ANNUAL MANAGEMENT REPORT OF
INVESTBANK JSC
for 2020
APPROVED ON 09 MARCH 2021

TABLE OF CONTENTS:

INFORMATION ABOUT THE BANK

Scope of Business

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

Incorporation

Investbank JSC (previous company names - Commercial Bank Investbank JSC, Commercial Bank Neftinvestbank JSC, International Orthodox Bank of Saint Nikola JSC) was established by decision of 16 December 1994 under company case No. 23891/1994 of Sofia City Court, for an indefinite term as a joint-stock company.

Banking license

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

Legal status and shareholder information

The registered (with the Commercial Register) share capital of Investbank JSC as at 31 December 2020 amounts to BGN 155,571,612, divided in 155,571,612 ordinary registered dematerialized voting shares, with a par value of 1 BGN each. The capital is fully paid in by the shareholders.

In 2020, by decisions of the Regular General Meeting of Shareholders /RGMS/ of the Bank, held on 10 February 2020, two consecutive increases of the authorized capital of the Bank were made:

Under item 5 of the RGMS Agenda – increase by issuing new 1,960,500 ordinary registered dematerialized voting shares, each with a par value of BGN 1 and an issue value of BGN 20. The share capital was increased by BGN 1,960,500 – from BGN 131,666,667 to BGN 133,627,167. The shares resulting from the increase were subscribed and their issue price was paid in full by the shareholder Adil Said Ahmed Al Shanfari. The issue difference was transferred to the Bank's Reserve Fund and also served to increase the Tier 1 Capital of the Bank.

Under item 2 of the RGMS Agenda – increase by issuing new 21,944,445 ordinary registered dematerialized voting shares, each with a par value and issue value of BGN 1.

The share capital was increased by BGN 21,944,445 – from BGN 133,627,167 to BGN 155,571,612. The shares resulting from the increase were subscribed and their price was paid in full by the shareholders who participated in the increase, as follows:

- Festa Holding AD, UIC 103123984 – 9,200,000 shares of the increase subscribed, capital contribution in the amount of BGN 9,200,000.
- Chernomorsko Zlato AD, UIC 102036786 – 3,500,000 shares of the increase subscribed, capital contribution in the amount of BGN 3,500,000.
- A Property AD, UIC 175073141 – 4,644,445 shares of the increase subscribed, capital contribution in the amount of BGN 4,644,445.
- Polenitza EOOD, UIC 202128171 – 4,600,000 shares of the increase subscribed, capital contribution in the amount of BGN 4,600,000.

Address

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

Shareholder structure

The shareholder structure of Investbank JSC as at 31 December 2020 is as follows:

No.	Shareholder structure of Investbank	% shareholding
1	Festa Holding AD	52.77
2	Adil Said Ahmed Al Shanfari	28.04
3	Petya Ivanova Barakova-Slavova	10.55
4	A Property AD	2.99
5	Polenitza EOOD	2.96
6	Chernomorsko Zlato AD	2.25
7	Other natural persons and legal entities	0.44
	Total:	100.00

Governance

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

- As at 31 December 2020, the composition of the Supervisory Board, as registered with the Commercial Register, is:
    - Petya Ivanova Barakova-Slavova – Chairperson of the SB;

  - Festa Holding AD – Member of the SB;
  - Dimitriyka Lazarova Andreeva - Member of the SB.

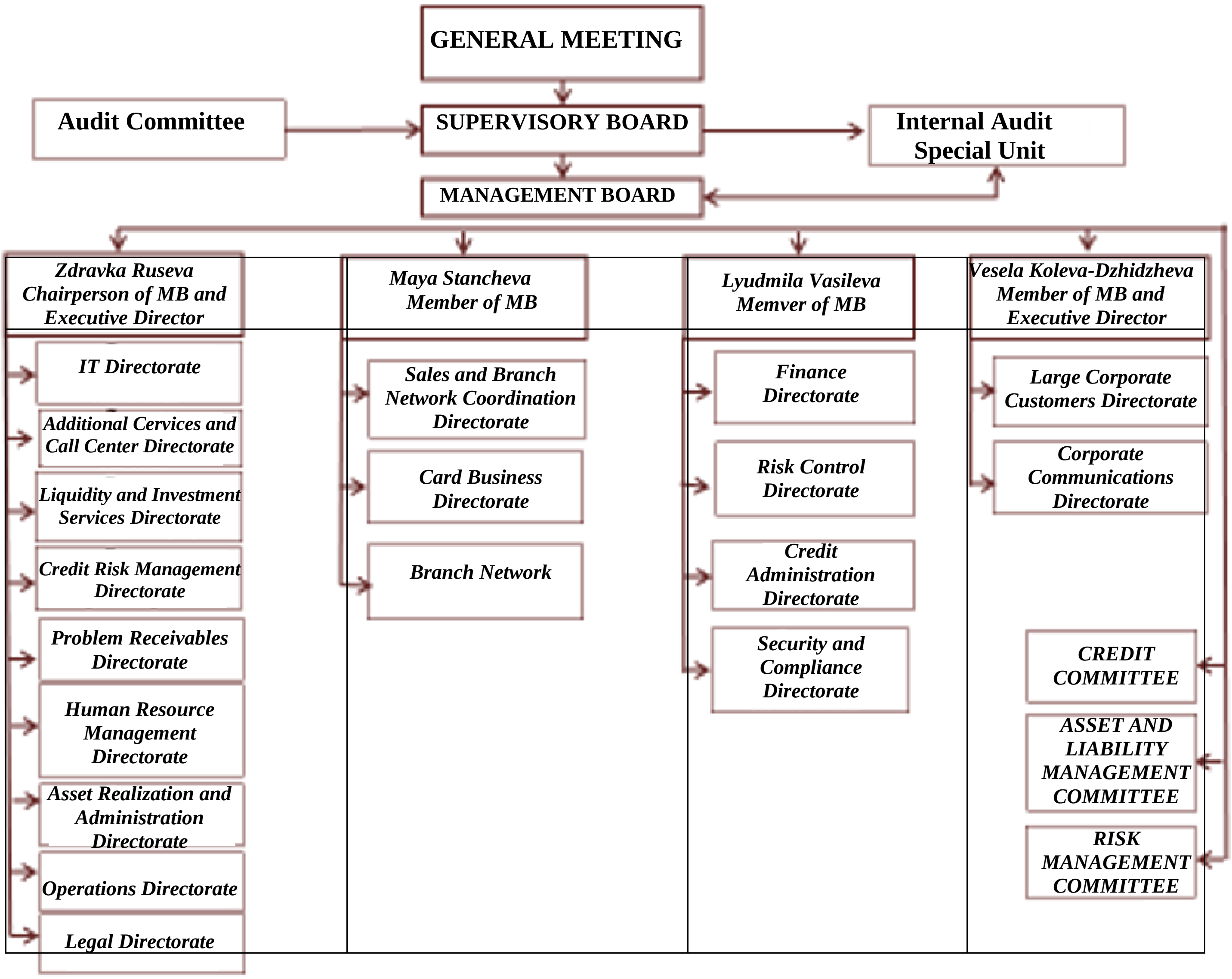
- As at 31 December 20120 the composition of the Management Board, as registered with the Commercial Register, is:
  - Zdravka Rumenova Ruseva – Chairperson of the MB and Executive Director;
  - Vesela Ivanova Koleva-Dzhidzheva – Member of the MB and Executive Director;
  - Lyudmila Vasileva – Member of the MB;
  - Maya Stancheva – Member of the MB.

Mission

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

- Offering its customers and partners innovative products, digital services and individual approach to service, consistent with the modern business standards and technologies and in compliance with the best banking practices;
- Building long-term business relations with customers and partners;
- Developing and implementing innovative, applicable and effective value-added products and services for customers that fully meet their needs;
- Attracting and retaining highly qualified, proven professionals and implementing best practices in effective governance;
- Providing a career development environment and employee motivation to promote affiliation with the Bank, its goals and performance;
- Generating sustainable growth and high value for investors;
- Establishing the Bank as a preferred business partner and providing mutually beneficial business conditions to customers.

