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Investbank PSC

Annual Financial Statements

As at 31 December [illegible]

With Independent Auditor's Report

Audit Correct

INDEPENDENT AUDITOR'S REPORT

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of **Investbank JSC** (the "Bank"), comprising the statement of financial position as of December 31, 2018, and the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, as well as the explanatory notes to the financial statements, also including a summary statement 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, 2018, and its financial performance and its cash flows for the year ended on that date in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU (European Union) and the Bulgarian legislation.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). 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 for 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 to clients, including the initial application of the requirements of IFRS 9 "Financial Instruments", effective [illegible] 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, on impairment and measurement tables for the transition to compliance with the requirements of IFRS 9 ...

loss model). The application of this standard [illegible] and has a [illegible] effect on the financial statements of Banking and [illegible] financial institutions.

The application of significant judgements and assumptions by the management and the possibility [illegible] of [illegible] model to determine the Bank's financial assets [illegible] that this matter should be defined as a key audit matter.

[illegible] to the following issues:

- **Classification and Initial Valuation:** In the initial classification and valuation of financial instruments, the management has made its judgement on the business models for managing the Bank's financial assets and the characteristics of the contractual cash flows of the financial assets. The management has concluded that the cash flows of financial assets classified as loans and advances granted to customers are held only within a business model whose purpose is to [illegible] the contractual cash flows that only represent principal and interest payments on the outstanding principal at all dates. The judgement is of significant importance since the loans and advances granted to the Bank's customers [illegible] a significant part of the Bank's assets. This group of financial assets is consequently measured at amortised cost.
- **Expected Credit Loss Model:** The implemented model at the Bank calculates the expected credit losses based on probabilities which are determined on historical statistical information. The statistical information is derived from [illegible] models used by the Bank – the corporate credit rating model and the retail scoring model.

The loans and advances granted to customers as of December 31, 2019, amounted to [illegible] thousand and constituted [illegible] of the Bank's assets.

Note [illegible] Basis of the Accounting Policy [illegible] and [illegible] Loans and Advances to Customers to the financial statements, present information about the judgements and assumptions of the Bank's management in the determination of the expected credit losses from the impairment of the loans and advances granted to customers of the Bank on 2019.

Review and assessment of the policies and procedures developed for the implemented models [illegible] of the [illegible] for the loans and advances granted.

Review and [illegible] of [illegible] analyses of [illegible] financial exposures of the Bank.

[illegible] of [illegible] the [illegible] provision.

Review and assessment of the credit classification [illegible] and determining the necessary impairment on an individual basis.

Verification [illegible] specific receivables from the credit portfolio. Recalculation of impairment based on a specific model.

We obtained a summary of the [illegible] the expected impairment.

We reviewed the estimates made by the Bank's management [illegible] on an individual basis and compared the results obtained with our expectations and estimates made by our professional judgement.

We communicated our estimated provisions with Bank's management and [illegible].

Information Other than the Financial Statements and Auditor's Report Thereon
The management is responsible for such other information. The other information comprises the 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 explicitly stated in our report and to the extent stated therein.
In relation to our audit of the financial statements, our responsibility consists of reading the other information and thus assessing 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.

Other Matter for Reporting under the Accountancy Act
In addition to our responsibilities and reporting under the ISA, described above in the Information Other than the Financial Statements and Auditor's Report Thereon section, in respect of the activity report and 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 Organisation of Certified Public Accountants and Registered Auditors in Bulgaria – the Institute of Certified Public Accountants (ICPA). These procedures relate to verification of the existence and verification of the form and content of such other information to aid 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. 100m, 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 the 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. 100m (n), 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 presented and prepared in accordance with the requirements of the Chapter Seven of the Accountancy Act.

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 (IFRS) adopted by the EU and the Bulgarian legislation, and for such an internal control system as the management determines necessary to ensure the preparation of financial statements that are free of material misstatement, 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 basis 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 misstatement, whether due to fraud or error, and to issue an auditor's report that includes our audit 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... will always detect a material misstatement when one exists. Misstatements may arise as a result of fraud or error and are considered to be material if it could be reasonably expected that they, either individually or in aggregate, would influence the users' economic decisions made on the basis of these financial statements.

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

- identify and assess the risks of material misstatement 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 failing to detect any material misstatement resulting from fraud is higher than the risk of failing to detect one material misstatement resulting from an error, since fraud may involve collusion, forgery, deliberate omissions, statements aiming to mislead the auditor, as well as avoidance 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 basis based on the going concern assumption and, on the basis of the audit evidence obtained, on whether there is a significant uncertainty related to events or conditions that could give rise to significant doubts about the Bank's ability to continue as a going concern. If we come to the conclusion that there is a 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 case 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 significant 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 thought to bear on our independence, and, where applicable, any associated precautions.

Among the issues communicated to the persons charged with general governance, we identify those issues that were most relevant to the audit of the current period's financial statements and which are therefore key audit issues. We describe these issues in our auditor's report, except where law or regulation prevents the public disclosure of information on such issues or when, in extremely rare cases, we decide that a given issue should not be communicated in our report, since it would reasonably be expected that the adverse consequences of such action would outweigh the public interest benefit 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 ICPAA applicable in Bulgaria. Upon accepting and implementing the joint audit engagement in relation to which we are reporting, we were also guided by the Joint Audit Guidelines issued on [illegible] 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 Legal and Regulatory Requirements

Additional reporting under Ordinance No. 38/2007 and Ordinance No.58/2018 of the Financial Supervision Commission

Opinion in relation to Art. 11 of Ordinance No. 38 of the Financial Supervision Commission of [illegible] on the Requirements to the Activities of Investment Intermediaries, Art. [illegible] of Ordinance No. 58 of the Financial Supervision Commission of [illegible] on the Requirements for the Protection of Client Financial Instruments and Funds, for Product Management and for the Provision or Receipt of Remuneration, Commissions, other Cash or Non-Cash Benefits and the Financial Instruments Market Act

Based on the 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 [illegible] in relation to the custody of client assets complies with the requirements of Articles [illegible] of the Ordinance No. 38 of the FSC and Articles [illegible] of the Ordinance No. 58 of the FSC and the Financial Instruments Markets Act with regard to the Bank's operations in its capacity as investment intermediary.

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

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

- Audit Correct LTD and Grant Thornton LTD were appointed as statutory joint auditors of the financial statements of Investbank JSC for the year ended 31 December 2019 by the General Meeting of Shareholders held on [illegible] May 2019 for a period of one year.
- The audit of the financial statements for the year ended 31 December 2019 of the Bank represents the second year of continuous engagement for statutory audit of that entity performed by Audit Correct LTD and Grant Thornton LTD.
- In support of our joint audit opinion, in the Key audit matters section, we have provided a description of the most significant risks assessed, a summary of the joint auditors' reply and important observations on those 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 [illegible] 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.

January [illegible] 2021

For Audit Correct LTD Auditing company	For [illegible] Audit Bulgaria LTD Auditing company
[illegible] Managing Partner Registered auditor in charge of the audit	[illegible] Managing Partner Registered auditor in charge of the audit

Audit Correct OOD
[illegible]

[illegible] Bulgaria Audit LTD
[illegible]

[illegible]
[illegible] Financial Statements
[illegible] 31 December [illegible]

STATEMENT OF FINANCIAL POSITION
[illegible]

Assets	Note	[illegible]	[illegible]
Cash, cash balances at central banks and other demand deposits	[illegible]	[illegible]	[illegible]
Loans and advances to banks	[illegible]	[illegible]	[illegible]
Financial assets measured at fair value through profit or loss	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
Loans and advances to customers	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	
[illegible]		[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
Financial assets measured at fair value through other comprehensive income	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
Debt investments measured at amortised cost	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
Tangible assets		[illegible]	[illegible]
Property and equipment	[illegible]	[illegible]	[illegible]
Investment property	[illegible]	[illegible]	[illegible]
Intangible assets		[illegible]	[illegible]
Goodwill	[illegible]	[illegible]	[illegible]
Non-current assets and disposal groups classified as held for sale	[illegible]	[illegible]	[illegible]
Other assets	[illegible]	[illegible]	[illegible]
Deferred tax assets	[illegible]	[illegible]	[illegible]
Total assets		[illegible]	[illegible]

STATEMENT OF FINANCIAL POSITION
(continued)

LIABILITIES	Notes	[illegible]	[illegible]
Deposits from credit institutions	[illegible]		
Financial liabilities measured at amortised cost		1 [illegible]	[illegible]
Deposits	[illegible]	[illegible]	[illegible]
Other financial liabilities	[illegible]	[illegible]	[illegible]
Bond loans	[illegible]	[illegible]	[illegible]
Debt/equity hybrid instruments	[illegible]		[illegible]
Other liabilities	[illegible]	[illegible]	[illegible]
Provisions	[illegible]	[illegible]	[illegible]
Total liabilities		1 [illegible]	[illegible]
Equity			
Issued capital		[illegible]	[illegible]
Reserves		[illegible]	[illegible]
Retained earnings		([illegible])	([illegible])
Profit		[illegible]	[illegible]
Total capital and reserves		[illegible]	[illegible]
Total liabilities and equity		1 [illegible]	[illegible]

[illegible]

[illegible]
Executive Director

[illegible]
Executive Director

[illegible]
Compiler

In accordance with auditor's report of [illegible]

[illegible]
Registered Auditor in charge of the engagement
Audit firm [illegible]
auditing company

[illegible]
Registered Auditor in charge of the engagement
[illegible] Audit Bulgaria [illegible]
auditing company

STATEMENT OF PROFIT AND LOSS
[illegible]

	Note	[illegible]	[illegible]
Interest income		[illegible]	[illegible]
Interest expense		[illegible]	[illegible]
Net interest income		[illegible]	[illegible]
Fee and commission income		[illegible]	[illegible]
Fee and commission expense		[illegible]	[illegible]
Net fee and commission income		[illegible]	[illegible]
[illegible] income		[illegible]	[illegible]
Net gains/(losses) on derecognition of financial assets not measured at fair value through profit or loss	[illegible]	[illegible]	[illegible]
Other operating income	10	[illegible]	[illegible]
[illegible]	10		[illegible]
Net gains/(losses) on financial assets and liabilities held for trading			
Net foreign exchange differences		[illegible]	[illegible]
Total operating income		[illegible]	[illegible]
		[illegible]	[illegible]
Administrative expenses	11	[illegible]	[illegible]
Financial asset impairment losses	12	[illegible]	[illegible]
Net result of investment property revaluation	[illegible]	[illegible]	[illegible]
Profit/(Loss) before tax		[illegible]	[illegible]
Taxation	[illegible]	[illegible]	[illegible]
Profit/(Loss) after tax		[illegible]	[illegible]

Notes on pages [illegible] form part of and should be read in connection with these financial statements.

