGN '000	31/12/2021	31/12/2020
Provisions for impairment loss set aside	(73,581)	(36,545)
Provisions for impairment loss reintegrated	9,485	19,666
Total impairment loss	**(64,096)**	**(16,879)**

Structure of impairment loss	31/12/2021	31/12/2020
Impairment of loans and debt instruments carried at amortized cost	(64,225)	(15,835)
Impairment of financial guarantees	142	14
Provisions for lawsuits	(13)	(1,058)
Other		
Total	**(64,096)**	**(16,879)**

At the end of 2021, the Bank reported impairment loss in the amount of BGN 64,096 thousand, of which: impairment of loans and debt instruments carried at amortized cost in the amount of BGN (64,255) thousand, impairment of financial guarantees in the amount of BGN 142 thousand and provisions on lawsuits in the amount of BGN (13) thousand.

13. NET RESULT FROM REVALUATION OF INVESTMENT PROPERTY

In BGN '000	**31/12/2021**	**31/12/2020**
Net result from revaluation		
Revenues on revaluation	77,798	10,362
Expenses on revaluation	(278)	(9,114)
Net result from revaluation	**77,521**	**1,248**

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

14. TAXATION

	2021	**2020**
Current tax expenses		
Revenue / expense on movement in deferred taxes	(11,372)	51
Total tax expense	(11,372)	51

The Company has accumulated tax losses from 2017 to 2019 in the amount of BGN 41,684 thousand and for 2021 - BGN 57,638 thousand, and is entitled to use these amounts to reduce the realized tax profits in the coming years.

	2021	**2020**
Profit before tax	25,326	2,149
Tax rate	10%	10%
Estimated income tax expense	2,533	215
Tax effect from:		
Adjustments for tax-exempt income:		
Increase of the financial performance for tax purposes	32,452	36,365
Adjustment for unrecognized expenses for tax purposes:		
Decrease of the financial performance for tax purposes	(115,416)	(38,514)
Current income tax (expense)	**(5,764)**	**-**
Deferred tax (expenses)/revenues:		
Temporary differences occurrence and reversal effect	(5,608)	51
Effect of changes to the accounting rules		
Expenses on income taxes	**(11,372)**	**51**

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

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Cash and balances with central banks and other deposits on demand		
Cash on hand	40,631	45,830
Cash in transit	6,953	4,614
Current accounts with banks	74,007	7,498
Deposits with banks	13,755	11,015
Cash balances with central banks	480,528	351,370
Total	**615,874**	**420,327**

As at 31 December 2021 and, respectively, as at 31 December 2020, the funds on accounts with BNB also include the amount, which represents the participation of Investbank JSC in the guarantee mechanism of the system processing card-related payment transactions - BORICA.

16. RECEIVABLES FROM BANKS

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Receivables from local banks	22	-
Receivables from foreign banks	3,698	3,265
Total	**3,721**	**3,265**

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

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Government securities, including:	426	2,959
Short- and medium-term government securities denominated in BGN	426	1,502
Short- and medium-term government securities denominated in foreign currency	-	1,457
Total	**426**	**2,959**

The structure of financial assets carried at fair value through profit or loss as at 31 December 2021 includes government securities of the Republic of Bulgaria issued in BGN and as at 31 December 2020 it includes government securities of the Republic of Bulgaria issued in BGN and in EUR.

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of borrower

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Credit institutions	1	1
Other financial institutions		
- Loans and advances	**3,832**	**85,085**
- Assigned claims	28	76
Individuals (households)		
- Loans and advances	207,498	202,632
- Assigned claims	0	-
Budgetary enterprises	0	-
- Loans and advances	3,600	4,246
- Assigned claims	1,445	2,270
Private (non-financial) enterprises		
- Loans and advances	732,451	621,027
- Assigned claims	2,602	11,120
	951,457	**926,457**
Impairment loss	(21,865)	(50,988)
Total	**929,592**	**875,469**

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

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Balance as at 1 January	50,988	63,027
Accrued	69,651	34,947
Reintegrated	(7,895)	(19,149)
Written off	(90,879)	(27,837)
Balance as at 31 December	**21,865**	**50,988**