Investbank JSC
Organizational Structure *December 2020*



MACROECONOMIC REVIEW

Key macroeconomic indicators

Basic macroeconomic indicators	Reported data			Forecast		
	2018	2019	2020 f	2021	2022	2023
Gross domestic product						
GDP (BGN mln.)	109,743	119,772	119,089	124,540	130,876	137,701
GDP (real growth, %)	3.1	3.7	-3.0	2.5	3.0	3.2
Consumption	4.6	4.7	1.0	2.5	2.3	2.9
Gross fixed capital formation	5.4	4.5	-10.5	-5.4	3.0	8.8
Export of goods and services	1.7	3.9	-10.2	7.2	7.1	5.3
Import of goods and services	5.7	5.2	-10.4	5.0	6.4	6.7
Labour market and prices						
Employment (System of National Accounts) (%)	-0.1	0.3	-2.6	0.9	1.5	0.4
Unemployment rate (Labour Force Survey) (%)	5.2	4.2	5.6	5.2	4.6	4.6
Compensation per employee (%)	9.7	6.9	5.0	5.9	6.5	6.9
GDP deflator (%)	4.0	5.3	2.5	2.0	2.0	2.0
Average annual inflation (HICP) (%)	2.6	2.5	1.4	2.1	2.6	2.5
Balance of payments						
Current account (% of GDP)	1.0	3.0	3.1	3.9	4.2	3.4
Balance of trade (% of GDP)	-4.8	-4.7	-1.7	-1.2	-1.3	-2.1
Foreign direct investment (% of GDP)	2.7	2.4	2.9	2.9	2.9	2.9
Monetary sector						
M3 (%)	8.8	9.9	8.0	8.1	7.9	8.1
Claims on entities (%)	7.7	9.9	0.6	1.9	3.8	4.6
Claims on households (%)	11.2	9.5	5.0	5.6	6.7	6.9

Sources: Ministry of Finance, National Statistical Institute, Bulgarian National Bank

Almost all of the year 2020 passed under the sign of the Covid-19 pandemic, which inevitably led to a decline in the economic activity and employment, as well as affected extremely unfavourable on a number of sectors of the economy.

In Q3 2020, the Bulgarian economy reported a decline by 5.2% on an annual seasonally and calendar adjusted basis, with a positive contribution from private and government consumption.

The inflation slowed to 0.3% yearly in Q4 2020.

At the end of December 2020, the unemployment in the country decreased to 4.8%.

The budget deficit amounts to 3% of GDP at the end of Q4 2020.

Additional fiscal support measures have been announced to address the effects of the second wave of the coronavirus pandemic at the end of 2020. The economic recovery is expected to accelerate in 2022 and 2023, after the health crisis is over and the absorption of funds under the Next Generation program has picked up speed.

BANKING SECTOR REVIEW

Key banking sector indicators

	2017	2018	2019	2020
Financial indicators (BGN mln.)				
Net interest revenues	2,675	2,742	2,746	2,649
Net fee and commission revenues	996	1,066	1,106	1,039
Other net revenues	226	414	721	512
Total operating revenues	3,896	4,223	4,573	4,200
Administrative expenses	(1,799)	(1,893)	(2,273)	(2,300)
Impairment	(775)	(529)	(431)	(876)
Result after tax	1,144	1,678	1,675	816
Balance-sheet indicators (BGN mln.)				
Total assets	97,780	105,557	114,201	124,006
Cash, balances with central banks and other deposits on demand	19,509	20,336	18,141	27,114
Net loans and advances to customers (including finance leases)	51,709	56,830	62,684	65,922
Securities	13,583	13,266	14,312	17,640
Deposits from customers	78,406	84,571	91,853	100,671
household deposits	49,456	53,383	57,616	62,636
corporate deposits	28,950	31,188	34,237	38,034
Deposits from credit institutions	5,301	5,133	5,358	5,062
Equity and reserves	12,567	13,858	14,307	15,354
Basic ratios (%)				
Return on assets (after taxes)	1.21	1.65	1.52	0.69
Return on equity (after taxes)	9.27	12.70	11.89	5.50
Net interest margin	2.95	2.82	2.63	2.34
Loans/deposits from customers	65.95	67.20	68.24	65.48
Loans/assets	52.88	53.84	54.89	53.16
Capital adequacy*	22.08	20.38	20.16	22.93

* The capital adequacy ratio for 2020 uses with data as at 30 September 2020.

At the end of Q4 2020, the assets of the banking system amounted to BGN 124 billion and represented 104.1% of the projected GDP.

For Q4 2020, the banking sector reported a net profit of BGN 113.4 million (decrease by 39.1% on a quarterly basis).

The financial result is affected by the incurred impairment costs and accrued provisions, the dynamics of lending activity, lower fee and commission revenues, low interest rates, management of operating expenses and quality of the loan portfolio, as well as some one-off effects.

The average interest rates on newly contracted loans and fixed-term deposits maintain the achieved low values.

The banking sector operates in the conditions of partial recovery of the economic activity, although lower compared to the same period of the previous year, and in the conditions of restrictive measures taken in connection with the Covid-19 pandemic.

There is high uncertainty about the financial outlook for businesses and households in the coming months. The significant uncertainty in the economic situation necessitates an increase in the accrued impairments, which, according to the BNB, is one of the main factors for the contraction of profit and the decline in bank profitability indicators compared to a year earlier.

In December 2020, the Procedure for deferral and settlement of due liabilities to banks and their subsidiaries - financial institutions was extended in connection with the actions taken by the authorities of the Republic of Bulgaria to limit the Covid-12 pandemic and their consequences, which continue to benefit households and non-financial corporations.

REVIEW OF THE PERFORMANCE OF INVESTBANK JSC IN 2020

Key indicators

	2017	2018	2019	2020
Financial indicators (BGN '000)				
Net interest revenues	33,144	30,081	26,146	24,346
Net fee and commission revenues	24,375	24,884	27,930	24,230
Other net revenues	11,611	33,906	7,160	8,253
Total operating revenues	69,130	88,871	61,236	56,829
Administrative expenses	(39,799)	(39,259)	(40,969)	(39,049)
Impairment	(59,364)	(30,271)	(31,392)	(16,879)
Result after tax	(29,333)	22,647	2,089	2,200
Balance-sheet indicators (BGN '000)				
Total assets	1,954,129	2,122,039	1,898,475	2,200,670
Cash, balances with central banks and other deposits on demand	295,277	531,753	259,863	420,327
Net loans and advances to customers (including finance leases)	816,856	763,547	718,119	879,676
Securities	537,174	457,079	517,288	514,157
Deposits from customers	1,734,462	1,886,794	1,655,779	1,940,725
household deposits	1,185,431	1,266,682	1,226,620	1,265,334
corporate deposits	549,031	620,112	429,159	675,391
Deposits from credit institutions	0	6	0	12
Equity and reserves	152,187	180,266	188,094	246,608
Basic ratios (%)				
Return on assets (after taxes)	(1.52)	1.11	0.10	0.11
Return on equity (after taxes)	(17.58)	13.62	1.13	1.01
Net interest margin	2.02	1.77	1.61	1.47
Loans/deposits from customers	47.10	40.47	43.37	45.33
Loans/assets	41.80	35.98	37.83	39.97
Capital adequacy	16.58	18.69	19.36	19.93
Resources				
Personnel	742	725	625	628
Financial centers	43	43	42	28

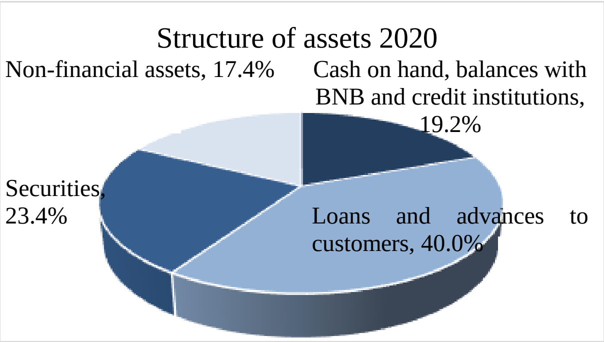
STATEMENT OF FINANCIAL POSITION

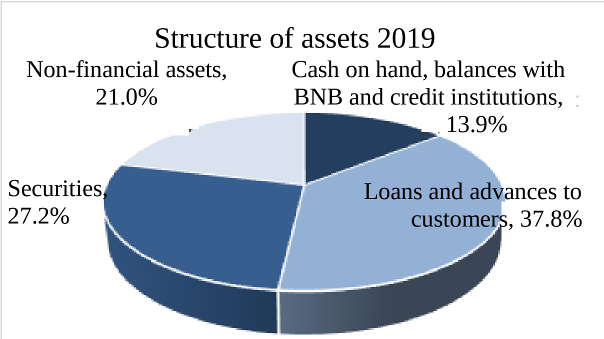
ASSETS

Total assets

In terms of total assets at the end of 2019, Investbank JSC climbed from the 13th position at the end of 2019 to the 11th position with a market share of 1.77% among 24 banks in the country. The business model structures the bank's assets with a dominance of loans and advances to customers.

As at the end of December 2020, the Bank's assets amount to BGN 2,201 million (year 2019: BGN 1,898 million). In the assets structure of Investbank JSC, net loans and advances to customers (including finance leases) account for the largest share of 40.0% (37.8% as at December 2019) of total assets, followed by securities of 23.4% (27.2% as at December 2019) and cash in hand and balances with BNB and receivables from credit institutions of 19.2% (13.9% as at December 2019). Non-financial assets account for 17.4% compared to 21% of the previous year.