[illegible]
Executive Director

[illegible]
Executive Director

[illegible]
compiler

In accordance with Auditor's Report of [illegible] January [illegible]

[illegible]
Registered Auditor in charge of the engagement

[illegible]
Auditing company

[illegible]
Registered Auditor in charge of the engagement

[illegible]
Auditing company

STATEMENT OF [illegible]

[illegible]

	[illegible]	[illegible]
Profit / (Loss) after tax	[illegible]	[illegible]
Items that may not be subsequently reclassified to profit or loss:		
Actuarial gains and losses	[illegible]	[illegible]
Changes in the fair value of equity instruments measured at fair value through other comprehensive income	[illegible]	[illegible]
Items that are or may be subsequently reclassified to profit or loss:		
Debt instruments measured at fair value through other comprehensive income	[illegible]	[illegible]
Net change in fair value of available for sale financial assets		
Total other comprehensive income / (loss)	[illegible]	[illegible]
Total comprehensive income / (loss)	[illegible]	[illegible]

[illegible] in accordance with these financial statements.

[illegible]
[illegible] Director

[illegible]
[illegible]

[illegible]

[illegible] Auditor's Report [illegible] January [illegible]

[illegible]
Registered Auditor in charge of the engagement

[illegible]
Auditing company

[illegible]
Registered Auditor in charge of the engagement

[illegible] Bulgaria [illegible]
Auditing company

[illegible]
[illegible]
[illegible]

STATEMENT OF CASH FLOWS	Note	2017	[illegible]
Net cash flow from operating activities			
Profit / (Loss) after tax		[illegible]	[illegible]
Impairment losses		[illegible]	[illegible]
Depreciation and amortization		[illegible]	[illegible]
Tax income / expense		[illegible]	[illegible]
		[illegible]	[illegible]
Changes in assets involved in operating activities			
[illegible]		[illegible]	[illegible]
[illegible] deposits provided to credit institutions		[illegible]	[illegible]
(Increase) / decrease in loans and advances to customers		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
[illegible]		[illegible]	[illegible]
(Increase) / decrease in other assets		[illegible]	[illegible]
Changes in liabilities involved in operating activities			
Increase/(decrease) in deposits from credit institutions		[illegible]	[illegible]
Increase/(decrease) in customer deposits		[illegible]	[illegible]
Increase/(decrease) in other liabilities		[illegible]	[illegible]
Tax (paid)/refund		[illegible]	[illegible]
Net cash flows from operating activities		[illegible]	[illegible]
Cash flows from investment activities			
(Purchase) / sale of property, plant and equipment and investment property		[illegible]	[illegible]
(Purchase) / sale of investments in investment portfolio		[illegible]	[illegible]
Net cash flows from investment activities		[illegible]	[illegible]
Cash flows from financing activities			
Increase / (decrease) in share capital			[illegible]
Increase / (decrease) [illegible]		[illegible]	[illegible]
Increase / (decrease) in bank loans		[illegible]	[illegible]
Net cash flows from financing activities		[illegible]	[illegible]
Net increase / (decrease) in cash and cash equivalents		[illegible]	[illegible]
Cash and cash equivalents at the beginning of the year		[illegible]	[illegible]
Cash and cash equivalents at the end of the year	12	[illegible]	[illegible]

[illegible] in connection with these financial statements.

[illegible]
Executive Director

[illegible]
Procurator

[illegible]
Chief Accountant

[illegible] with Auditor's Report of [illegible]

[illegible]
Registered Auditor in Charge of [illegible]

[illegible] Ltd.
Auditing company

[illegible]
Registered Auditor in Charge of [illegible]

[illegible] Ltd.
Auditing company

[illegible]

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]							
[illegible]		-		[illegible]			[illegible]
[illegible]			-	-		[illegible]	[illegible]
[illegible]							
[illegible]		-	[illegible]		[illegible]		[illegible]
[illegible]		-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		-	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]							
[illegible]		[illegible]	-				[illegible]
[illegible]		[illegible]					[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]							
[illegible]		-	-	[illegible]			[illegible]
[illegible]						[illegible]	[illegible]
[illegible]							

[illegible]
[illegible]
[illegible] 31 December 2019

Revaluation of financial assets measured at fair value through other comprehensive income			22 677	(22 847)	5 736			5 736
Total other comprehensive income		-	22 675	(20 686)	5 725		(20)	7 829
Total comprehensive income for the year		-	22 675	(21 558)	6 528		(20)	7 829
Transactions related to shareholders' equity								
Balance as at 31 December 2019	[illegible]	(31 000)	69 706	(38 903)		(1 082)	(20)	298 894

[illegible] financial statements.

[illegible]
[illegible]

Yusuf Ahmed Pirbhai [illegible]
[illegible]

[illegible]
[illegible]

[illegible]
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[illegible]
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[illegible]
[illegible]

[illegible]
[illegible]

[illegible]
[illegible]

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

GENERAL INFORMATION

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

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

1. BASIS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS

1.1. Statement of compliance

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

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

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

1.3. 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.

1.4. 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.

1.5. 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.

1.6. New standards, interpretations and amendments effective as of 1 January 2019

These standards and interpretations include:

The following new standards, amendments and interpretations to IFRSs developed and published by the International Accounting Standards Board (IASB) and adopted by the EU have become effective for the current accounting period:

- IFRS 9 Financial Instruments (amended) – Prepayment Features with Negative Compensation, effective from 1 January 2019, adopted by the EU;
- IFRS 16 Lease, effective from 1 January 2019, adopted by the EU;
- IFRS 4 Insurance Contracts (amended) - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts, effective from 1 January 2018, adopted by the EU (optional);
- IFRIC 23 Uncertainty over Income Tax Treatnents, effective from 1 January 2019, adopted by the EU;
- IAS 28 Investments in Associates and Joint Ventures (amended) - Long-term Interests in Associates and Joint Ventures effective from 1 January 2019, adopted by the EU;
- IAS 19 Employee Benefits (amended) – Plan Amendment, Curtailment or Settlement, effective from 1 January 2019, adopted by the EU;
- Annual Improvements of IFRS 2015-2017, effective from 1 January 2019, adopted by the EU.

Standards, interpretations and amendments to standards issued by IASB and adopted by the EU, but not yet entered into force

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Materiality, effective from 1 January 2019;
- Changes to the references to the IFRS Conceptual Framework effective from 1 January 2019;

Documents issued by IASB/IFRIC, not yet approved for application by the EU

The following new or revised standards, new clarifications and amendments to existing standards, which as at the reporting date have already been issued by IASB, but have not yet been approved for application by the EU and have therefore not been taken into consideration by the Bank in the process of preparation of the financial statements.

- IFRS 17 Insurance Contracts, effective from 1 January 2021;
- IFRS 3 Business Combinations, effective from 1 January 2020;
- Amendments in IFRS 9 Financial Instruments - IAS 39 Financial Instruments: Recognition and Measurement and IFRS 17 Insurance Contracts in connection with the reform of interest rate benchmarks, effective from 1 January 2020;

1.7. Effect of the application of IFRS 16 Lease

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

The only exceptions are short-term and low-value leases

Investbank JSC has applied the standard since the date of its mandatory adoption on1 January 2019. The Bank applies the simplified transitional approach and does not recalculate the comparative amounts for the year before the first adoption.

The Bank does not report low-value asset leasing contracts under IFRS 16.

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

The effects for the implementation of the standard are presented as follows:

Assets with right of use	**01/01/2019**
	BGN '000
Assets with right of use recognized as:	
– Property, plant and equipment	0
– TFA, item Assets with Right of Use	11,153
	11,153

Payables under lease contracts	**01/01/2019**
Age analysis of liabilities under lease contracts	**31/12/2019**
– Up to 1 year	2,343
– 1 to 5 years	6,424
– Over 5 years	0
Total amount of undiscounted liabilities under lease contracts	**8,767**
Discount at 3.9%	634
Total amount of the present value of the liabilities under lease contracts	**9,401**
Current portion	2,619
Non-current portion	6,782
Total amount of the present value of the liabilities under lease contracts	**9,401**

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 operations

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

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

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

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

2.3. Fee and commission revenues and expenses

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

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

Fee and commission revenues and expenses on financial services of the Bank are recognized through profit or loss 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 ('defaulted' exposures). Impairments are calculated on the basis of the expected credit losses over the entire remaining life of the instrument on an individual basis. In this phase, assets with objective evidence of credit impairment are classified and credit losses are expected for each asset. There is an overdue interest and/or principal over 90 days and/or enforcement actions are being taken to collect the amounts due. The exposures are non-performing and the Bank considers that it is unlikely that the debtor will fully repay its obligations without taking steps to enforced collateral.