31/12/2021	Carrying amount	Gross carrying amount				Accumulated impairment			Accumulated partial write-offs	Accumulated full write-offs
		Assets without significant increase in credit risk after initial recognition (Phase 1)	of which: instruments with low credit risk	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)	Assets without significant increase in credit risk after initial recognition (Phase 1)	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)		
Loans and advance payments made										
General government	4,995	5,045	5,045	-	-	(50)	-	-	-	
Credit institutions	1	1	1	-	-	-	-	-	-	
Other financial corporations	3,858	3,859	3,859	-	-	(1)	-	-	-	(22,826)
Non-financial corporations	718,329	595,697	595,697	42,817	96,540	(450)	(90)	(16,185)	-	(50,317)
Households	202,409	192,070	192,070	2,260	13,168	(182)	(9)	(4,898)	-	(17,736)
Total	**929,592**	**796,672**	**796,672**	**45,077**	**109,708**	**(683)**	**(99)**	**(21,083)**	**-**	**(90,879)**

31/12/2020	**Carrying amount**	**Gross carrying amount**				**Accumulated impairment**			**Accumulated partial write-offs**	**Accumulated full write-offs**
		Assets without significant increase in credit risk after initial recognition (Phase 1)	**of which: instruments with low credit risk**	**Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)**	**Assets with credit impairment (Phase 3)**	**Assets without significant increase in credit risk after initial recognition (Phase 1)**	**Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)**	**Assets with credit impairment (Phase 3)**		
Loans and advance payments made										
General government	6,380	6,516	6,516	-	-	(136)	-	-	-	
Credit institutions	1	1	1	-	-	-	-	-	-	
Other financial corporations	75,558	62,335	62,335	-	22,826	-	-	(9,603)	-	
Non-financial corporations	599,087	444,543	444,543	53,674	133,930	(879)	(165)	(32,016)	-	(23,654)
Households	194,443	165,121	165,121	5,640	31,871	(384)	(28)	(7,777)	-	(4,183)
Total	**875,469**	**678,516**	**678,516**	**59,314**	**188,627**	**(1,399)**	**(193)**	**(49,396)**	**-**	**(27,837)**

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

19. NET INVESTMENT IN FINANCE LEASE

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

In BGN '000	**2021**	**2020**
Gross investment in finance lease	4,183	4,574
Impairment losses:	250	3
Including Accrued	288	3
Reintegrated	(41)	
Unrealized finance income	(325)	(363)
Net present values of investment in finance lease	**3,609**	**4,208**

Net investment in finance lease is allocated as follows:

In BGN '000	**2021**	**2020**
Lease receivables		
Lease receivables from legal entities	3,859	4,211
Impairment of expected credit losses and impairment losses	(250)	(3)
Lease receivables	**3,609**	**4,208**
Non-current lease receivables	1,641	1,404
Current lease receivables	1,968	2,804
	3,609	**4,208**

	Up to 1 year	**1 to 5 years**	**Over 5 years**	**Total**
	BGN '000	**BGN '000**	**BGN '000**	**BGN '000**
31 December 2021				
Lease proceeds	1,681	1,862	640	4,183
Discounting	40	510	24	574
Net present values of investment in finance lease	**1,641**	**1,352**	**616**	**3,609**
31 December 2020				
Lease proceeds	1,425	3,149		4,571
Discounting	21	345		363
Net present values of investment in finance lease	**1,404**	**2,804**	**-**	**4,208**

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

In BGN '000	Carrying amount 31/12/2021	Carrying amount 31/12/2020
Equity instruments	**21,750**	**21,420**
Other financial corporations	4,760	4,411
Non-financial corporations, including:	16,990	17,009
Stocks and shares in local companies	7,672	6,047
Stocks and shares in foreign companies	9,318	10,962
Debt securities	**401,030**	**325,826**
General government, including	395,844	325,677
Bulgarian government securities denominated in BGN	2,110	15,916
Bulgarian government securities denominated in foreign currency	231,965	194,952
Foreign government securities denominated in foreign currency	161,769	114,809
Government securities of non-financial corporations, including:	5,186	149
Debt instruments - Bulgarian issuers	5,186	149
Total	**422,780**	**347,246**