Loans and advances to customers

Loans and advances to customers account for 40.0% of total assets compared to 37.8% for the previous year. Loans/deposits ratio amounts to 45.34% compared to 43.13% for the previous year. In 2020, the total amount of net loans grew by BGN 161.5 million (increase by 22.45%) and reached BGN 879.7 million (year 2019: BGN 718.1 million). Loans also comprise receivables under finance leases for BGN 4.21 million compared to BGN 1.46 million at the end of the previous year. At the end of December 2020, the balance sheet impairment amounts to BGN 50.99 million, which gradually increases the degree of coverage with impairment of impaired loans from 26.75% for 2019 to 26.83% for 2020 and during the year the amount of BGN 27.83 million was written off at the expense of provisions for non-performing loans.

Compared to a year ago, the Bank's gross loan portfolio has increased by BGN 150 million (19.14% increase) and as at December 2020 it amounted to BGN 931 million. Compared to a year ago, gross **loans to legal entities** increased by BGN 133 million (22.3% increase) and as at December 2020 they amounted to BGN 728 million. The new business and the increase in the existing business since the beginning of 2020 compared to the previous year have marked a significant increase and amount to BGN 298 million compared to BGN 165 million for the same period previous year.

Compared to a year ago, gross loans to natural persons increased by BGN 17 million (9.12% increase) and as at December 2020 they amounted to BGN 203 million. The new business and the increase in the existing business since the beginning of 2020 amount to BGN 50 million compared to BGN 58 million for the same period previous year.

In compliance with the policies, processes and procedures for risk management and monitoring of non-performing loans, the clearing the portfolio continued in 2020. As a result of the effective measures, the percentage of non-performing exposures to the Bank's total credit exposure decreased from 30.16% in December 2019 to 20.42% at the end of 2020.

Securities

The portfolio of securities in the structure of assets of Investbank JSC (classified as debt securities carried at amortized cost, financial assets carried at fair value through profit or loss and financial assets carried at fair value through other comprehensive income) remain structurally determining and as at December 2020 they account for 23.4% of total assets (27.2% as at December 2019). Investbank JSC successfully manages its liquid assets by investing part of them in securities, which, although with declining yield, make up an alternative to interbank deposits the yield of which is even negative at the time.

LIABILITIES

Borrowed funds from customers

In terms of funds borrowed from customers in total, the market position of Investbank JSC is the 11th with a relative share of 1.91% compared to the 12th position for 2019. In terms of funds borrowed from non-financial customers, the market position is the 16th, which is an increase compared to the 19th position for 2019. In the sector of natural persons and households, the market share is 2.02% with the 9th position compared to the 10th position for 2019.

Borrowed funds from customers at the end of December 2020 amounted to BGN 1,941 million, reporting a growth by BGN 285 million (17.21%) compared to December 2019 (year 2019: BGN 1,656 million).

As at 31 December 2020, the funds borrowed from legal entities reported an increase by BGN 246 million (57.38% increase) compared to the end of 2019.

As at the end of December 2020, the funds borrowed from natural persons amounted to BGN 1,265 million, reporting an increase by BGN 39 million compared to that in December 2019 (BGN 1,227 million). An increase is reported both in current accounts and in fixed-term deposits. This resource retains its structure-determining share in the total borrowed funds from customers - 65.2% (74.1% as at December 2019).

Equity

The Bank's equity amounts to BGN 246.61 million and includes share capital of BGN 155.57 million, reserves of BGN 91.04 million including retained earnings for the current year of BGN 2.2 million. In 2020, the share capital of the Bank increases by BGN 23.9 million and the reserves increase by BGN 34.6 million.

INCOME STATEMENT

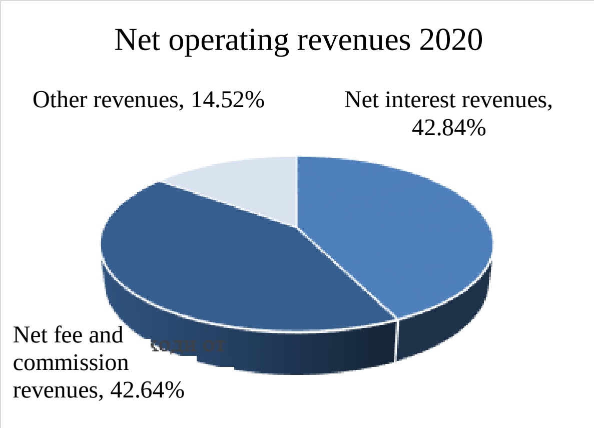
<u>Net financial result</u>

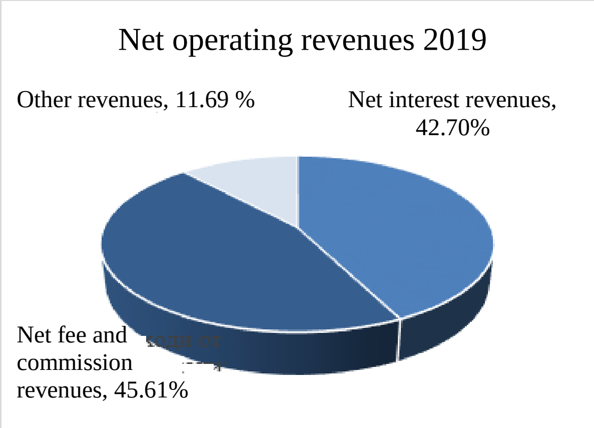
The unfavourable business climate in 2020 due to the spread of Covid-19 put pressure on the profitability and efficiency of banks. Investbank JSC achieved an increase in its annual result by 5.3% compared to the level of the previous year.

As a result of its operating activities in 2020, Investbank JSC reported a positive financial result after taxes of BGN 2.2 million (year 2019: BGN 2.09 million).

<u>Total operating revenues</u>

The total operating revenues for the year amount to BGN 56.8 million, reporting a decrease compared to the figure of BGN 61.2 million a year earlier, whereby the decrease is in all main items, forming the revenues: net interest income, net income from fees and commissions and other revenues.





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

Leading position in the structure of net operating revenues is occupied by the net interest income, increasing its share to 42.84% (42.70% as at December 2019) in the structure of net operating revenues. Net income from fees and commissions occupies a relative share of 42.64% (45.61% as at December 2019) and the net interest income. The share of other net revenues at the end of 2020 is 14.52% (11.69% as at December 2019).

Net interest income

	2020	2019	Change	Change in %
Interest revenues	29,789	34,448	(4,659)	(13.52)
Deposits provided to credit institutions	125	715	(590)	(82.52)
Loans and advances to customers	28,063	30,818	(2,755)	(8.94)
Securities	1,601	2,915	(1,314)	(45.08)
Interest expenses	5,443	8,302	(2,859)	(34.44)
Deposits from credit institutions	201	469	(268)	(57.14)
Deposits from customers	4,966	6,341	(1,375)	(21.68)
Other borrowed funds	276	1,492	(1,216)	(81.50)
Net interest income	**24,346**	**26,146**	**(1,800)**	**(6.88)**

As at 31 December 2020, Investbank reported a decrease in net interest income (BGN 1.8 million or a 6.88% decrease) compared to the previous year. The net interest income continues to be positively affected by the more significant fall in interest expenses than the level of interest revenues. The net interest margin is more inert than the interest rates on loans and deposits considered separately. As at 31 December 2020, the net interest margin is 2.34% (compared to 2.63% at the end of 2019). This is mainly due to the decline in the share of loans in banks' assets.

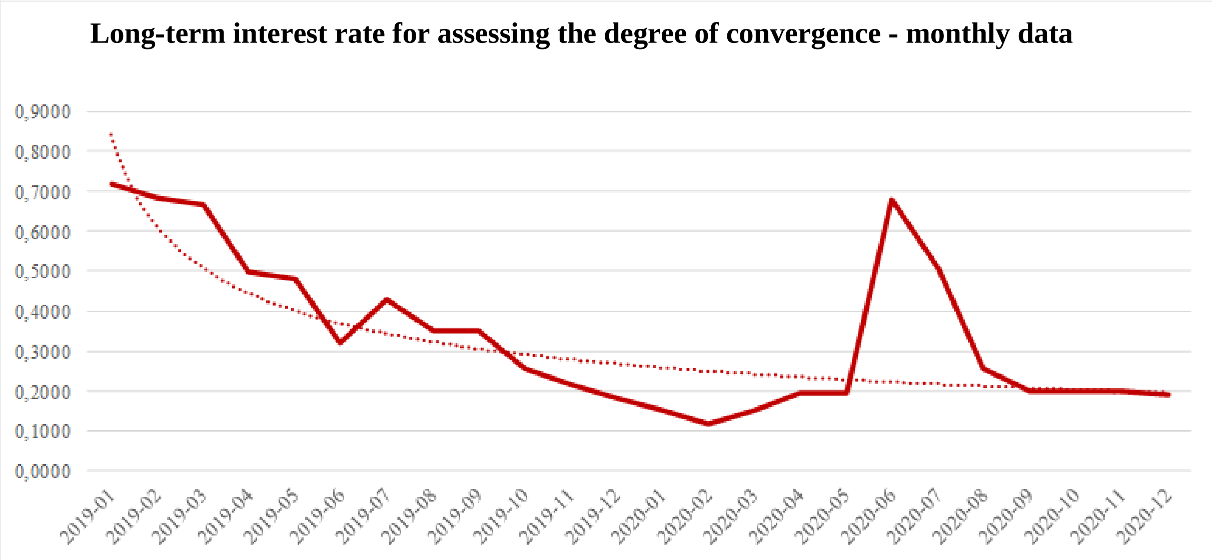
The dynamics of the indicator for the bank and the banking system is negative, i.e. the interest rate profitability is deteriorating. The banking system as a whole marked a decline in the average interest margin from 2.63% for 2019 to 2.34% for 2020, i.e. a decrease by 0.29%, while the decline at Investbank was 0.14%. As at 31 December 2019, Investbank JSC rises by 3 positions in the ranking of this indicator and occupies the 17th position compared to the 20th position at the end of 2019 among the banks in Bulgaria.