2.4.3. Estimation of expected credit losses

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

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

2.4.4. Write-off of financial instruments

Write-off of financial assets

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

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

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

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

Write-off of financial liabilities

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

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

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

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

2.5. Cash and Cash Equivalents

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

2.6. Financial lease receivables

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

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

2.7. Securities borrowing and lending agreements, repurchase transactions

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

Repurchase agreements

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

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

2.8. Borrowed funds

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

2.9. Investment property

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

2.10. Property, plant and equipment

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

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

Assets	%
▪ Buildings	4
▪ Plant and equipment	30
▪ Computer, related peripheral equipment and mobiles	15
▪ Fixtures and fittings	15
▪ Means of transport	25

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

2.11. Intangible assets

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

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

2.12. Assets acquired from loan collateral

The classification of loan collateral assets acquired by the Bank is based on the intentions of the Bank's management for the future benefits of the asset. The decision on classification/reclassification of assets acquired from loan collateral is made by the Bank's Management.
Depending on their purpose, the assets acquired as loan collateral are classified as follows:

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

Non-current assets held for sale are measured at the lower of the carrying amount and the fair value less the selling costs.
Assets classified as non-current assets held for sale are not subject to depreciation.

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

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

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

2.13. Taxation

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

Deferred tax assets

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

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

The carrying amount of the deferred tax assets is reviewed at each subsequent reporting / balance sheet date and should be reduced to the extent that it is no longer 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 2019, the Bank uses the tax rate applicable for year 2019- 10% (year 2018 - 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.

2.15. Measurement of assets and liabilities in a business combination

All acquired identifiable assets and liabilities and contingent liabilities in the business combination performed in 2018 are initially measured at their fair value as at the date of the exchange. Any excess of the cost of the subsidiary's acquisition over the acquirer's share in the fair value of the net identifiable assets, liabilities and contingent liabilities acquired is treated and recognized as goodwill. In 2018, a negative goodwill was reported as a result of the business combination with Commercial Bank Victoria.

3. DISCLOSURE OF RISK MANAGEMENT POLICY

Introduction and overview

Risk management is based on a Risk Management Strategy that defines the Bank's target risk profile and risk appetite, i.e. the overall level of risk that the Bank is able to absorb within its risk-bearing capacity. The purpose is to limit the risk taken so that both the short-term and the long-term future of the Bank are not jeopardized. This is achieved by maintaining sustainable levels of risk coverage from a regulatory and economic point if 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 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 Management Policy

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

- risk identification (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 for managing the risks borne by the Bank

- implementation of clearly defined rules and decision-making processes in risk-taking and strict application of the "four eyes" principle;
- risk management is completely independent of the Bank's business activities, both functionally and organizationally;
- the basis of credit risk management is the analysis of the customer' risk profile, which enables the Bank to pre-select its customers;
- limiting the possibility of large, unexpected, unpredictable losses, as well as the concentration of the risk borne by the Bank through the use of certain risk tolerance values (limits);
- periodic review of the principles and processes in place at the Bank for their application in order to adapt to the ever-changing market and competitive environment.
- limiting the possibility of large, unexpected, unpredictable losses, as well as the concentration of the risk borne by the Bank, application of clearly defined risk tolerance values (limits);
- periodic review of the principles and processes in place at the Bank for their application in order to adapt to the ever-changing market and competitive environment.

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

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

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

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

Risk organization and management

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 **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.

(a) *Credit risk*

The nature of credit risk - it is the potential risk for revenue and capital arising from the inability of the counterparty to a financial transaction to implement its contractual obligations in due time and in full volume. The significant risk 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 this date for reasons other than bankruptcy;
- ✓ Risk of collateral – results from the type of the collateral received, the degree of liquidity, the volatility of its value, and the control exercised over it.

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

The table below summarizes the maximum Bank's 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 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Carrying amount	716,678	763,547	221,552	492,046	340,061	280,443	46,621	28,637
Contingent liabilities	98,374	111,109	-	-	-	-	-	-
Total:	815,052	874,656	221,552	492,046	340,061	280,443	46,621	28,637

Credit risk is the main risk to which the Bank is exposed and covers 90.8% of the total amount of risk exposures (TRE) as of 31 December 2019. 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 Product Development 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

In BGN '000	Amount before impairment		Impairment		Carrying amount	
	2019	2018	2019	2018	2019	2018
Individually impaired						
Phase 3	234,121	260,469	62,132	84,396	171,989	176,073
Total individually impaired	234,121	260,469	62,132	84,396	171,989	176,073
Collectively impaired						
Phase 1	158,204	182,651	763	851	157,441	181,800
Phase 2	8,540	40,264	131	1,364	8,409	38,900
Total collectively impaired	**166,744**	**222,915**	**894**	**2,215**	**165,850**	**220,700**
Overdue, but not impaired						
Phase 1	326,543	22,101	-	-	326,543	22,101
Phase 2	31,112	8,922	-	-	31,112	8,922

Total overdue, unimpaired	**375,655**	**31,023**	-	-	**357,655**	**31,023**
Individually unimpaired						
Phase 1	11,832	329,431	-	-	11,832	329,431
Phase 2	9,352	5,526	-	-	9,352	5,526
Total individually unimpaired	**21,184**	**334,957**	-	-	**21,184**	**334,957**
Total	**779,704**	**849,364**	**63,026**	**86,611**	**716,678**	**762,753**

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

Types of collateral on loans

Type of collateral	**Classified exposures**		**Regular and unimpaired**	
	2019	**2018**	**2019**	**2018**
Mortgage	119,662	146,180	148,221	197,598
Cash deposits and government securities	30,003	4,151	301,101	215,560
Other collateral*	85,654	120,263	73,007	144,159
Unsecured	21,443	21,610	2,071	642
Total	**256,762**	**292,204**	**524,400**	**557,959**

*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:

	2019	**2018**
Individually impaired		
Qualifying collateral	236,398	189.817
Other collateral	1,006,329	1,351,962
Collectively impaired		
Qualifying collateral	80,175	106,495
Other collateral	934,211	1,161,855
Overdue, but not impaired		
Qualifying collateral	44,849	62,947

Other collateral	91,447	109,302
Not impaired individually /Regular/		
Qualifying collateral	719,854	649,793
Other collateral	2,085,655	1,014,557

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	In BGN '000	In BGN '000
Loan to value (LTV) based on the market value		
LTV ≤ 50 %	32,416	22,228
50 % < LTV ≤ 70 %	54,192	31,123
70 % < LTV ≤ 90 %	58,029	32,564
90 % < LTV ≤ 100 %	2,655	3,089
100 % > LTV	40,593	14,760
Total	**187,885**	**103,764**

The table below shows the concentration of risk exposure by economic sectors:

Industry	*Total exposure 2019*	*Relative share 2019*	*Total exposure 2018*	*Relative share 2018*
Administrative and support activities	2,978	0.47%	1,148	0.14%
Extractive industry	1,188	0.19%	18,830	2.36%
Water supply; sewerage, waste management and remediation activities	17,722	2.79%	24,731	3.11%
Other activities	1,049	0.17%	2,451	0.31%
General government	6,214	0.98%	5,996	0.75%
Culture, sport and entertainment	2,483	0.39%	3,554	0.45%
Education	240	0.04%	260	0.03%
Real estate operations	73,335	11.54%	84,750	10.64%
Manufacturing	70,472	11.09%	99,027	12.44%
Electricity, gas, steam and air conditioning supply	51,772	8.15%	69,198	8.69%
Professional, scientific and technical activities	3,668	0.58%	6,792	0.85%
Agriculture, forestry and fishing	91,180	14.35%	70,689	8.88%
Construction	81,105	12.77%	124,933	15.69%
Creation and distribution of information and creative products; telecommunications	876	0.14%	2,501	0.31%
Transport; warehousing and postal services	9,793	1.54%	61,790	7.76%
Trade; repair of cars and motorcycles	129,746	20.42%	153,319	19.25%

Financial and insurance activities	42,134	6.63%	38,309	4.81%
Hotel and restaurant management	46,131	7.26%	25,400	3.19%
Health and social work	3,185	0.50%	2,583	0.32%
Total amount	**635,271**	**100.00%**	**796,261**	**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.

The table below shows the carrying amount of the government securities portfolio by country as at 31 December 2019 and 31 December 2018. Assets are presented without any possible impairment.

In BGN '000	Bulgaria	Germany	Spain	Italy	Luxembourg	Romania	USA	France
31 Dec 2019								
Trading portfolio*	1,948	-	-	-	-	10,000	-	-
Investment portfolio								
-at fair value	223,194	19,469	63,107	96,677	10,962	-	31,619	60,312
Total	**225,142**	**19,469**	**63,107**	**96,677**	**10,962**	**10,000**	**31,619**	**60,312**

In BGN '000	Bulgaria	Germany	Spain	Italy	Luxembourg	Romania	USA	France
31 Dec 2018								
Trading portfolio*	3,665		-	-	-	10,000	-	-
Investment portfolio								
-at fair value	187,049	19,669	59,038	94,573	1,098	1,912	29,726	
Total	**190,714**	**19,669**	**59,038**	**94,573**	**1,098**	**1,912**	**29,726**	-

* With the introduction of IFRS 9 from 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	**2019**	**2018**
Government securities BBB-	11,948	3,665
Total	11,948	3,665