21. DEBT SECURITIES CARRIED AT AMORTISED COST

31/12/2021	Carrying amount	Gross carrying amount				Accumulated impairment		
		Assets without significant increase in credit risk after initial recognition (Phase 1)	of which: instruments with low credit risk	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)	Assets without significant increase in credit risk after initial recognition (Phase 1)	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)
Debt securities								
General government, including	126,991	127,190	127,190	0	0	(199)	0	0
Bulgarian government securities denominated in BGN	25,478	25,575				(97)		
Foreign government securities, denominated in EUR and USD	101,513	101,615	101,614			(102)		
Debt instruments - non-financial corporations, including:	8,531	0	0	0	10,664	0	0	(2,133)
Bulgarian issuers	8,531		0		10,664			(2,133)
Foreign issuers	0							
Total	**135,522**	**127,190**	**127,190**	**-**	**10,664**	**(199)**	**-**	**(2,133)**

31/12/2020	Carrying amount	Gross carrying amount				Accumulated impairment		
		Assets without significant increase in credit risk after initial recognition (Phase 1)	of which: instruments with low credit risk	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)	Assets without significant increase in credit risk after initial recognition (Phase 1)	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)
Debt securities								
General government, including	153,699	153,843	153,843	-	-	(144)	-	-
Bulgarian government securities denominated in BGN	0							
Foreign government securities, denominated in EUR and USD	153,699	153,843	153,843			(144)		
Debt instruments - non-financial corporations, including:	10,253	10,364	10,364	-	-	(111)	-	-
Bulgarian issuers	10,253	10,364	10,364			(111)		
Foreign issuers	-							
Total	**163,952**	**164,207**	**164,207**	**-**	**-**	**(255)**	**-**	**-**

22.1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Equipment	Transport means	Fixtures and fittings	Other*	Assets with right of use	Total carrying amount
Gross carrying amount							
Balance as at 1 January 2020	**21,265**	**13,871**	**3,504**	**2,616**	**1,211**	**11,153**	**53,620**
Newly acquired assets	59	2,044	-	30	15	203	2,351
Assets written-off	-	(3,501)	(543)	(76)	(33)	(122)	(4,275)
Transfers	-	(3)	-	(30)	-	-	(33)
							-
Balance as at 31 December 2020	**21,324**	**12,411**	**2,961**	**2,540**	**1,193**	**11,234**	**51,663**
Balance as at 1 January 2021	**21,324**	**12,411**	**2,961**	**2,540**	**1,193**	**11,234**	**51,663**
Newly acquired assets	3	164	-	4	244	1,057	1,472
Assets written-off	(2,816)	(198)	(1,100)	(77)	(27)	(579)	(4,797)
Transfers	(4,650)	(196)	6	17	-		(4,823)
Balance as at 31 December 2021	**13,861**	**12,181**	**1,867**	**2,484**	**1,410**	**11,712**	**43,515**
							-
Depreciation							-
Balance as at 1 January 2020	9,151	11,307	2,770	2,343	579	2,388	28,538
Assets written-off / transfers	-	(3,496)	(543)	(73)	(27)		(4,139)
Depreciation	826	749	310	126	105	2,329	4,445
Balance as at 31 December 2020	**9,977**	**8,560**	**2,537**	**2,396**	**657**	**4,717**	**28,844**
Balance as at 1 January 2021	**9,977**	**8,560**	**2,537**	**2,396**	**657**	**4,717**	**28,844**
Other changes		**67**		**3**			**70**
Assets written-off	(2,816)	(198)	(1,024)	(77)	(27)		(4,142)
Depreciation	826	1,115	303	71	141	2,304	4,760
Balance as at 31 December 2021	**7,987**	**9,544**	**1,816**	**2,393**	**771**	**7,021**	**29,532**
Carrying amount as at 31 December 2020	**11,347**	**3,851**	**424**	**144**	**536**	**6,517**	**22,819**
Carrying amount as at 31 December 2021	**5,874**	**2,637**	**51**	**91**	**639**	**4,691**	**13,983**

Reclassification and recalculation of the values was performed in item "Others" due to a change in the Company's accounting policy regarding the reporting of the repairs of leased assets, which until the change have been reported as intangible fixed assets. As of 31 December 2021 the carrying amount of these repairs is BGN 524 thousand (as at 31 December 2020: BGN 454 thousand).