A negative factor for the net interest margin is the outpacing growth of borrowed funds compared to loans, while the reduction of average interest rates on borrowed funds is a positive driver, with a positive net effect for 2020.

Interest revenues as at 31 December 2020 account for a decrease of BGN 4,66 thousand (decrease by 13.52%) compared to the previous year. The interest revenues on loans compared to the same period of the previous year account for a decrease by BGN 2,75 million due to: higher average portfolio volume (BGN 16.9 million) - the factor affects by an increase by BGN 639 thousand and a lower average interest rate on the portfolio (decrease by 0.41 percentage points), with the effect of the difference in interest rates being BGN 3,394 thousand. Interest revenues on securities come to 45% below the level as at December 2019.

The result of the securities in the bank is a function of the market factors in the country and in Europe. The previous year 2019 was marked by a decrease in the yield on government securities (price growth) in a global aspect, determined by the actions of the leading central banks - the ECB and the US Federal Reserve. In 2020, specifically for the Bulgarian sovereign debt, after a peak in Q2, the dynamics decreased somewhat, and the market can be defined as relatively stable, with the bank achieving a lower net result of securities compared to that in year 2019. The analytical assessment of the events is that 2019 allowed for a higher result, while 2020 is approaching the usual parameters in terms of volatility. The long-term interest rate for assessing the degree of convergence[1], which includes BGN bonds of the Bulgarian government with a maturity of 9.5-10.5 years, generally shows this trend.

[1] Calculated and published by the BNB, interest rate statistics.



Interest expenses decreased significantly as a result of the reduction of interest rates on funds attracted from customers and the maturity of the subordinated fixed-term debt in 2019 and the hybrid capital instrument in January 2020. As at 31 December 2020, interest expenses decrease by BGN 2.86 million (34.44% decrease) compared to December 2019.

Net fee and commission revenues

In 2020 the Bank's net fee and commission revenues amount to BGN 24,2 million compared to BGN 27,9 million at the end of 2019, accounting for a decline by 13.25%. The largest increase in absolute value is that in fees and commissions for servicing accounts - BGN 2.2 million, followed by those for card transactions - BGN 155 thousand.

Compared to the same period last year, the fees for transfer operations are lower – by BGN 3.2 million (due to the introduction of Regulation (EU) 2019/518 on equalization of transfer fees in Bulgaria with those to EU and EEA countries) and on operations with securities by BGN 2.5 million (in 2020 no revenues were realized on intermediary transactions for the sale of carbon emissions were realized, as in 2019).

The deviations in other net revenues from fees and commissions are insignificant.

Other net revenues

	2020	2019	Change	Change in %
Net income on foreign currency operations	1,964	2,048	-84	-4.10
Net result from securities	1,303	2,190	-887	-40.50
Net revenues on sale of assets	1,647	555	1,092	196.76
Other revenues, net	3,339	2,367	972	41.06
Total other net revenues	**8,253**	**7,160**	**1,093**	**15.27**

At the end of 2020, the amount of other net revenues (all revenues other than interest revenues and fees and commissions revenues are presented here) amounts to BGN 8.25 million compared to BGN 7.16 million in 2019 (an increase by 15.27%).

The following significant revenues were realized: Revenues from trading and revaluation of currency - BGN 1.96 million; Net revenues from sale of assets - BGN 1.65 million; Trade and revaluation of securities - BGN 1.3 million; Revenues from rent of investment properties - BGN 1.07 million.

Administrative expenses

Administrative expenses	2020	2019	Change	Change in %
Expenses on personnel	14,076	15,166	-1,090	-7.19
Depreciation	5,010	4,914	96	1.95
Other administrative expenses	12,318	13,759	-1,441	-10.47
BDIF and BRF	7,645	7,130	515	7.22
Total administrative expenses	**39,049**	**40,969**	**-1,920**	**-4.69**

As at 31 December 2020, the total amount of administrative expenses amounted to BGN 39.05 million, which is by 4.69% lower than their level as at December 2019.

Since 2019 the Bank has applied IFRS 16 for rental expenses, whereby a portion of the rental expenses are recognized in depreciation and interest expenses. As the standard has been applied for two years, the data for 2019 and 2020 are completely comparable.

As at the end of December 2020, the level of the Administrative Expenses / Total Operating Revenues indicator (excluding the contributions to Bulgarian Deposit Insurance Fund (BDIF) and the Bank Restructuring Fund (BRF)) is 55.26%, maintaining its value compared to the same period last year. Compared to 2019, in 2020 both savings in administrative expenses (by BGN 2.4 million) and a decrease in total operating income are reported, thus both factors influence the maintenance of the level of the indicator.

Net impairment expenses

The impairment expenses as at the end of December 2020 amount to BGN 16.88 million and are by BGN 14.51 million (46.23%) lower compared to their amount last year (BGN 31.39 million in 2019) due to the high degree of loan collateral.

BANK REGULATIONS

Liquidity

Investbank JSC follows a moderately conservative policy with acceptable levels of risk-taking, emphasizing on high liquidity. The main goal is to achieve sustainable profit by maintaining an optimal balance sheet structure and improving the market position. Risk management and monitoring of early warning signals are the main priorities in the functioning of all structural units in the Bank.

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 compliance with the regulatory requirements and in accordance with the rules and methodology for liquidity buffers determining and monitoring, dividing into two functional areas: liquidity management and liquidity risk control. Operational and strategic liquidity management is carried out by the Liquidity and Investment Services Directorate. Liquidity risk control is performed by the Risk Control Directorate.

In 2020 Investbank continued to maintain very good liquidity. The structure of balance-sheet assets as at 31 December 2020 is sufficiently indicative of the existence of adequate liquid buffers:

- the volume of the securities portfolio formed amounting to 23.4% of the Bank's balance sheet total;
- cash, balances with central banks and other demand deposits, reaching 18.6% (12.2% as at 31 December 2019) of the Bank's balance sheet total.

Total liquid assets account for 41.96% of the Bank's assets (increase by 2.5% compared to 31 December 2019) and credit exposure (loans and advance payments) is 40.56%. Investbank JSC is able and capable of withstanding liquidity pressures and complicated market environment, including under the conditions of a coronavirus pandemic.

Leverage - for managing and controlling the risk of excessive leverage, Investbank JSC calculates the leverage ratio (balance sheet capital to assets) and the reported figures are significantly higher than the required ones. As at December 2020, the leverage ratio stands at 10.66%.

Capital requirements

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

Total capital adequacy

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

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

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

Part Eight of Regulation 575/2013 - Disclosure by Institutions sets out the scope of information disclosure requirements, including for the capital buffers of banks and the terms and conditions of their formation are detailed in Chapter 4 of Directive 2013/23/EU and Ordinance No. 8 of the BNB on the capital buffers of banks. The capital buffers are:

1. Preventive capital buffer;

2. Countercyclical capital buffer;

3. Buffer for Global Systemic Significant Institution (GSSI)

4. Buffer for Other Systemic Significant Institution (OSSI)

5. Buffer for systemic risk

The banks should maintain the additional capital buffers described above, and their coverage should be provided by the Common Equity Tier I capital.

From the mentioned capital buffers, as at 31 December 2020 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. By a decision of the Governing Council of the BNB dated 29 September 2020, a countercyclical capital buffer is set as 0.5%, applicable to credit risk exposures in the Republic of Bulgaria. In 2019

The amount of the Bank's equity as at 31 December 2020 on the basis of reports prepared under the CRDIV Capital Requirements package are:

Indicators	**BGN '000**
Common equity Tier 1 Capital (CET 1)	239,246
Tier 1 capital	239,246
Equity (capital base)	239,246

As at 31 December 2020, the capital surplus is:

Surplus (+) / Shortage (-) as at 31 December 2020 in BGN '000	Capital	After deducting the capital buffers
Surplus (+) / Deficit (-) of Common Equity Tier 1 Capital	185,219	115,161
Surplus (+) / Deficit (-) of Tier 1 Capital	167,209	97,152
Surplus (+) / Deficit (-) of the common equity	143,197	73,140

The Bank's risk profile as at 31 December 2020 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 (91.4% of risk-weighted exposures), followed by operational risk (8.6% of risk-weighted exposures). The structure is presented in the following table "Distribution of risk-weighted exposures of Investbank JSC as at 31 December 2020".