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 of 31 December 2019 (by residual maturity): *In BGN '000*	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Maturity not defined**	**Total**
Financial assets carried at fair value through profit or loss							
Government securities							
Bulgaria	-	-	-	1,948			
Romania	-	-	-	10,000			
Total	-	-	-	11,948			
Financial assets carried at fair value through other comprehensive income							
Government securities							
Bulgaria	-	5,211	9,044	156,068	35,832	-	206,155
Spain	-	-	-	-	63,107	-	63,107
Italy	-	-	-	29,583	-	-	29,583
Romania	-	-	-		-	-	-
France	-	-	-	7,001	-	-	7,001
USA	-	-	-	-	-	-	-
Corporate equity instruments	-	-	-	-	-	-	-
Bulgaria	-	-	-	-	-	6,932	6,932
USA	-	-	-	-	-	4,223	4,223
Luxembourg	-	-	-	-	-	10,962	10,962
Corporate debt instruments							
Bulgaria	-	-	-	-	150	-	150
Total	-	5,211	9,044	192,652	99,089	22,117	328,113
Total financial assets	-	5,211	9,044	204,600	99,089	22,117	340,061

Maturity structure of investments by country of the issuer as of 31 December 2018 (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**	**Maturity not defined**	**Total**
Financial assets carried at fair value through profit or loss							
Government securities							
Bulgaria	1,710			1,955			3,665
Total	1,710	0	0	1,955	0	0	3,665
Financial assets carried at fair value through other comprehensive income							
Government securities							
Bulgaria	15,360			85,070	68,314		168,744
Spain					59,939		59,939
Italy					27,580		27,580
Romania					1,912		1,912
France				6,935			6,935
Corporate equity instruments							0
Bulgaria						8,051	8,051
USA						3,138	3,138
Luxembourg						1,098	1,098
Corporate debt instruments							0
Bulgaria				281			281
Total	15,360	0	0	92,286	157,745	12,287	277,678
Total financial assets	17,070	0	0	94,241	157,745	12,287	281,343

Credit risk mitigation tools

The Credit Risk Management Policy of Investbank 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

31/12/2019	**Increases due to occurrence and acquisition**	**Changes due to change in credit risk (net)**	**Total for the current year**
Impairment of financial assets	-	(63,302)	(63,302)
Debt securities		(275)	(275)
Loans and advances		(63,027)	(63,027)
Provisions	-	215	215
Commitments and guarantees		215	215
Impairment of non-financial assets	-	686	686
Other		686	686

Movement of adjustments and provisions for credit losses

31/12/2019	**Opening Balance 01/01/2019**	**Decrease of the adjustments due to write-off**	**Increases due to occurrence and acquisition**	**Changes due to change in credit risk (net)**	**Balance at the end of the period**
Impairment of financial assets					
Debt securities	(257)	-	-	(18)	(275)
Loans and advances	(86,618)	54,336		(30,745)	(63,027)
Provisions					
Commitments and guarantees	74	-		141	215

	31/12/2019 Maximum credit exposure	31/12/2018 Maximum credit exposure
Equity instruments	22,117	12,287
Debt instruments	495,171	444,792
Loans and advances	716,678	762,753
Unutilized credit commitments		
Total	**1,233,966**	**1,219,832**

Security held

	31/12/2019 / 31/12/2018	
	Fair value of the security held	Fair value of the security held
Financial assets	4,561,809	4,533,226
Loans and advances	4,561,809	4,533,226

Security obtained for possession during the period

	31/12/2019	31/12/2018
Non-current assets held for sale	14,144	8,842
Total	**14,144**	**8,842**

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.

These scenarios include 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 575 (LCR & NSFR).

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

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

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

- 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.

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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 2019

In BGN '000	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Assets							
Cash, balances with central banks and other	259,863	-					
deposits on demand			-	-	-	-	259,863
Receivables from banks	-						
Financial assets carried at fair value through profit			-	-	-	4,088	4,088
or loss	-	-	-	11,948	-		
Loans and advances to customers	21,767	5,635	179,629	135,506	374,141	-	11,948
Net investment in finance lease	-	-	-	1,457	-	-	716,678
Financial assets carried at fair value through other						-	1,457
comprehensive income	-	5,211	9,044	192,652	99,089	22,117	
Debt securities measured at amortised cost	-	-	-	86,563	90,664	-	328,113
Property, plant, equipment and investment							177,227
property	-	-					
Intangible assets	-	-	-	-	-	145,670	145,670
Non-current assets held for sale	-	-	-	-	-	3,423	3,423
Other assets	-	-	-	-	-	14,249	14,249
Total assets		-	-	-	-	235,759	235,759
	281,630	**10,846**	**188,673**	**428,126**	**563,894**	**425,306**	**189 8475**

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

3. DISCLOSURE OF RISK MANAGEMENT POLICY, CONTINUED

(b) Liquidity risk, continued

31 December 2018

In BGN '000	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 year to 5 years**	**Over 5 years**	**Without defined maturity**	**Total**
Assets							
Cash, balances with central banks and other deposits on demand	531,753	-	-	-	-	-	531,753
Receivables from banks	-	-	-	-	-	3,321	3,321
Financial assets held for trading	1,710	-	-	1,955	-	-	3,665
Loans and advances to customers	6,474	37,591	156,082	173,654	388,952	-	762,753
Net investment in finance lease	-	-	-	794	-	-	794
Financial assets carried at fair value through other comprehensive income	15,359	-	-	92,287	156,844	12,288	276,778
Debt securities carried at amortised cost	-	-	-	66,993	109,643	-	176,636
Property, plant, equipment and investment property	-	-	-	-	-	94,909	94,909
Intangible assets	-	-	-	-	-	3,794	3,794
Non-current assets held for sale	-	-	-	-	-	8,842	8,842
Other assets	-	-	-	-	-	258,794	258,794
Total assets	**555,296**	**37,591**	**156,082**	**335,683**	**655,439**	**381,948**	**212 2039**
Liabilities							
Deposits from credit institutions	6	-	-	-	-	-	6
Deposits from customers	1,065,835	181,563	508,329	127,000	67	-	1,882,794
Bond loans	205	30	-	-	-	39,205	39,440
Hybrid debt-equity instrument	41	-	-	9,779	-	-	9,820
Other liabilities	5,713	-	-	-	-	-	5,713

Total liabilities	1,071,800	181,593	508,329	136,779	67	39,205	1,937 773
Difference in maturity of assets and liabilities	(516,504)	(144,002)	(352,247)	198,904	655,372	342,743	184,266
Cumulative difference	(516,504)	(660,506)	(1,012,753)	(813,849)	(158,477)	184,266	
Off-balance sheet commitments	(103,005)	(12,198)	(40,192)	(50,002)	(20,072)		
Cumulative difference including off-balance sheet commitments	(619,509)	(672,704)	(1,052,945)	(863,851)	(178,549)		

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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.

As at 31 December 2019 and 31 December 2018 both interest-bearing assets and liabilities are predominantly with fixed interest rates and have similar maturities and repricing dates.

The weighted average interest rate on assets as of 31 December 2014 is 1.71 % (year 2018: 2.13%), while on liabilities it is 0.45% (year 2018: 0.72%).

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 2019 *In BGN '000*				Fixed interest rate instruments				
	Total	**Non-interest bearing instruments**	**Floating rate instruments**	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Assets								
Cash, balances with central banks and other deposits on demand	259,863	233,767	-	26,096	-	-	-	-
Receivables from banks	4,088	4,088	-	-	-	-	-	-
Financial assets carried at fair value in profit or loss	11,948	-	-	-	-	-	11,948	-
Loans and advances to customers	716,678	20,581	522,886	12,583	275	32,902	30,517	96,934
Net investment in finance lease	1,457	-	-	-	-	-	1457	-
Financial assets carried at fair value through other comprehensive income	328,113	22,117	-	-	5,211	9,044	192,652	99,089
Debt securities carried at amortised cost	177,227	-	-	-	-	-	86,563	90,664
Property, plant, equipment and investment property	145,670	145,670	-	-	-	-	-	-
Intangible assets	3,423	3,423	-	-	-	-	-	-

Non-current assets held for sale	14,249	14,249	-	-	-	-	-	-
Other assets	235,759	235,759	-	-	-	-	-	-
Total assets	189 8475	679,654	522,886	38,679	5,486	41,946	323,137	286,687
Liabilities								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Deposits from customers	1,655,779	647,669	-	255,767	171966	477,848	102,346	183
Other financial liabilities, including:	9,170	-	-	-	2	216	6,468	2,484
Payables on financial lease contracts	403	-	-	-	-	80	262	61
Payables on operating lease contracts under IFRS 16	8,767	-	-	-	2	136	6,206	2,423
Bond loans	39,416	-	-	181	30	-	-	39,205
Hybrid debt-equity instrument	-	-	-	-	-	-	-	-
Other liabilities	6,016	6,016	-	-	-	-	-	-
Total liabilities	1,710 381	653,685	-	255,948	171,996	478,064	108,814	41,872
Cumulative interest gap	188,094	26,969	522,886	(217,269)	(166,512)	(436,118)	214,323	244,815

31 December 2018
In BGN '000

				Fixed interest rate instruments				
	Total	**Non-interest bearing instruments**	**Floating rate instruments**	**Up to 1 month**	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**
Assets								
Cash, balances with central banks and other deposits on demand	531,753	505,657	-	26,096	-	-	-	-
Receivables from banks	3,321	3,321	-	-	-	-	-	-
Financial assets carried at fair value through profit or loss	3,665	-	-	1,710	-	-	1,955	-
Loans and advances to customers	762,753	30,830	492,798	548	8,994	41,532	58,464	129,587
Net investment in finance lease	794	-	81	-	-	-	713	-
Financial assets carried at fair value through other comprehensive income	276,778	12,288	-	15,359	-	-	92,287	156,844
Debt securities carried at amortised cost	176,636	-	-	-	-	-	66,993	109,643
Property, plant, equipment and investment property	94,909	94,909	-	-	-	-	-	-