22.2. INVESTMENT PROPERTY

Gross carrying amount	**Amount in BGN '000**
Balance as at 1 January 2020	121,520
Newly acquired assets:	
increase	372
transfers from inventories (transfers)	(1,904)
Assets written-off	(5,209)
Remeasurement	10,362
Balance as at 31 December 2020	**125,141**
Balance as at 1 January 2021	125,141
Newly acquired assets:	
increase	99
transfers from inventories (transfers)	64,358
Assets written-off	(4,221)
Remeasurement	77,521
Balance as at 31 December 2021	**262,898**
Depreciation	
Balance as at 1 January 2020	376
Depreciation	-
Assets written-off	-
Transfers	-
Balance as at 31 December 2020	**376**
Balance as at 1 January 2021	376
Depreciation	0
Assets written-off	0
Transfers	0
Balance as at 31 December 2021	**376**
Carrying amount as at 31 December 2020	**124,765**
Carrying amount as at 31 December 2021	**262,522**

23. INTANGIBLE ASSETS

	Patents, licenses, trademarks	Acquired software, software products	Other intangible assets*	Total
	BGN '000	BGN '000	BGN '000	BGN '000
Gross carrying amount				
Balance as at 1 January 2020	**1,074**	**8,441**	**1**	**9,516**
Newly acquired assets, purchased	53	384		437
Assets written-off				
Transfers	(108)	108	-	-
Balance as at 31 December 2020	**1,019**	**8,933**	**1**	**9,953**
Balance as at 1 January 2021	**1,019**	**8,933**	**1**	**9,953**
Newly acquired assets, purchased		120	117	237
Other changes		95	316	411
Transfers	30	136	(167)	(1)
Balance as at 31 December 2021	**1,049**	**9,284**	**267**	**10,600**
Depreciation				
Balance as at 1 January 2020	**711**	**5,939**	**-**	**6,650**
Depreciation	45	520	27	592
Assets written-off			(27)	(27)
Balance as at 31 December 2020	**756**	**6,459**	**-**	**7,215**
Balance as at 1 January 2021	**756**	**6,459**	**-**	**7,215**
Depreciation	45	673		718
Assets written-off				
Other changes		(1)		(1)
Balance as at 31 December 2021	**801**	**7,131**	**-**	**7,932**
Carrying amount as at 31 December 2020	**263**	**2,474**	**1**	**2,738**
Carrying amount as at 31 December 2021	**248**	**2,153**	**267**	**2,668**

Reclassification and recalculation of the values was performed in item "Other intangible assets" due to a change in the Company's accounting policy regarding the reporting of the repairs of leased assets, which until the change have been reported as intangible fixed assets. As of 31 December 2021 the carrying amount of these repairs is BGN 524 thousand (as at 31 December 2020: BGN 454 thousand and as at 31 December 2019: BGN 547 thousand).

24. ASSETS HELD FOR SALE

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Balance as at 1 January	11,115	14,249
Reclassified	1,311	6,514
Acquired		
Sold	(11,579)	(552)
Transferred revaluation		
Impairment	-	(9,096)
Balance as at 31 December	**847**	**11,115**

	Carrying amount 31/12/2021	**Carrying amount 31/12/2020**
Non-current assets held for sale		
Property, plant and equipment	847	11,115
including Assets acquired as collateral	847	11,115
Total	**847**	**11,115**

Non-current assets held for sale as at 31 December 2021 amount to BGN 847 thousand. This item presents assets for which a sale procedure has been initiated.

25. OTHER ASSETS

	Carrying amount 31/12/2021	**Carrying amount 31/12/2020**
Other assets		
Estimates with customers	1,573	1,455
Assets acquired from collateral	139,623	207,090
Other estimates with other financial institutions	55	58
Materials	793	950
Deferred expenses	157	228
Tax assets, including:		
current tax assets	25	-
deferred tax assets	73	2,998
Other estimates and receivables	9,254	9,029
Total	**151,553**	**221,808**

In accordance with the Bank's Accounting Policy, assets acquired from loan collateral that the Bank does not intend to use in its core operations and are not investment property but are held for to be sold or completed for sale within a period of more than 12 months are presented in item "Other assets" under IAS 2 "Inventories". As at 31 December 2021 the assets acquired from collateral amount to BGN 139,623 thousand, of which: land in the amount of BGN 67,856 thousand, buildings under construction in the amount of BGN 15,133 thousand, buildings in the amount of BGN 47,383 thousand and other in the amount of BGN 9,251 thousand.