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

As at 31 December 2020, the capital coverage of the Bank's risk exposure is:

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:	1,100,609	96,049	30,015	34,279	5,763	166,106
Credit risk, counterparty credit risk	1,097,934	87,835	27,448	31,199	5,270	151,752
Position, currency and commodity risks	0	0	0	0	0	0
Operational risk	102,675	8,214	2,567	3,080	493	14,354

Distribution of risk-weighted exposures of Investbank JSC as at 31 December 2020:

Total risk-weighted exposures, including:	1,200,609	100.0%
Credit risk, counterparty credit risk	1,097,934	91.4%
Position, currency and commodity risks	0	0.0%
Operating risk	102,675	8.6%

RISK MANAGEMENT

Overview

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

Risk management is based on the Risk Management Strategy, which defines the target risk profile and risk appetite of Investbank JSC. The aim is to limit the risk taken so that in the short and long term the Bank remains sustainable and viable. This may be achieved by maintaining sustainable levels of funds to ensure risk coverage in regulatory and economic aspect and ensuring that the Bank maintains a good risk-taking capability at all times. Furthermore, the Strategy clearly defined the risk structure that is relevant to the business model, including by defining a risk profile and determining rules to address significant concentration risks. Thus Investbank JSC aims to achieve a balanced portfolio mix by focusing on retail customers, on the one hand, and on corporate customers, on the other hand, so that the concentration of risk is maintained within the established limits detailed in the Concentration Risk Rules (Limit Framework).

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

Risk Management Policy

Investbank JSC follows a moderately conservative policy with acceptable levels of risk-taking, emphasizing on high liquidity. The Supervisory Board and the and Management Board of the Bank discuss and adopt the risk policy according to their intentions to invest in activities generating stable growth and income, as well as consistent with the availability of sufficient capital to cover banking risks. Investbank JSC's risk management policy is aimed to identify, analyse, measure and control the risks to which the Bank is exposed., based on the core principles for effective banking supervision of the Basel Committee on Banking Supervision, the regulatory requirements of the BNB and the internal banking regulatory framework.

The leading goal of the Bank is to achieve stable earning by maintaining an optimal balance sheet structure and maintaining a competitive market position. Risk management is the main professional model of work in all structural units of the Bank. The protection of shareholders and depositors is guaranteed through an adequate system for identification, management and control of the risk profile.

The activities for risk identifying, monitoring, managing and limiting its negative manifestation are regulated in the adopted internal regulatory documents - policy, rules and procedures, which have been adopted by the Management Board and approved by the Supervisory Board of Investbank JSC and are subject to regular review in order to reflect the changes in regulations, market conditions, products and services offered, etc. They specify the procedures for the overall risk management process:

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

Principles for managing the risks borne by the Bank

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

The activity of control over the management of general banking risks is carried out by the Risk Control Directorate through an independent system for information and risk reporting.

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

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

Structure and organization of risk management functions

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

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

Audit Committee – a specialized supervisory body that monitors the objectivity of the financial reporting process, the effectiveness of internal control systems, including the practices related to internal audit and risk management, and the effectiveness of the independent financial audit and procedures established by the Bank's governing bodies to protect shareholders' interests.

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

Supporting bodies to the Management Board (MB)

Credit Board – implements the credit policy approved by the SB and adopted by the MB, approval and renegotiation of credit transactions, making decisions for improving the Bank’s lending process organization, taking actions to improve loan portfolio quality.

Risk Management Board – continuously monitors, analyses and assesses the risk factors pertaining to banking operations in compliance with the core principles for effective banking supervision of the Basel Committee on Banking Supervision.

Asset and Liability Management Committee – responsible for managing the Bank's assets and liabilities and liquidity and exercises control over the Bank's liquidity in compliance with the regulatory requirements of BNB and the liquidity management policies and rules that are in place at Investbank JSC.

Continuously analysing the Bank's liquidity position in order to identify any possible liquidity crisis in a timely manner, optimize asset and liability structure and prepare plans and measures to handle potential crisis trends in order to guarantee the Bank's solvency by reasonably balancing risk and profitability. The Asset and Liability Management Committee manages different types of risk - liquidity, interest rate, foreign exchange, price, and sets up limits on types of assets and liabilities, positions, transactions, exposures in order to limit foreign exchange, interest rate and liquidity risk, controlling and periodically analysing their compliance.

Customer Alerts, Complaints and Inquiries Committee - examines, analyses and makes decisions regarding alerts, complaints and inquiries from customers received at the Bank.

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

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

Credit risk

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

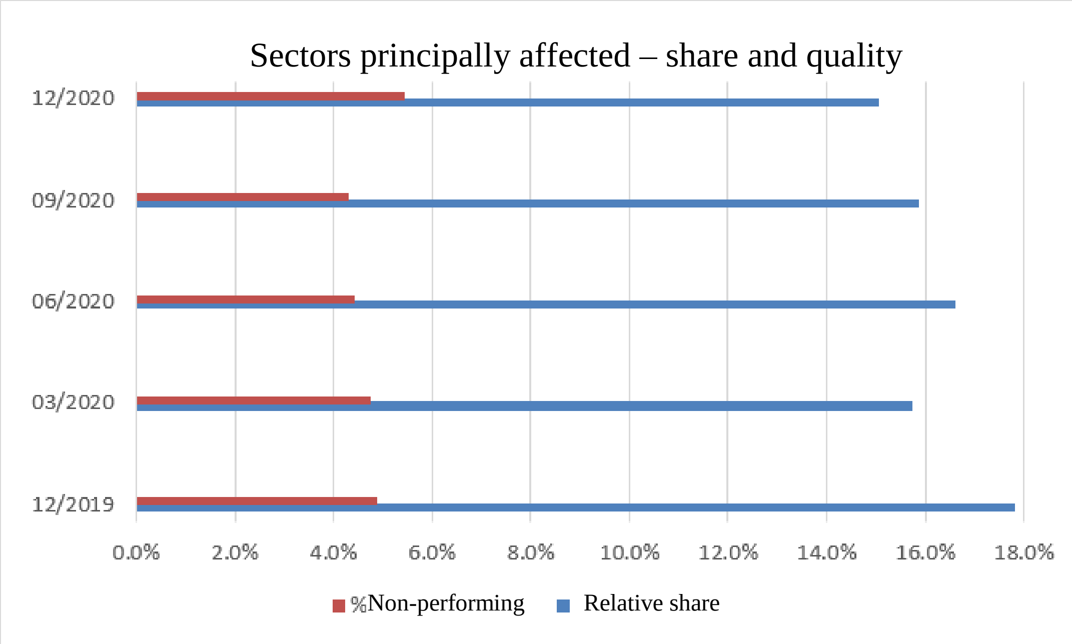
The credit risk management in the Bank is carried out in compliance with a moderately conservative policy, internal lending rules, policy for collateral on credit transactions, established credit limits and other internal bank documents. This is an ongoing process that adapts to the changes in the business and risk environment in order to reflect current and future, actual and potential changes in the micro and macro environment / economy. In connection with the state of emergency imposed in March 2020 due to the occurrence of the Covid-19 (coronavirus) pandemic, extraordinary interim procedures were approved to facilitate the consideration of renegotiations of loans extended to natural persons and business customers. In order to ensure timely analysis and correct reporting of these exposures, the Banking Information System (BIS) has implemented and provided technical security with the necessary data. Effective procedures to handle renegotiations have been prepared, allowing timely differentiation of borrowers with temporary difficulties caused by the effects of Covid-19 from those with permanent difficulties. During the negotiations on the private moratorium, the Bank continued to strictly observe its position towards each borrower in view of the possibilities for permanent loss of business and cash flow from the main activity of the borrower. This enables the Bank to refuse or limit the grace periods in case of existing criteria that would violate the future creditworthiness of the customer in order to more adequately and quickly identify whether the difficulty is permanent or temporary. In connection with the negative effect on the economy and the business of the institution from the spread of the coronavirus, Investbank JSC undertook timely actions for monitoring and analysis of the expected cash flows in accordance with the repayment plans and the actual receipts. For this purpose, as from Q1 2020 (on a quarterly basis), the Management Board is submitted summary information by segments regarding the implementation of the commitments according to the repayment plans and the actual funds received, and a scenario analysis was drawn up to the end of 2020 for the expected cash flows in stress conditions by applying haircuts.