Intangible assets	3,794	3,794	-	-	-	-	-	-
Non-current assets held for sale	8,842	8,842	-	-	-	-	-	-
Other assets	258,794	258,794	-	-	-	-	-	-
Total assets	**2,122,039**	**918,435**	**492,879**	**43,713**	**8,994**	**41,532**	**220,412**	**396,074**
Liabilities								
Deposits from credit institutions	6	-	-	6	-	-	-	-
Deposits from customers	1,886,794	726,036	-	339,799	185,563	508,329	127,000	67
Bond loans	39,440	-	-	205	30	-	-	39,205
Hybrid debt-equity instrument	9,820	-	-	41	-	-	9,779	-
Other liabilities	5713	5,713	-	-	-	-	-	-
Total liabilities	1,941,773	731,749	-	340,051	185,593	508,329	136,779	39,272
Cumulative interest gap	180,266	186,686	492,879	(96,338)	(176,599)	(466,797)	83,633	356,802

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 2019 represents 2.28% 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 5.0 million, and in case of decrease in the current interest rates of the Bank by -200 bps in the amount of + BGN 5.0 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 2019, the Bank's fair value portfolio through the profit or loss (trading portfolio) includes government guaranteed Bulgarian and Romanian securities. The carrying amount of the fair value portfolio through profit or loss amounts to BGN 11.8 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:

	Weight pursuant to Regulation 575	Amount in BGN '000	Relative share	Weighted amount in BGN '000
debt	0%	299,430.48	57.88%	-
debt	20%	185,634.84	35.89%	37,126.97
debt	50%	-	-	-
debt	100%	-	-	-
corporation	100%	10,106.16	1.95%	10,106.16
Shares	100%	22,116.55	4.28%	22,116.55
TOTAL for counterparty's risk		**517,288**		**69,350**

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 2019
In BGN '000

	BGN	EUR	Other currency	Total
Assets				
Cash, balances with central banks and other deposits on demand	19,219	34,905	205,739	259,863
Receivables from banks	67	3,411	610	4,088
Financial assets held for trading	1,508	10,440	-	11,948
Loans and advances to customers	316,553	399,585	540	716,678
Net investment in finance lease	-	1,457	-	1,457

Financial assets carried at fair value through other comprehensive income	38,044	285,847	4,222	328,113
Debt securities carried at amortised cost	9,956	139,874	27,397	177,227
Property, plant, equipment and investment property	145,670	-	-	145,670
Intangible assets	3,423	-	-	3,423
Non-current assets held for sale	14,249	-	-	14,249
Other assets	235,502	257	-	235,759
Total assets	784,191	875,776	238,508	1,898,475
Liabilities				
Deposits from credit institutions	-	-	-	-
Deposits from customers	1,015,135	573,136	67,508	1,655,779
Other financial liabilities, including:	2,009	7,161	-	9,170
Payables on financial lease contracts	-	403	-	403
Payables on operating lease contracts under IFRS 16	2,009	6,758	-	8,767
Bond loans	39,416	-	-	39,416
Hybrid debt instrument	-	-	-	-
Other liabilities	5,659	299	58	6,016
Total liabilities	1,062,219	580,596	67,566	1,710,381
Net position	(278,028)	295,180	170,942	188,094

31 December 2018
In BGN '000

	BGN	**EUR**	**Other currency**	**Total**
Assets				
Cash, balances with central banks and other deposits on demand	405,092	42,576	84,085	531,753
Receivables from banks	497	2,229	595	3,321
Financial assets held for trading	3,221	444	-	3,665
Loans and advances to customers	292,008	448,497	22,248	762,753
Net investment in finance lease	81	713	-	794
Financial assets carried at fair value through other comprehensive income	40,386	233,254	3,138	276,778
Debt securities carried at amortised cost	9,974	140,074	26,588	176,636
Property, plant, equipment and investment property	94,909	-	-	94,909
Intangible assets	3,794	-	-	3,794
Non-current assets held for sale	8,842	-	-	8,842
Other assets	258,223	571	-	258,794
Total assets	1,117 027	868,358	136,654	2,122 039
Liabilities				
Deposits from credit institutions	-	6	-	6

Deposits from customers	1,129,701	662,799	94,294	1,886,794
Bond loans	39,440	-	-	39,440
Hybrid debt instrument	-	9,820	-	9,820
Other liabilities	5,544	144	25	5,713
Total liabilities	1,174,685	672,769	94,319	1,941,773
Net position	(57,658)	195,589	42,335	180,266

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

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

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

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

Equity indicators

Equity (capital base) *In BGN '000*	**2019**	**2018**
Common Equity Tier I capital	**218,615**	**217,381**
Repaid equity instruments	170,877	171,107
Reserves	85,768	63,090
Deductions from Common equity Tier I Capital:		
Intangible assets	3,423	3,794
Accumulated other comprehensive income	34,607	13,022
	2018 615	**217,381**
Tier II capital		
Subordinated debt	-	1,704
Accumulated other comprehensive income	-	-
Deductions from Tier II capital:		

Equity	**218,615**	**219,085**

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 estimates also include the results of the Comprehensive Review carried out by the European Central Bank in the period November 2018 - July 2019, including Asset Quality Review (AQR) and stress tests. The successful implementation of the Capital Plan presented at BNB with the capital measures included therein will substantially improve the common equity capital ratios, and the improved capital adequacy will increase the confidence of the depositors, investors and counterparties in the institution and enable the business objectives to be met. On this basis, the Bank expects that at the end of 2020 its capital adequacy ratio will exceed 20.7%.

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

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

Capital ratios

	31 December 2019	**31 December 2018**
Total capital adequacy ratio	19.36%	18.66%
Common Equity Tier 1 capital ratio	15.89%	15.18%

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

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

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

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

The Bank's risk profile as of 31 December 2019 is consistent with the moderately conservative policy for risk-taking adopted by Management. Credit risk accounted for the largest relative share of the risk matrix as at the reporting date (90.7% of RPE), followed by operational risk (9.3% of TRE).

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

Total risk-weighted exposures, including:	**1,129,209**	**100.00%**
Credit risk, counterparty credit risk	1,025 59	90.82%
Position, currency and commodity risks	-	-
Operational risk	103,700	9.18%

As at 31 December 2019, 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:	1,129 209	90,337	28,230	32,965	5,533	157,065
Credit risk, counterparty credit risk	1,025 509	82,041	25,638	29,854	5,025	142,558
Position, currency and commodity risks	-	-	-	-	-	-
Operational risk	103,700	8,296	2,593	3,111	508	14,508

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

Fair value hierarchy

As at 31 December 2019	Carrying amount					Fair value				Cumulative change in fair value before taxes			
In BGN '000	**Loans and Receivables**	**Held for trading**	**Available for sale**	**Other**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value													
Financial assets carried at fair value through other comprehensive income			328,113		328,113	315,135		12,978	328,113				
Financial assets carried at fair value through profit or loss		11,948			11,948	11,948			11,948				
Debt securities carried at amortised cost		177,227			177,227	167,271		9,956	177,227				
	0	189,175	328,113	0	517,288	494,354	0	22,934	517,288	0	0	0	
Financial assets not measured at fair value													
Cash on hand and in deposits with the Central Bank	259,863				259,863	259,863			259,863				
Receivables from banks	4,088				4,088	4,088			4,088				
Loans and advances to customers	716,678				716,678			748,285	748,285				
	980,629	0	0	0	980,629	263,951		748,285	1,012 236				

Financial liabilities not measured at fair value									
Deposits from credit institutions					0				0
Deposits from customers				1,704 365	1,704,365		1,761,099	129,898	1,890,996
Hybrid debt-equity instrument					0				0
	0	0	0	1,704,365	1,704,365	0	1,761 099	129,898	1,890 996

As at 31 December 2018	**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	0	0	276,778	0	276,778	273,525	0	3,253	276,778				
Financial assets carried at fair value through profit or loss	0	3,665	0	0	3,665	3,665	0	0	3,665				

Debt securities carried at amortised cost	0	176,636	0	0	176,636	166,662	0	9,974	176,636			
	0	180,301	276,778	0	457,079	443,852	0	13,227	457,079	0	0	0
Financial assets not measured at fair value												
Cash on hand and in deposits with the Central Bank	531,753	0	0	0	531,753	531,753	0	0	531,753			
Receivables from banks	3,321	0	0	0	3,321	3,321	0	0	3,321			
Loans and advances to customers	762,753	0	0	0	762,753	0	0	780,536	780,536			
	1,297 827	0	0	0	1,297 827	535,074	0	780,536	1,315 610			
Financial liabilities not measured at fair value, measured at amortized cost												
Deposits from credit institutions	0	0	0	6	6	0	0	6	6			
Deposits from customers	0	0	0	1,886 794	1,886 794	0	1,761 099	129,898	1,890 997			
Hybrid debt-equity instrument	0	0	0	9,820	9,820	0	0	9,819	9,819			
	0	0	0	1,896 620	1,896 620	0	1,761 099	139,723	1,900 822			

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

6. NET INTEREST REVENUES

In BGN '000	**31/12/2019**	**31/12/2018**
Interest revenues		
Deposits provided to credit institutions	715	482
Loans and advances from customers, including	30,768	35,544
Loans and advances from credit institutions	-	1,585
Loans and advances from non-banking financial institutions	201	423
Loan and advances from budget spending units	241	25,636
Loans and advances from undertakings	22,933	7,900
Loans and advances from individuals and households	7,393	2,243
Net investment in finance lease	50	3,484
Financial assets carried at fair value through other comprehensive income	1,511	284
Financial assets carried at fair value through profit or loss	39	1,439
Debt securities carried at amortised cost, including	1,365	1,085
General government	1,065	354
Non-financial corporations	300	482
Total	**34,448**	**43,476**

In BGN '000	**31/12/2019**	**31/12/2018**
Interest expenses		
Deposits	**(6,341)**	**(10,174)**
Deposits from credit institutions		
Deposits from customers	(6,341)	(10,174)
Loans and advances	**(469)**	**(81)**
Central banks	(469)	(81)
Credit institutions		
Debt - equity (hybrid) instruments	**(817)**	**(1,563)**
Bond loans	**(278)**	**(1,558)**
Other liabilities	**(397)**	**(19)**
Total	**(8,302)**	**(13,395)**

Net interest revenues	**26,146**	**30,081**

Interest revenues as at 31 December 2019 account for a decrease of BGN 9,028 thousand compared to the previous year. The decrease in interest revenues on loans compared to the same period of the previous year is compounded, taking into account a decrease of BGN 6,969 thousand due to: lower average portfolio volume - the factor affects by BGN 996 thousand and a lower average interest rate on the portfolio (4.51% as at 31 December 2018 and 3.78% for 2019, respectively), with the effect of the difference in interest rates being BGN 5,974 thousand.