25.1. DEFERRED TAXES

Deferred tax liabilities (assets)	31 December 2020	Effect of changes to the accounting rules	1 January 2021	Recognised in other comprehensive income	Recognised in profit or loss	31 December 2021
			BGN '000	**BGN '000**	**BGN '000**	**BGN '000**
Assets	**2,998**	**0**	**2,998**	**0**	**(2,925)**	**73**
Unused leaves	3		3		3	6
Tax losses	2,933		2,933		(2,933)	-
Provisions for lawsuits, Art. 38 CITA	19		19		2	21
Other assets	43		43		3	46
Liabilities	**(2,374)**	**0**	**(2,374)**	**0**	**(8,447)**	**(10,821)**
Deferred tax from revaluation	(2,299)		(2,299)		(8,447)	(10,746)
Deferred tax liabilities of CB Victoria	(14)		(14)		-	(14)
Temporary difference under Art. 149 CITA	(61)		(61)		-	(61)
Total deferred assets and liabilities (offset)	**624**	**0**	**624**	**0**	**(11,372)**	**(10,748)**
Deferred tax assets	**2,998**		**2,998**			**73**
Deferred tax liabilities	**(2,374)**		**(2,374)**			**(10,821)**
Recognized as:						
Net deferred tax (assets)	**624**		**624**			**(10,748)**

The Bank's Management has assessed the possibilities for using a deferred tax asset on tax losses in the near future within the next reporting period and has decided to write off the deferred tax asset on tax losses from the accounting registers, applying a conservative approach in compliance with the precautionary principle for asset overstatement.

26. DEPOSITS FROM CREDIT INSTITUTIONS

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Deposits, including:		
- in local currency	0	8
-in foreign currency	0	4
Total	**0**	**12**

27. DEPOSITS FROM CUSTOMERS. OTHER FINANCIAL LIABILITIES

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Deposits, including:	2,267,802	1,940,725
Individuals	1,411,202	1,265,334
Institutions	856,600	675,391
Other financial liabilities, including:	4,693	6,575
Payables on financial lease contracts	0	51
Payables on operating lease contracts under IFRS 16	4,693	6,524
Total	**2,272,495**	**1, 947,300**

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Deposits other than those of credit institutions	856,600	675,391
Current accounts / overnight deposits	780,601	585,653
Deposits with agreed maturity	75,790	89,567
Deposits refundable on notice	209	171
Total	**856,600**	**675,391**

Term of deposits	31/12/2021	31/12/2020
up to 1 month	600,528	512,191
1 to 3 months	185,339	163,237
3 months to 1 year	515,174	502,282
1 year to 5 years	109,974	87,379
over 5 years	187	245
Total	**1,411,202**	**1,265,334**

Payables on operating lease contracts under IFRS 16		
Age analysis of liabilities under lease contracts	**31/12/2021**	**31/12/2020**
- Up to 1 year	2,018	2,589
- 1 to 5 years	3,215	3,935
- Over 5 years	0	-
Total amount of undiscounted liabilities under lease contracts	5,233	6,524
Discount at 3.9%	270	376
Total amount of the present value of the liabilities under lease contracts	**4,963**	**6,900**
Current portion	2,135	2,780
Non-current portion	2,828	4,120
Total amount of the present value of the liabilities under lease contracts	**4,963**	**6,900**

28. OTHER LIABILITIES

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Other liabilities		
Estimates with customers	2,470	2,114
Provisions	1,029	958
Staff-related payables	61	33
Estimates for taxes (tax liabilities)	11,564	3,614
Other	63	31
Total	**15,187**	**6,750**

29. PROVISIONS

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Provisions		
Pensions and other liabilities for payment of post-employment defined benefits	562	509
Unsettled legal issues and tax lawsuits	209	195
Commitments and guarantees	258	254
Total	**1,029**	**958**

30. EQUITY

(a) Share capital

As at 31 December 2021, the share capital of the Bank amounts to BGN 155,571,612 and is divided into 155,571,612 dematerialized registered shares with a par value of BGN 1 each.