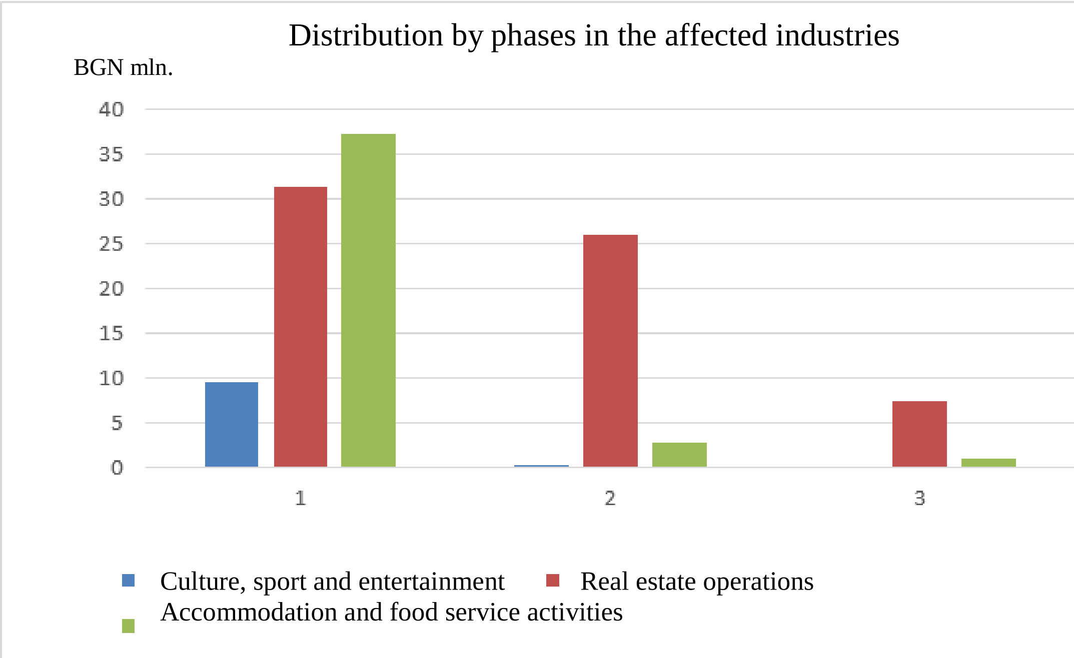
Based on a sectoral analysis of the Bulgarian economy regarding the expected impact of the Covid-19 pandemic, prepared by the Bulgarian Credit Rating Agency (BCRA), an analysis of the expected impact of the pandemic on selected sectors was presented to the Management Board. The analysis of the Risk Control Directorate assesses the adverse impact of borrowers in these industries on the credit quality and the capital. Small and medium-sized enterprises are expected to be most affected as they are most sensitive to such strong shocks and traditionally do not have capital buffers and are characterized by limited liquidity.

<u>Sectors principally affected:</u>

- Accommodation and food service activities – this sector accounts for the highest share of renegotiated loans due to Covid-19. The moratorium covers 45% of the exposures in the industry and 19% of all exposures of corporate customers, which may reflect on the quality in case of termination of the business support program. As at 31 December 2020, Investbank reports 67 credit exposures with a gross value of BGN 44.307 million (on-balance sheet and off-balance sheet), of which 2.35% are non-performing and 6.1% are classified in Phase 2 (early warning signal for possible performance difficulties);

- Real estate transactions – this industry also shows a high share of renegotiated loans due to Covid-19. 33% of the exposures in the industry and 23% of all exposures of corporate customers are subject to a moratorium. This may affect the quality in case of termination of the business support program. The Bank reports 53 credit exposures with a gross value of BGN 73.803 million (on-balance sheet and off-balance sheet), of which 10.18% are non-performing and 35.2% are classified in Phase 2 (early warning signal for possible performance difficulties);
- Culture, sports and entertainment – this industry shows a relatively low share of renegotiated loans due to Covid-19. 19% of the exposures in the industry and 2% of all exposures of corporate customers are subject to a moratorium. In this sector, the Bank reports 9 credit exposures with a gross value of BGN 10.179 million (on-balance sheet and off-balance sheet), and as at 31 December 2020 there are no loans classified as non-performing (0.0%) and only 2.2% are classified in Phase 2. It can be summarized that this is a low-risk industry and no significant growth is expected.

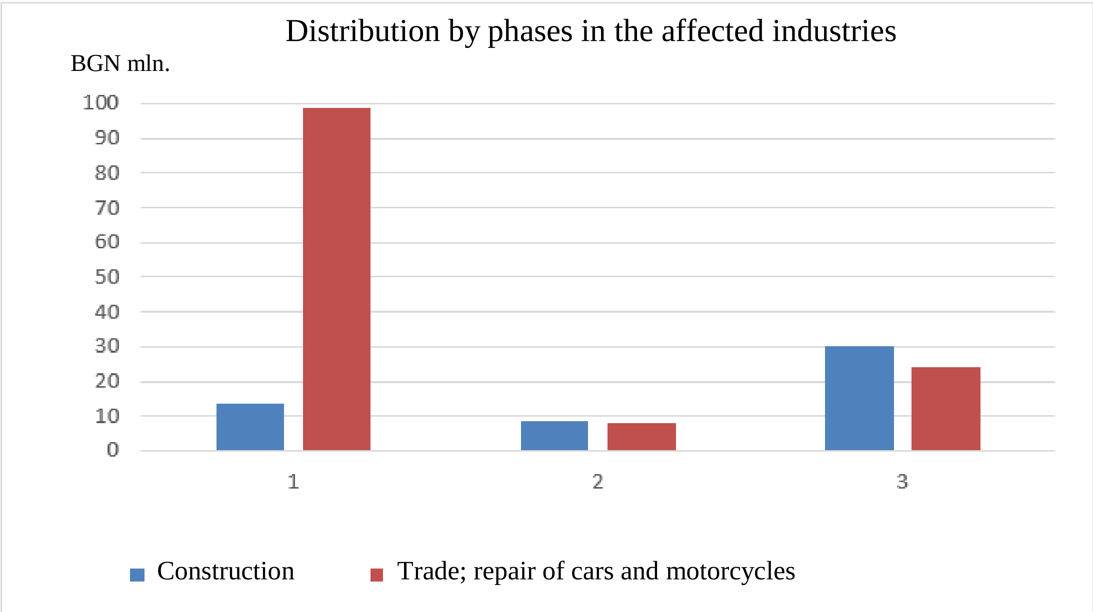




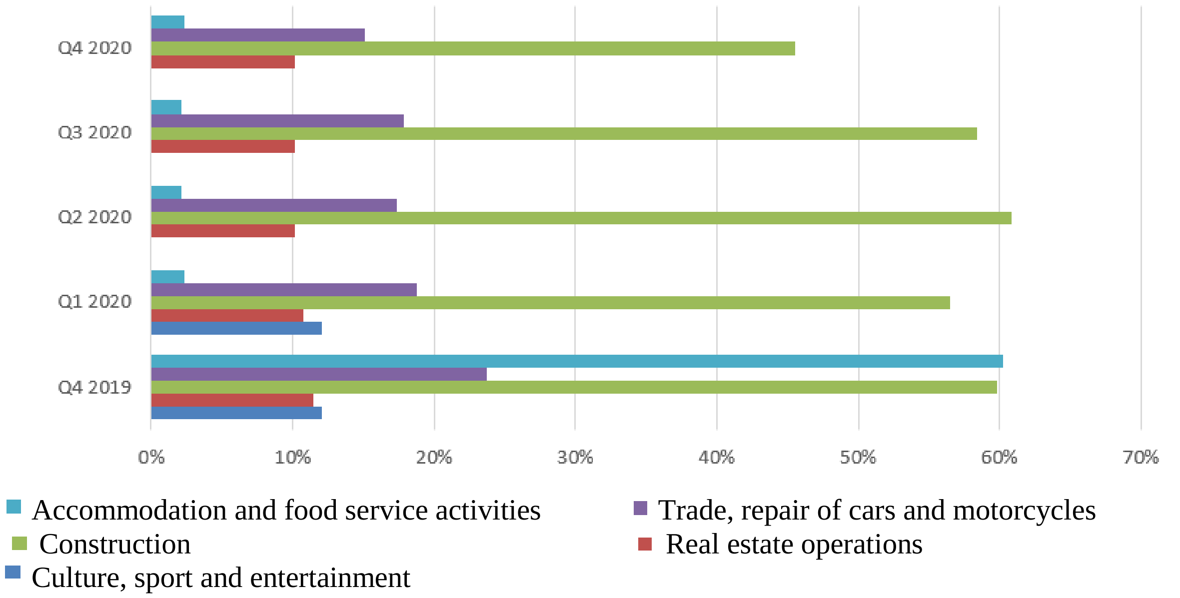
<u>Sectors moderately affected:</u>

- Construction – this sector accounts for a low share of renegotiated loans due to Covid-19. 5% of the exposures in the industry and 3% of all exposures of corporate customers are subject to a moratorium. In this sector, the Bank reports 187 credit exposures with a gross value of BGN 65.753 million (on-balance sheet and off-balance sheet), and as at 31 December 2020 45.5% of the loans in the industry are classified as non-performing and 13.3% are classified in Phase 2. It can be summarized that the industry is of relatively high risk, but considering the fact that there is a very low share of loans subject to a moratorium and the relatively small number of overdue loans with early warning signals, no significant increase in risk is expected.