7. NET FEE AND COMMISSION REVENUES

In BGN '000	**31/12/2019**	**31/12/2018**
Fee and commission revenues		
Revenues on securities	2,718	106
Revenues on performing credit commitments	5,441	5,820
Revenues on fees for off-balance sheet commitments	910	1,649
Fees related to payment services	21,939	20,359
Other fees and commissions	158	209
Total	**31,166**	**28,143**
Fee and commission expenses		
Clearing and settlement fees	(2,532)	(2,234)
Other fees and commissions	(704)	(1,025)
Total	**(3,236)**	**(3,259)**
Net fee and commission revenues	**27,930**	**24,884**

In 2019 the Bank's net fee and commission revenues amount to BGN 27,930 thousand compared to BGN 24,884 thousand at the end of 2018.

8. NET REVENUES ON TRADING OPERATIONS

In BGN '000	**31/12/2019**	**31/12/2018**
Net gains or losses on operations in financial assets and liabilities carried at fair value through profit or loss	(23)	167
Revenues on changes in the fair value of financial assets carried at fair value through profit or loss	(13)	(346)
Net income on foreign currency operations	1,986	3,259
Net revenues on trading operations	**1,950**	**3,080**

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

	31/12/2019	**31/12/2018**
Net gain on operations in financial assets	(416)	1,109
Net change in the fair value of the financial assets	2,642	1,335
Total net result	**2,226**	**2,444**

10. OTHER REVENUES ON OPERATIONS

In BGN '000

Other operating revenues	**31/12/2019**	**31/12/2018**
Negative goodwill		22,577
Revenues on dividends, including:	98	125
Available-for-sale financial assets	98	125
Gain on other non-financial services provided	6	7
Revenues on sale of fixed assets	(271)	2
Revenues on sale of non-current held-for-sale assets, including collateral	826	2,603
Revenues on rentals of investment properties	1,064	1,001
Other revenues	1,199	2,067
Total other revenues on operations	**2,922**	**28,382**

At the end of 2019, the amount of other net revenues comes to BGN 2,922 thousand, compared to BGN 28,382 thousand in 2018. The high value of the decrease is mainly due to the reported revenue on the purchase of CB Victoria EAD in 2018.

11. ADMINISTRATIVE EXPENSES

In BGN '000

	2019	**2018**
Expenses on staff, including:	(15,166)	(15,359)
Remuneration and salaries	(12,802)	(13,124)
Social security contributions	(2,364)	(2,235)
Depreciation expenses	(4,914)	(2,157)
Expenses on Bulgarian Deposit Insurance Fund and BRF	(7,130)	(6,777)
Expenses on taxes and fees	(3,565)	(3,421)
Expenses on rental of offices and other assets	(505)	(3,347)
Expenses on security guards	(1,413)	(1,100)
Expenses on communications	(1,135)	(1,174)
Other administrative expenses	(7,141)	(5,924)
Total administrative expenses	**(40,969)**	**(39,259)**

As at 31 December 2019, the total amount of the administrative expenses comes to BGN 40,969 thousand. As of 2019, the Bank has adopted IFRS 16, whereby a portion of the rental expenses accrued in 2018 under the item Other administrative expenses in 2019 are recognized in depreciation expenses and interest expenses.

Other administrative expenses	**31/12/2019**	**31/12/2018**
Expenses on business trips	(167)	(126)
Expenses on expert assessment	(228)	(107)
Expenses on subscriptions	-	(1)
Expenses on vehicles	(261)	(342)
Expenses on ATM and POS	(185)	(170)
Expenses on considerations of the SB	(376)	(376)
Expenses on fines and penalties	(68)	(6)
Expenses on donations and sponsorship	(19)	(16)
Expenses on vehicle insurance	(105)	(107)
Expenses on insurance of other assets	(465)	(283)
Expenses on building insurance	(124)	(138)
Expenses on cash collections	(302)	(416)
Expenses on consultancy services	(280)	(121)
Expenses on materials	(869)	(994)
Expenses on vehicle rentals	-	(91)
Expenses on training	(20)	(31)
Expenses on auditing	(135)	(311)
Expenses on written-off receivables, shortages and waste	(393)	(118)
Expenses on maintenance of other assets	(104)	(155)
Expenses on maintenance of buildings	(297)	(178)
Expenses on software support	(684)	(573)
Expenses on cleaning	(319)	(324)
Advertising expenses	(849)	(535)
Other expenses	(891)	(405)
Total	**(7,141)**	**(5,924)**

12. LOSS ON IMPAIRMENT OF FINANCIAL ASSETS

in BGN '000	**31/12/2019**	**31/12/2018**
Provisions for impairment loss set aside	(43,659)	(51,124)
Provisions for impairment loss reintegrated	12,267	20,853
Total impairment loss	**(31,392)**	**(30,271)**

Structure of impairment loss	**31/12/2019**	**31/12/2018**
Impairment of loans and debt instruments carried at amortized cost	(30,739)	(25,561)
Impairment of financial guarantees	459	(633)
Provisions for lawsuits	(1,112)	(4,077)
Other		
Total	**(31,392)**	**(30,271)**

At the end of 2019 the Bank reported impairment loss in the amount of BGN 31,392 thousand, of which: impairment of loans and debt instruments carried at amortized cost in the amount of BGN 30,739 thousand, impairment of financial guarantees in the amount of BGN 459 thousand and provisions on lawsuits in the amount of BGN 1,112 thousand.

13. NET RESULT FROM REVALUATION OF INVESTMENT PROPERTY

	31/12/2019	31/12/2018
Net result from revaluation		
Revenues on revaluation	16,523	689
Expenses on revaluation	(1,841)	(23)
Net result from revaluation	**14,682**	**666**

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

	2019	2018
Expenses on current taxes		
Revenue / expense on movement in deferred taxes	(1,468)	(320)
Total tax expense	(1,468)	(320)

The Company has accumulated tax losses in the amount of BGN 33,496 thousand and is entitled to use these amounts to reduce the realized tax profits in the coming years. The reported increase in the accounting financial result for 2019 is fully secured by the accumulated tax losses.

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

In BGN '000	**Carrying amount as of 31.12.2019**	**Carrying amount as of 31.12.2018**
Cash and balances with central banks and other deposits on demand		
Cash on hand	31,368	32,497
Cash in transit	6,943	7,210
Current accounts with banks	12,812	26,078
Bank deposits	28,420	32,306
Cash balances with central banks	180,320	433,662
Total	**259,863**	**531,753**

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

16. RECEIVABLES FROM BANKS

In BGN '000	Carrying amount as of 31.12.2019	Carrying amount as of 31.12.2018
Receivables from local banks	-	377
Receivables from foreign banks	4,088	2,944
Total	**4,088**	**3,321**

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

In BGN '000	Carrying amount as of 31.12.2019	Carrying amount as of 31.12.2018
Government securities, including:	11,948	3,665
Short- and medium-term government securities denominated in BGN	1508	3,221
Short- and medium-term government securities denominated in foreign currency	10,440	444
Total	**11,948**	**3,665**

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of borrower

In BGN '000	Carrying amount as of 31.12.2019	Carrying amount as of 31.12.2018
Credit institutions	16	
Other financial institutions		
- Loans and advances	27,476	23,881
- Assigned claims	196	
Individuals (households)		
- Loans and advances	185,646	158,864
- Assigned claims	55	
Budgetary enterprises	5,587	5,890
Private (non-financial) enterprises		
- Loans and advances	549,917	647,159
- Assigned claims	10,812	13,570
	779,705	849,364

Impairment loss	(63,027)	(86,611)
	716,678	**762,753**

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

In BGN '000	Carrying amount as of 31.12.2019	Carrying amount as of 31.12.2018
Balance as at 1 January	86,611	58,554
Accrued	41,921	103,240
Reintegrated	(11,170)	(18,009)
Written off	(54,335)	(57,174)
Balance as at 31 December	**63,027**	**86,611**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31/12/2019	Carrying amount	Gross carrying amount				Accumulated impairment			Accumulated partial write-offs	Accumulated full write-offs
		Assets without significant increase in credit risk after initial recognition (Phase 1)	of which: instruments with low credit risk	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)	Assets without significant increase in credit risk after initial recognition (Phase 1)	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)		
Loans and advances										
General government	5,524	5,587	5,587	-	-	(63)	-	-	-	
Credit institutions	16	16	16				-		-	
Other financial corporations	18,058	4,821	4,821		22,851		-	(9,614)	-	(36)
Non-financial corporations	516,053	341,970	341,970	45,610	173,150	(353)	(104)	(44,220)	-	(52,629)
Households	177,027	142,728	142,728	3,395	39,577	(348)	(27)	(8,298)	-	(1,670)
Total	**716,678**	**495,122**	**495,122**	**49,005**	**235,578**	**(764)**	**(131)**	**(62,132)**	**-**	**(54,335)**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

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

19. NET INVESTMENT IN FINANCE LEASE

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

In BGN '000	2019	2018
Lease receivables		
Lease receivables from legal entities	1,457	794
Lease receivables	**1,457**	**794**
Non-current lease receivables	-	-
Current lease receivables	1,457	794
	1,457	**794**