In 2021 there were no changes in the amount of share capital. In 2020 the following changes took place:

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

(b) Reserves

- **Statutory reserves**

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

- **Retained earnings**

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

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Reserves		
Reserve Fund		
Premium reserve	65,583	65,583
Accumulated other comprehensive income	(11,097)	(5,949)
Retained earnings, including:	(12,079)	(26,033)
Other reserves	57,436	57,435
Total	**99,843**	**91,036**

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

In BGN '000	**Carrying amount 31/12/2021**	**Carrying amount 31/12/2020**
Cash on hand	**47,584**	**50,444**
Deposits with banks with original maturity of up to 3 months	87,762	18,513
Current accounts with the Central Bank	480,528	351,370
Total	**615,874**	**420,327**

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

31. ASSETS PLEDGED AS COLLATERAL

The assets with encumbrances in 2021 are set out below:

31 December 2021	**Assets with encumbrances**					**Assets free of encumbrances**				
	Carrying amount of assets pledged as collateral			**Fair value of assets pledged as collateral**		**Carrying amount of unencumbered assets**			**Fair value of unencumbered assets**	
Assets	**Total**	**including: issued by other entities from the group**	**including: meeting the requirements of the central banks**	**Total**	**including: meeting the requirements of the central banks**	**Total**	**including: issued by other entities from the group**	**including: meeting the requirements of the central banks**	**Total**	**including: meeting the requirements of the central banks**
Loans on demand	194,139		192,733			2,348,958		735,290		
Equity instruments						554,535		404,761		
Debt securities						21,749			21,749	
including: covered bonds	192,733		192,733	192,733	192,733	344,246		330,529	339,209	330,529
including: asset-backed securities										
including: issued by general government										
including: issued by financial corporations	192,733		192,733	192,733	192,733	330,529		330,529	330,529	330,529
including: issued by non-financial corporations						5,037				
Loans and advances other than loans on demand						8,680			8,680	
including: mortgages						949,254				
Other assets						562,521				
Total:	**1,406**			**0**	**0**	**479,174**				

As at 31 December 2021 the amount of blocked government securities for securing the borrowed funds in budget accounts is BGN 192,733 thousand.

32. ASSETS PLEDGED AS COLLATERAL, CONTINUED

The assets with encumbrances in 2020 are set out below:

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

33. COMMITMENTS AND CONTINGENT LIABILITIES

Off-balance sheet commitments

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

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

In BGN '000	**31/12/2021**	**31/12/2020**
Bank guarantees and letters of credit		
- in BGN	75,979	62,752
-in foreign currency	19,523	17,196
Liabilities on unutilized credit commitments	103,778	64,539
Other commitments	194,832	175,272
Total off-balance sheet exposures	**394,112**	**319,759**

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

Structure of off-balance sheet exposures

	31/12/2021	**31/12/2020**
FINANCIAL GUARANTEES AND LETTERS OF CREDIT GRANTED	**95,502**	**79,947**
General government	29	27
Other financial corporations	-	50
Non-financial corporations	95,473	79,870
CREDIT COMMITMENTS	**103,778**	**64,539**
General government	3,200	1,050
Credit institutions	102	104
Other financial corporations	3,683	2,667
Non-financial corporations	87,150	52,323
Households	9,643	8,395
OTHER COMMITMENTS	**194,832**	**175,273**
Central bank	97,791	78,233
Other financial corporations		
Non-financial corporations	97,041	97,040
OFF-BALANCE SHEET EXPOSURES	**394,112**	**319,759**

31/12/2021	Nominal value of off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9			Provisions on off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9		
	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)
Financial guarantees provided	**95,502**	**-**	**-**	**6**	**-**	**-**
General government	29					
Other financial corporations	-					
non-financial corporations	95,473			6		
Credit commitments taken	**103,778**	**-**	**-**	**240**	**-**	**-**
General government	3,200			10		
Credit institutions	102			2		
Other financial corporations	3,683			-		
Non-financial corporations	87,150			215		
Households	9,643			13		
Other commitments	**194,832**	**-**	**-**	**12**	**-**	**-**
Central bank	97,791					
Other financial corporations	-					
non-financial corporations	97,041			12		