- Trade; Repair of cars and motorcycles – this industry shows a low share of renegotiated loans due to Covid-19. 12% of the exposures in the industry and 17% of all exposures of corporate customers are subject to a moratorium. The Bank reports 260 credit exposures with a gross value of BGN 159.829 million (on-balance sheet and off-balance sheet), and as at 31 December 2020 15.4% of the loans in the industry are classified as non-performing and 5.2% are classified in Phase 2.



Share of non-performing loans in the affected industries by periods

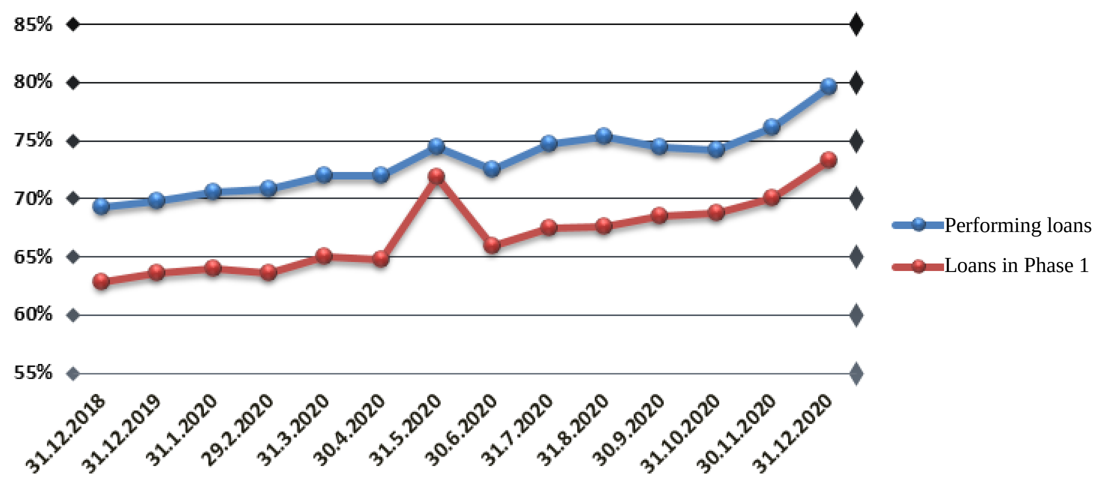


The main competent bodies with respect to credit risk management and control are the Management Board, the Executive Directors, the Risk Management Board (RMB), the Credit Board, the Risk Control Directorate, the Credit Risk Management Directorate, the Problem Receivables Directorate, the SIAU and the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

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

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

Total performing loans and loans in Phase 1 as at 31 December 2018 - 31 December 2020



Regarding the quality of credit exposures compared to December 2019, there is a decrease in the share of exposures classified as "non-performing" (Phase 3 as per IFRS 9) from 30.2% as at 31 December 2019 to 20.4% as at 31 December 2020. A decrease of BGN 45.2 million in absolute value is reported (from BGN 235.6 million to BGN 190.4 million). The decrease in non-performing exposures to corporate customers is more significant – from BGN 196.0 million to BGN 156.9 million (-39.1 million BGN).

<u>The main principles that are followed in risk management include:</u>

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

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

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

Credit decisions are always based on credit offers / requests.

Credit limits and ratings are reviewed periodically /annually/.

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

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

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

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

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

In 2020, Credit Risk Management - Legal Entities Department processed 1,240 loan transactions, including 217 proposals for new loans totalling BGN 228 million.

Of the 217 loan applications received, those approved represent 94%. A decision for 44 % of the corporate loan transactions was made based on individual competencies, while for 44 % of the proposals, the decision was taken at the Credit Board level.

In connection with the state of emergency imposed in the Republic of Bulgaria as a result of the Covid-19 pandemic, in March the Credit Risk Management Directorate prepared a proposal for the adoption of an extraordinary, temporary procedure for facilitated consideration of renegotiation of loans extended to business customers and customers - natural persons. Under this procedure, 127 loans to business customers of the Bank were renegotiated, which contributed to maintaining the purity of the Bank's portfolio.

As at 31 December 2020, of the newly authorized credit transactions in 2020 with the participation of the Credit Risk Management - Legal Entities Department, 96.59% (198 loans) loans are without registered arrears and 0.98% (2 loans, including 1 financial lease) are with arrears over 60 days, and it should be noted that there are no newly authorized loans with the participation of the Credit Risk Management - Legal Entities Department with arrears over 90 days.

In 2020, the Credit Risk Management - Natural Persons Department processed 4,835 loan transactions (an increase by 19.25% compared to the figure for 2019) with a total value of BGN 85.99 million. The loans authorized in connection with the agreement with BDB are 1,540 for a total amount of BGN 6.59 million.

The number of new loan applications is 4,195 (an increase by 25.44% compared to the figure for 2019) for a total amount of BGN 78.66 million. Of these, 3,393 new loans were approved (an increase by 18.55% compared to the figure for 2019) for a total amount of BGN 68.63 million, including 1,152 loans under the BDB program for a total amount of BGN 4.99 million. As at 31 December 2020, 5 loans of all utilized loan transactions to natural persons during the year (3,186) are over 90 days overdue which is 0.16 % of the total number of loans.

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

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

Market risk

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

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

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

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

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

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

Interest rate risk

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

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

The Bank constantly monitors the changes in foreign currencies, discrepancies in interest rates and in the maturity structure of assets and liabilities. Interest rate risk is monitored by the Risk Control Directorate and the Liquidity and Investment Services Directorate to ensure compliance with market risk limits. The Assets and Liabilities Management Committee (ALMC) defines and regulates the interest rate policy, including controls the interest rate risk to which the Bank is exposed and decides on changes in interest rates. It makes timely decisions to regulate interest-sensitive assets and liabilities and the possible interest rate risk mismatch. The analysis of interest rate risk of the Bank's financial assets and liabilities and their sensitivity to interest rate behaviour are disclosed in the 2020 Annual Financial Statements.

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

Currency risk

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

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

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

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

Price risk

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

As at 31 December 2020, the assessment of the sensitivity to changes in interest rates in the portfolio is made using the method of change in the price of debt instruments with the change in the yield curve and a constant balance-sheet position.

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

Liquidity risk

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

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

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

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

Liquidity risk management is based on monitoring and defining:

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

The main methodological tool for liquidity risk monitoring and reporting is the liquidity mismatch analysis based on original (contractual) maturities, supplemented with simulations of possible transactions (future cash flow modelling) in order to define the actual expected cash flow. Investbank JSC measures the liquidity risk based on the comparison between the maximum cumulative outflow and the potential for its liquidity coverage that can be realized within a short timeframe through the liquidity report. The different economic assumptions are modelled by separate stress scenarios. The analysis includes a scenario for measuring liquidity risk in an extremely serious stress situation (combined scenario). The Liquid Coverage Potential measures (in terms of size and timing) the ability to raise liquid cash in the shortest possible period of time under market conditions and shows the potential to cover net cumulative cash outflows (liquidity imbalances / mismatches).

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

Banks are required to maintain a certain amount of funds as reserves in their current accounts with Bulgarian National Bank, whereby the basis on which the amount, maintenance period and reporting are determined is regulated in BNB Ordinance No. 21 of 2015. In 2020 Investbank JSC maintained minimum reserves in accordance with the requirements of Art.3 of Ordinance No. 21. The management and control of the reserves is carried out on a daily basis by the Liquidity and Investment Services Directorate.

As at 31 December 2020, the Bank's liquidity position, calculated on the basis of the liquidity stress test, is a "yellow signal" (yellow traffic light). In total for all currencies in the analysed intervals, the liquidity ratios are within the required limits and no usability of the liquidity potential is observed for the entire one-year horizon in the stress test. Following the accession of Bulgaria on 10 July 2020 to the monetary mechanism (ERM II), preparing the member states of the European Union for their obligations to join the monetary union (Eurozone), the LIS Directorate maintains a significant resource in EUR in order to protect of the bank from potential currency fluctuations in relation to the currency pair EUR-BGN (EUR 58.7 million as at 31 December 2020). It should be borne in mind that at any time without restriction and without realizing a negative effect on the Bank, this recourse may be converted at a fixed rate with the BNB.

The maximum utilization of available liquidity potential (operating liquidity limits) as at 31 December 2020 is presented in the following table:

Scenario	Up to 1 week	Up to 1 month	Up to 6 months	Up to 1 year
Combined stress scenario – requirement	< 95%	< 95%	< 100%	≤ 100%
Utilization of the limit as at 31 December 2020 *	0 %	0 %	0 %	0%*
Utilization of the limit as at 30 September 2020 *	0 %	0 %	0 %	0%*

***Total for all currencies**

The stress scenario is modelled in separate currencies (BGN, EUR, USD and all other total), as well as in total for all currencies in the Bank. The minimum liquidity reserves are BGN 271.2 million (up to 7 days), BGN 273.3 million (up to 1 month), BGN 289.7 million (up to 6 months) and BGN 336.6 million (up to 1 year), respectively. It should be noted that from mid-April 2019, the security accounts with the BNB for the implementation of the MRR (Minimum Required Reserves) are only in BGN.