	Up to 1 year	1 to 5 years	Over 5 years	Total
	BGN '000	BGN '000	BGN '000	BGN '000
31 December 2019				
Lease proceeds		1,483		1,483
Discounting		26		26
Net present values of investment in finance lease		1,457	-	1,457

Lease proceeds		1,061		1,061
Discounting		267		267
Net present values of investment in finance lease	-	794	-	794

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

in BGN '000	Carrying amount as of 31.12.2019	Carrying amount as of 31.12.2018
Equity instruments	22,117	12,287
Other financial corporations	-	12,287
Non-financial corporations, including:	22,117	8,051
Stocks and shares in local companies	11,155	4,236
Stocks and shares in foreign companies	10,962	264,491
Debt securities	305,996	168,743
General government, including	206,156	32,184
Bulgarian government securities denominated in BGN	89,534	136,559
Bulgarian government securities denominated in foreign currency	116,622	95,748
Government securities of non-financial corporations, including:	99,840	281
Debt instruments - Bulgarian issuers	150	95,467
Debt instruments - foreign issuers, including foreign government bonds	99,690	276,778
Total	328,113	12,287

21. DEBT SECURITIES CARRIED AT AMORTISED COST

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31/12/2019	Carrying amount	Gross carrying amount				Accumulated impairment		
		Assets without significant increase in credit risk after initial recognition (Phase 1)	of which: instruments with low credit risk	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)	Assets without significant increase in credit risk after initial recognition (Phase 1)	Assets with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Assets with credit impairment (Phase 3)
Debt securities								
General government, including	167,271	167,438	167,438	0	0	(167)	0	0
Bulgarian government securities denominated in BGN	0							
Foreign government securities, denominated in EUR and USD	167,271	167,438	167,438			(167)		
Debt instruments - non-financial corporations, including:	9,956	10,064	10,064	0	0	(108)	0	0
Bulgarian issuers	9,956	10,064	10,064			(108)		
Foreign issuers	0							
Total	177,227	177,502	177,502	-	-	(275)	-	-

31/12/2018	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	166,663	166,829	166,829	0	0	(166)	0	0
Bulgarian government securities denominated in BGN	0							
Foreign government securities, denominated in EUR and USD	166,663	166,829	166,829			(166)		
Debt instruments - non-financial corporations, including:	9,973	10,064	10,064	0	0	(91)	0	0
Bulgarian issuers	9,973	10,064	10,064			(91)		
Foreign issuers	0							
Total	176,636	176,893	176,893	-	-	(257)	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	Land and buildings	Equipment	Means of transport	Fixtures and fittings	Other	Assets with right of use	Total carrying amount
Gross carrying amount							
Balance as at 1 January 2018	21,270	10,760	2,349	2,443	2,701	-	39,523
Newly acquired assets		3,346	1,214	308	1,091	-	5,959
Assets written-off		(305)	(109)	(195)	(2,108)	-	(2,717)
Transfers	-	-	-	-	(48)	-	(48)
Balance as at 31 December 2018	21,270	13,801	3,454	2,556	1,636	-	42,717
Balance as at 1 January 2019	21,270	13,801	3,454	2,556	1,827	11,153	54,061
Newly acquired assets	-	1,060	50	30	13	-	1,153
Assets written-off	(5)	(1,248)	-	-	(1,474)	-	(2,727)
Transfers	-	258	-	30	(287)	-	1
Balance as at 31 December 2019	21,265	13,871	3,504	2,616	79	11,153	52,488
Depreciation							
Balance as at 1 January 2018	7,504	8,355	2,310	1,961	640	-	20,770
Assets written-off	-	(298)	(108)	(190)	-	-	(596)
Transfers		3,219	22	299	-	-	
Depreciation	826	639	228	139	-	-	1,832
Balance as at 31 December 2018	8,330	11,915	2,452	2,209	640	-	25,546
Balance as at 1 January 2019	8,330	11,915	2,452	2,209	640	-	25,546
Assets written-off / transfers	(5)	(1,210)			(637)	-	(1,852)
Depreciation	826	602	318	134	-	2,388	4,268
Balance as at 31 December 2019	9,151	11,307	2,770	2,343	3	2,388	27,962
Carrying amount as at 31 December 2018	12,940	1,886	1,002	347	996		17,171
Carrying amount as at 31 December 2019	12,114	2,564	734	273	76	8,765	24,526

The table shows a redistribution for 2019 of the acquisition costs of TFAs, which have a carrying amount as at 31 December 2019 to each represented group of TFAs for more accurate presentation of the data. Comparative information for 2018 is presented by reclassifying comparability data.

22.2. INVESTMENT PROPERTY

	Amount in BGN '000
Gross carrying amount	
Balance as at 1 January 2018	72,432
Newly acquired assets:	
increase	13,085
transfers from inventories (transfers)	(7,892)
Assets written-off	(146)
Remeasurement	666
Balance as at 31 December 2018	**78,145**
Balance as at 1 January 2019	78,145
Newly acquired assets:	
increase	6,658
transfers from inventories (transfers)	23,320
Assets written-off	(1,285)
Remeasurement	14,682
Balance as at 31 December 2019	**121,520**
Depreciation	
Balance as at 1 January 2018	569
Assets written-off	(260)
Transfers	98
Balance as at 31 December 2018	**407**
Balance as at 1 January 2019	407
Assets written-off	(31)
Transfers	0
Balance as at 31 December 2019	**376**
Carrying amount as at 31 December 2018	**77,738**
Carrying amount as at 31 December 2019	**121,144**

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 2018	1,221	1,304	1,348	3,873
Newly acquired assets, purchased	5	4	8	17
Assets written-off	-	-		
Transfers	-	3	(223)	(226)
	405	7,136	-	6,731
Balance as at 31 December 2018	**821**	**8,441**	**1,133**	**10,395**
Balance as at 1 January 2019	**821**	**8,441**	**1,133**	**10,395**
Newly acquired assets, purchased	253	-		253
Balance as at 31 December 2019	**1,074**	**8,441**	**1,133**	10,648
Depreciation				
Balance as at 1 January 2018	657	1,041	582	2,280
Depreciation	22	191	109	322
Assets written-off	-	-	(223)	(223)
Transfers	-	4,222	-	4,222
Balance as at 31 December 2018	**679**	**5,454**	**468**	**6,601**
Balance as at 1 January 2019	**679**	**5,454**	**468**	**6,601**
Depreciation	32	485	107	624
Balance as at 31 December 2019	711	5,939	575	7,225
Carrying amount as at 31 December 2018	142	2,987	665	3,794
Carrying amount as at 31 December 2019	363	2,502	558	3,423

24. ASSETS HELD FOR SALE

In BGN '000

	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Balance as of 1 January	8,842	198,027
Reclassified	0	(196,405)
Acquired	14,145	7,220
Sold	(8,738)	0
Balance as of 31 December	14,249	8,842

	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Non-current assets held for sale		
Property, plant and equipment	14,249	8,842
including Assets acquired as collateral	14,249	8,842
Total	**14,249**	**8,842**

Non-current assets held for sale as at 31 December 2019 amount to BGN 14,249 thousand

25. OTHER ASSETS

	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Other assets		
Estimates with customers	1,247	1,315
Assets acquired from collateral	218,283	242,803
Other estimates with other financial institutions	55	
Materials	1,123	1,185
Deferred expenses	866	257
Tax assets, including:		
current tax assets	3,312	6,000
deferred tax assets	3,013	3,007
Other estimates and receivables	7,860	4,227
Total	235,759	258,794

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 2019 the assets acquired from collateral amount to BGN 218,283 thousand, of which: land in the amount of BGN 82,142 thousand, buildings under construction in the amount of BGN 29,043 thousand, buildings in the amount of BGN 92,908 thousand and other in the amount of BGN 14,190 thousand.

25.1. DEFERRED TAXES

Deferred tax liabilities (assets)	**31 December 2018**	**Effect of changes to the accounting rules**	**1 January 2019**	**Recognised in other comprehensive income**	**Recognised in profit or loss**	**31 December 2019**
			BGN '000	BGN '000	BGN '000	BGN '000
Assets	**3,007**	**0**	**3,007**	**0**	**5**	**3,012**
Unused leaves	22		22			22
Tax losses	2,933		2,933			2,933
Provisions for lawsuits, Art. 38 CITA	19		19		1	18
Other assets	33		33		6	39
Liabilities	**(966)**	**0**	**(966)**	**0**	**(1,474)**	**(2,440)**
Deferred tax from revaluation	(891)		891		(1,474)	(2,365)
Deferred tax liabilities of CB Victoria	(14)		14			14
Temporary difference under Art. 149 CITA	(61)		61			61
Total deferred assets and liabilities (offset)	**2,041**	**0**	**2,041**	**0**	**(1,469)**	**572**
Deferred tax assets	3,007		3,007			3,012
Deferred tax liabilities	(966)		(966)			(2,440)
Recognized as:						
Net deferred tax (assets)	2,041		2,041			572

26. DEPOSITS FROM CREDIT INSTITUTIONS

In BGN '000	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Deposits, including:		
- in local currency		6
Total	0	6

27. DEPOSITS FROM CUSTOMERS. OTHER FINANCIAL LIABILITIES

In BGN '000	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Deposits, including:	1,655,779	1,885,506
Natural persons	1,226,620	1,266,682
Institutions	429,159	619,468
Other financial liabilities, including:	9,170	644
Payables on financial lease contracts	403	644
Payables on operating lease contracts under IFRS 16	8,767	
Total	1,664,949	1,886,150

	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Deposits other than those of credit institutions	429,159	1,886,794
Current accounts / overnight deposits	*379,961*	*732,506*
Deposits with agreed maturity	*48,880*	*1,038,643*
Deposits refundable on notice	*318*	*115,645*
Total	**429,159**	**1,886,794**