OFF-BALANCE SHEET EXPOSURES	**394,112**	**-**	**-**	**258**	**-**	**-**

31/12/2020	Nominal value of off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9			Provisions on off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9		
	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)
Financial guarantees provided	**79,947**	**-**	**-**	**118**	**-**	**-**
General government	27					
Other financial corporations	50					
non-financial corporations	79,870			118		
Credit commitments taken	**64,539**	**-**	**-**	**94**	**-**	**-**
General government	1,050					
Credit institutions	104					
Other financial corporations	2,667			73		
Non-financial corporations	52,323			21		
Households	8,395					
Other commitments	**175,273**	**-**	**-**	**41**	**-**	**-**
Central bank	78,233					
Other financial corporations	-					
non-financial corporations	97,040			41		
OFF-BALANCE SHEET EXPOSURES	319,759	-	-	253	-	-

34. RELATED PARTY TRANSACTIONS

Related parties	Nature of the related party relationship	Type of transaction	Outstanding balance 31/12/2021	Outstanding balance 31/12/2020
In BGN '000				
Festa Holding AD	Shareholders	1) Deposits granted	4,010	1,376
		2) Loans and receivables	6	2
	Members of Management Board	1) Deposits granted	65	162
		2) Loans received	154	431
	Members of Supervisory Board	1) Deposits granted	7,351	5,463
		2) Loans received	15	-
	Other	1) Deposits granted and other payables	16,661	6,696
		2) Loans and receivables	14,200	19,498
		Total deposits and payables	28,087	13,697
		Total loans and receivables	14,375	19,931

Expenses and revenues resulting from transactions with related parties

31/12/2021

Transaction amount	Shareholders	Members of Management Board	Members of Supervisory Board	Related parties under common control and other	**Total**
Expenses					
Interest expenses			10	8	18
Services Received	1,577			407	1,984
Total expenses	**1,577**	**-**	**10**	**415**	**2,002**
Revenues					
Interest revenues		3		355	358
Fee and commission revenues	1			155	156
Revenues from services	67			27	95
Total revenues	**1**	**3**	**-**	**514**	**609**

The remunerations of Executive Directors and the Management Board as at 31 December 2021 come to BGN 509 thousand (2020: BGN 489 thousand) and the remunerations of the Supervisory Board come to BGN 405 thousand (2020: BGN 387 thousand).

Income of key management personnel

	31/12/2021	31/12/2020
Short-term employee remunerations		
Current remuneration expenses	914	876
Social expenses		
Social security expenses	25	23
Total	**939**	**899**

31/12/2021

Balances	Subsidiaries	Key management personnel and other management personnel	Owners	Related parties under common control and other related parties	**Total**
Assets: Loans and advance payments made	6,809	381		7,177	14,367
Other receivables	2		6		8
Total assets	**6,811**	**381**	**6**	**7,177**	**14,375**
Liabilities: Deposits					
Deposits	1,453	8,401	4,010	14,211	28,075
Other liabilities	12				12
Total liabilities	**1,465**	**8,466**	**4,010**	**14,352**	**28,087**

35. OTHER STATUTORY DISCLOSURES

Pursuant to the requirements of Art. 70(6) of the Credit Institutions Act, banks should make certain quantitative and qualitative disclosures relating to key financial indicators and other indicators separately for their business in the Republic of Bulgaria and in other countries where the Bank has subsidiaries and/or branches. Investbank JSC is fully licensed to conduct banking business. In 2021 and 2020 the Bank has no subsidiaries or branches registered outside the territory of the Republic of Bulgaria. Summary of the required disclosures under the Credit Institutions Act and reference to the relevant notes in these financial statements or other reports required is as follows:

In BGN '000	**References to other Notes and statements**	**2021**	**2020**
Gross operating income	Notes 6, 7, 8, 9, and 10	48,641	56,829
Profit/ (Loss) before taxes	Statement of Profit and Loss	25,326	2,149
(Tax expenses or (-) revenues related to the gain or loss on current operations)	Note 14	(11,372)	51
Return on assets (%)	Annual Management Report	0.55	0.10
Equated number of employees employed under full-working-day contracts as at 31 December	Note 11	598	628

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

1. On 22 March 2022 the following change in the composition of the Management Board of Investbank JSC was submitted for registration with the Commercial Register:

1.1. Deletion of Zdravka Rumenova Ruseva as a member of the Management Board.

1.2. Registration of Nedyo Yankov Tenev as a member of the Management Board.

As of 24 March 2022, the application to the Commercial Register and the Register of Non-Profit Legal Entities (CRRNPLE) is assigned the status "Three-day pending period", i.e. the registration will probably be available on Monday, 28 March 2022.