Term of deposits	**31/12/2019**	**31/12/2018**
up to 1 month	502,562	473,188
1 to 3 months	163,917	175,584
3 months to 1 year	458,247	491,350
1 year to 5 years	101,734	125,889
over 5 years	160	67
Total	**1226620**	**1266078**

28. BOND LOANS

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

In BGN '000	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Bond loan with issue date 30 April 2013	30,289	30,312
Bond loan with issue date 31 May 2013	9,128	9,128
Total	**39,416**	**39,440**

Structure of bond loans

Issue date	Currency	Interest rate	Nominal value in BGN	Accrued interest	Depreciation fee	Total
30/4/2013	BGN	4%	30,110,000	180,660	(2,000)	30,288,660
31/5/2013	BGN	4%	9,100,000	30,333	(2,501)	9,127,832
total			**39,210,000**	**210,993**	**(4,501)**	**39,416,492**

29. HYBRID DEBT-EQUITY INSTRUMENT

In BGN '000	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Additional capital reserves		9,779
Mandatory accrued interest		41
Total	-	**9,820**

30. OTHER LIABILITIES

In BGN '000	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Other liabilities		
Estimates with customers	2,001	2,271
Provisions	902	1,320
Staff-related payables	94	221
Estimates for taxes (tax liabilities)	2,982	1,827
Other	37	74
Total	**6,016**	**5,713**

31.1. PROVISIONS

In BGN '000	Carrying amount 31/12/2019	Carrying amount 31/12/2018
Provisions		
Pensions and other liabilities for payment of post-employment defined benefits	491	418
Unsettled legal issues and tax lawsuits	195	195
Commitments and guarantees	216	707
Total	**902**	**1,320**

31. EQUITY

(a) Share capital

As at 31 December 2019, the share capital of the Bank amounts to BGN 131 666,667 and is divided into 131,666,667 dematerialized registered shares with a par value of BGN 1 each.

(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 31/12/2019**	**Carrying amount 31/12/2018**
Reserves		
Reserve Fund	28,333	28,333
Premium reserve		
Accumulated other comprehensive income	(1,108)	(6,816)
Retained earnings, including:	(28,233)	(30,322)
Financial result from the current year	*2,089*	*22,647*
Other reserves	57,435	57,404
Total	**56,427**	**48,599**

32. CASH AND CASH EQUIVALENTS

In BGN '000	**Carrying amount 31/12/2019**	**Carrying amount 31/12/2018**
Cash on hand	38,311	39,707
Deposits with banks with original maturity of up to 3 months	41,232	58,384
Current accounts with the Central Bank	180,320	433,662
Total	**259,863**	**531,753**

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

33. ASSETS PLEDGED AS COLLATERAL

The assets with encumbrances in 2019 are set out below:

31 December 2019	Assets with encumbrances					Assets free of encumbrances				
	Carrying amount of assets pledged as collateral			Fair value of assets pledged as collateral		Carrying amount of unencumbered assets			Fair value of unencumbered assets	
Assets	Total	including: issued by other entities from the group	including: meeting the requirements of the central banks	Total	including: meeting the requirements of the central banks	Total	including: issued by other entities from the group	including: meeting the requirements of the central banks	Total	including: meeting the requirements of the central banks
Loans on demand						193,132	0	193,132		
Equity instruments						22,117	0	0	22,117	0
Debt securities	144,150	0	144,150	144,150	144,150	351,021	0	340,915	351,021	340,915
including: covered bonds										
including: asset-backed securities										
including: issued by general government	144,150		144,150	144,150	144,150	340,915		340,915	340,915	340,915

including: issued by financial corporations										
including: issued by non-financial corporations						10,106			10,106	
Loans and advances other than loans on demand						749,229				
including: mortgages						452,621				
Other assets	1,414					437,412				
Total:	**145,564**	**0**	**144,150**	**144,150**	**144,150**	**1,752,911**	**0**	**534,047**	**373,138**	**340,915**

As at 31 December 2019 the amount of blocked government securities for securing the borrowed funds in budget accounts is BGN 144,150 thousand.

33. ASSETS PLEDGED AS COLLATERAL, CONTINUED

The assets with encumbrances in 2018 are set out below:

31 December 2018	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						459,740		459,740		
Equity instruments						12,288			12,288	
Debt securities	140,893			140,893	140,893	303,898		293,644	303,898	293,644
including: covered bonds										
including: asset-backed securities										
including: issued by general government	140,893			140,893	140,893	293,644		293,644	293,644	293,644
including: issued by financial corporations										

including: issued by non-financial corporations						10,254			10,254	
Loans and advances other than loans on demand						795,239				
including: mortgages						438,885				
Other assets	1,967					408,014				
Total:	**142,860**			**140,893**	**140,893**	**1,979,179**		**753,384**	**316,186**	**293,644**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

34. 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	31/12/2019	31/12/2018
Bank guarantees and letters of credit		
- in BGN	62,835	81,130
-in foreign currency	12,005	18,632
Liabilities on unutilized credit commitnents	46,621	28,637
Other commitments	204,611	97,040
Total off-balance sheet exposures	**326,072**	**225,439**

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

	31/12/2019	31/12/2018
FINANCIAL GUARANTEES AND LETTERS OF CREDIT GRANTED	**74,840**	**99,761**
General government	**2**	**2**
Other financial corporations	10	-
Non-financial corporations	74,828	99,759
CREDIT COMMITMENTS	**46,621**	**28,637**
General government	854	621
Credit institutions	86	98
Other financial corporations	1,061	69
Non-financial corporations	37,898	21,362
Households	6,722	6,487
OTHER COMMITMENTS	**204,611**	**97,040**
Central bank	107,571	97,020

Other financial corporations		
Non-financial corporations	97,040	20
OFF-BALANCE SHEET EXPOSURES	326,072	**225,438**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31/12/2019	Nominal value of off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9			Provisions on off-balance sheet commitments and financial guarantees covered by the impairment under IFRS 9		
	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)	Instruments without significant increase in credit risk after initial recognition (Phase 1)	Instruments with significant increase in credit risk after initial recognition, but without credit impairment (Phase 2)	Instruments with credit impairment (Phase 3)
Financial guarantees provided	74,840	-	-	174	-	-
General government	2					
Other financial corporations	10					
non-financial corporations	74,828			174		
Credit commitments taken	46,621	-	-	41	-	-
General government	854					
Credit institutions	86			2		
Other financial corporations	1,061					
Non-financial corporations	37,898			22		
Households	6,722			17		
Other commitments	204,611	-	-	-	-	-

Central bank	107,571					
Other financial corporations						
non-financial corporations	97,040					
OFF-BALANCE SHEET EXPOSURES	326,072	-	-	215	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

35. RELATED PARTY TRANSACTIONS

Related parties	Nature of the related party relationship	Type of transaction	Outstanding balance 31/12/2019	Outstanding balance 31/12/2018
In BGN '000				
Festa Holding AD	Shareholders	1) Deposits granted	6,069	245
		2) Loans received	2	42
	Members of Management Board	1) Deposits granted	119	93
		2) Loans received	524	601
	Members of Supervisory Board	1) Deposits granted	5,073	4,509
		2) Loans received	78	158
	Other	1) Deposits granted	17,141	9,278
		2) Loans received	26,529	17,911

Expenses and revenues resulting from transactions with related parties

31/12/2019

Transaction amount	Shareholders	Members of Management Board	Members of Supervisory Board	Related parties under common control and other	Total
Expenses					
Interest expenses			25	21	46
Services Received			3	1	4
Total expenses	-	-	28	22	50
Приходи					
Interest revenues		14		618	632
Fee and commission revenues	2		2	237	241
Revenues from services				2	2
Total revenues	2	14	2	857	875

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

Income of key management personnel

	31/12/2019	31/12/2018
Short-Term Employee Remunerations		
Current remuneration expenses	996	834
Social expenses		
Social security expenses	19	15
Total	**1,015**	**849**

31/12/2019 **Balances**	**Subsidiaries**	**Key management personnel**	**Owners**	**related parties under common control**	**Total**
Assets: Loans and advances	12,226	535	0	7,345	20,106
Other receivables	6		2		8
Total assets	12,232	535	2	7,345	20,114
					-
Liabilities: Deposits					-
Deposits	2,960	5,494	6,067	13,859	28,381
Other liabilities				12	12
Total liabilities	**2,960**	**5,494**	**6,067**	**13,871**	**28,393**

35. OTHER STATUTORY DISCLOSURES

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

In BGN '000	**References to other Notes and statements**	**2019**	**2018**
Gross operating income	Notes 6, 7, 8, 9, and 10	61,236	88,871
Profit/ (Loss) before taxes	Statement of Profit and Loss	3,557	20,007
(Tax expenses or (-) revenues related to the gain or loss on current operations)	Note 14	(2,640)	2,640
Return on assets (%)	Annual Management Report	0.1	1.11
Equated number of employees employed under full-working-day contracts as of 31 December	Note 11	625	725

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

1. The General Meetings of the bondholders of the two corporate bonds with ISIN code BG2100004139 and BG2100008130, issued by Investbank JSC, held on 13 January 2020, took unanimous decisions (by 100% of the

bonds of the two issues) by which the bondholder gives its consent that the Issuer - Investbank JSC - make a full one-off final repayment of the bond loan on both bond issues, provided that all necessary preliminary permits have been obtained and the amount paid by the issuer for the repayment of the principal of the two bond loans will be used by the Bondholder for the purchase of a total of 1,960,500 voting shares from the capital increase of Investbank JSC at a single issue price of BGN 20 per share or at the total issue value of all purchased shares of BGN 39,210,000.

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

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

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

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

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