After the registration of the aforementioned change with the CRRNPLE, the composition of the Management Board will be as follows:

Chairperson – Svetoslav Rumenov Milanov, Executive Director
Members – Maya Ivanova Stancheva, Executive Director
Nedyo Yankov Tenev

2. On 24 February 2022, military operations began on the territory of Ukraine. The war between Russia and Ukraine has had a significant impact on the economic activity and the inflation, with higher energy and raw material prices, disruption of international trade and lower confidence. The severity of these consequences will depend on the development of the conflict, the effect of the current sanctions and the possible introduction of new measures. The financial sanctions against Russia, including the exclusion of some Russian banks from SWIFT, did not cause a lack of liquidity due to the strong capital positions and the lower number of non-performing loans at Investbank JSC.

The imposed sanctions may directly affect both the sanctioned entities and certain natural persons and other entities controlled by these legal entities and natural persons. In addition, the business counterparties of these sanctioned entities may be indirectly affected, as may some sectors of the Russian economy.

Considering the extremely uncertain environment, the Bank's Management reacted promptly by minimizing the balances on nostro accounts in the two Russian correspondent banks, although they are not on the list of those excluded from the SWIFT system. There are no significant assets denominated in RUB in the Bank's balance sheet. The Bank is an entity that:

- Has no subsidiaries, branches or other investment operations: investments in shares, bonds or other instruments in Ukraine, Russia or Belarus;
- Has no direct or indirect parent company in one of these countries;
- Has relations with Russian banks

The Bank has a nostro account with Sberbank in RUB, which as at the date of the financial statements has funds in BGN equivalent of BGN 58 thousand and a liability to a natural person in RUB on a current account of individuals for BGN 19 thousand.

The future development of the conflict and its impact on various businesses and the economy as a whole is associated with many uncertainties and cannot be reasonably predicted in general.

The Bank's Management has assessed the ongoing and/or potential effects of the aforementioned events and it is expects that the effects will be significant.

At this stage, the Management is not able to reliably assess the effects as the events unfold on a daily basis, and for example, that long-term impact may also affect trading volumes, cash flows, profitability, etc.

The Bank's Management believes that at the time of approval of the financial statements for 2021 there are no indications threatening its going concern principle.

The Bank's Mmanagement has taken action to comply with the sanctions imposed against Russia by:

- Analysing the amount of direct exposures to counterparties originating in Russia and Ukraine:
  - There are 6 credit exposures to natural persons with an agreed amount of BGN 394 thousand and current debt of BGN 268 thousand;
  - One credit exposure to a natural person with a maturity of 6 months and current debt of BGN 5,000.

- The bank conducted an analysis of the loan portfolio of legal entities in order to identify potential negative changes in the creditworthiness of its borrowers whose business is indirectly dependent on the Russian and Ukrainian markets. The analysis showed that the Bank's portfolio does not include borrowers whose main cash flow is generated by goods and services consumed in the Russian or Ukrainian markets.

In this regard, we believe that the events currently have no negative effect on the creditworthiness of Investbank JSC.

- As at the end of February, Investbank JSC has 647 depositors from Russia with funds totalling BGN 9,579 thousand and 155 depositors from Ukraine with attracted resources of BGN 1,978 thousand.

In order to assist refugees from Ukraine, Investbank JSC provides completely free opening of current accounts of natural persons and legal entities.
In support of the refugees with temporary protection status, the Bank has provided gratuitous accommodation and meals in sites owned by Investbank JSC.
As a sign of sympathy for the refugees who sought refuge in Bulgaria, the Bank launched a donation initiative, and for this purpose a special donation account was opened.
Investbank JSC is in the process of developing a joint initiative with educational centers for organizing courses in Bulgarian language for refugees affected by the war in order to help them adapt and reclassify for access to the labour market. We believe that it is through common support and empathy for those affected by the war in Ukraine that we can provide safe and secure conditions for those in need and give them faith and hope that they are not alone. As a socially responsible company, Investbank JSC will continue to monitor the situation and, if possible, will launch other initiatives in support of war victims.