Liquidity Stress Test
Investbank JSC

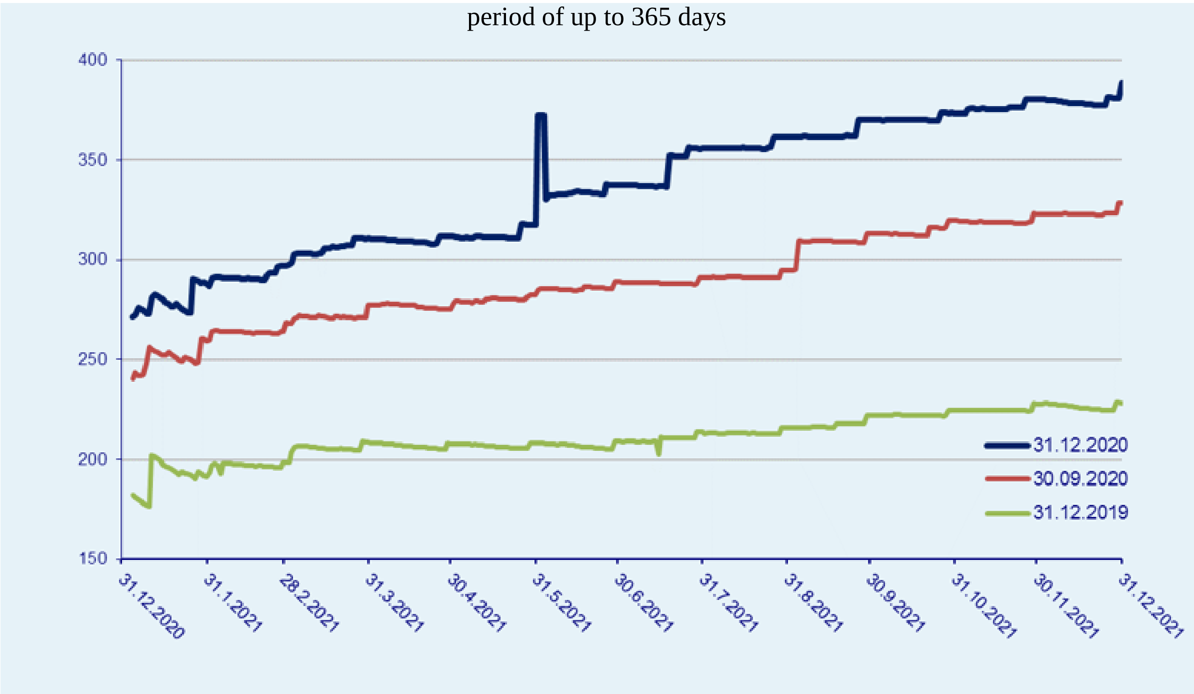
Date: 04/01/2021
Including data as at 31/12/2020

(No)

Combined scenario by type of currency

04.01.2021	Maximum usability (in %)								Minimum liquidity reserve (BGN '000)							
Currency	1 D 7 D	Date	8 D 30 D	Date	31 D 180 D	Date	181 D 1 Y	Date	1 D 7 D	Date	8 D 30 D	Date	31 D 180 D	Date	181 D 1 Y	Date
Total	0.0%	-	0.0%	-	0.0%	-	0.0%	-	271.2	04.01.2021	273.3	25.01.2021	289.7	21.02.2021	336.6	18.07.2021
BGN	2357.0%	10.01.2021	2525.1%	25.01.2021	2275.5%	21.02.2021	1939.0%	18.07.2021	-102.8	10.01.2021	-110.5	25.01.2021	-99.1	21.02.2021	-83.8	18.07.2021
EUR	0.0%	-	0.0%	-	0.0%	-	0.0%	-	353.9	04.01.2021	356.5	24.01.2021	361.1	21.02.2021	391.9	24.07.2021
USD	0.0%	-	0.0%	-	0.0%	-	0.0%	-	14.1	10.01.2021	21.0	01.02.2021	21.9	25.02.2021	22.4	25.08.2021
Other currency	0.0%	-	0.0%	-	0.0%	-	0.0%	-	2.9	05.01.2021	5.9	01.02.2021	5.7	29.06.2021	5.7	03.01.2022

Liquidity Reserves
(Combined scenario for all currencies)



Liquidity ratios under Regulation 575 (LCR & NSFR).

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

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

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

Date	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
LCR	297%	331%	479%	538%	440%	444%	286%

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

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

Date	Dec 2014	Dec 2015	Dec 2016	Dec 2017	Dec 2018	Dec 2019	Dec 2020
NSFR	269%	183%	211%	214%	199%	186%	178%

Operating risk

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

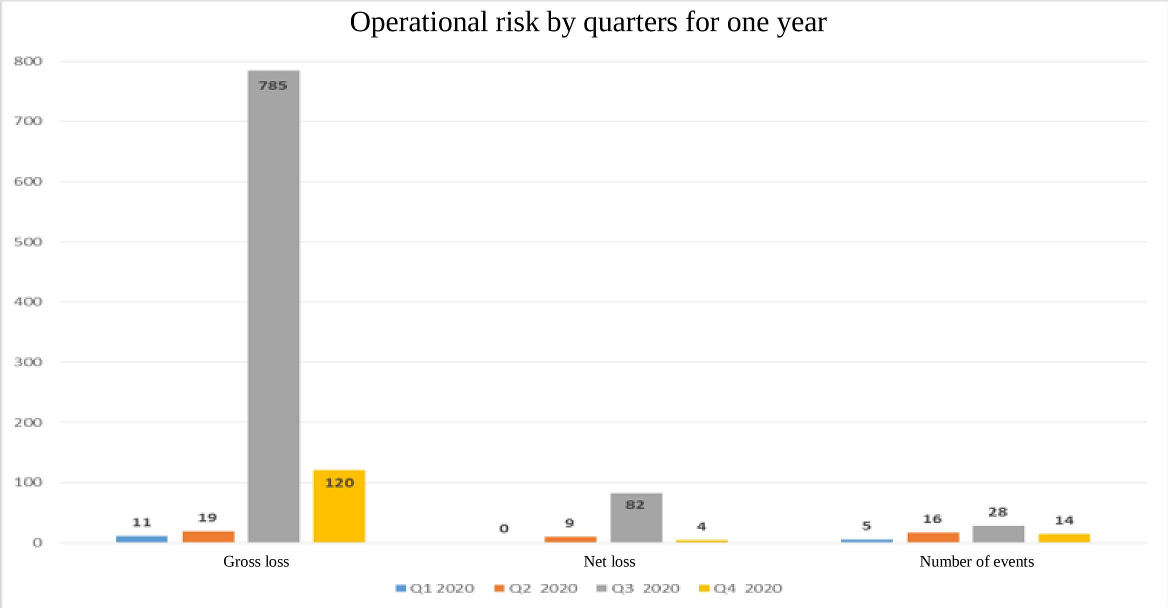
- Risk of human error – the risk of abuse due to low, non-existent or imperfect control procedures, as well as unconscious errors caused by product unawareness, inadequate training, complexity of applied procedures.

- Risk of information systems – related to the use of incorrect models, incorrect data processing, use of erroneous data, use of system unsuitable for new products or introducing new data sources, levels of access to systems, data storage.
- Organizational risk – risk of inappropriate structuring and allocation of responsibilities, lack of appropriate procedures.
- External factors – abuse, fraud, etc. with external manifestation.

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

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

Operational events are classified by risk categories and business lines in compliance with the requirements of EBA (European Banking Authority) and BNB.
In 2020 the event with the largest gross loss amounts to BGN 389 thousand (net BGN 42 thousand, the event is not closed).
In 2019 the event with the largest gross loss amounts to BGN 1,030 thousand (net BGN 1,030 thousand, the event is not closed).



Period	**BGN '000**
Q1 2020	Highest gross loss – BGN 11 thousand (no net)
Q2 2020	Highest gross loss – BGN 8.9 thousand (no net)
Q3 2020	Highest gross loss – BGN 389 thousand (BGN 42 thousand net)
Q4 2020	Highest gross loss – BGN 39 thousand (BGN 2 thousand net)

Frauds related to card payments				**in BGN '000**
year	number registered	Gross loss	Net loss	of number of events
2019	0	0	0	0
2020	3	55	3	63

Country risk

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

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

LARGE CORPORATE CUSTOMERS

In 2020, the unit responsible for large corporate customers in the Bank, i.e. the Large Corporate Customers Directorate, continued the successful development of the segment. The good relations with the customers attracted in 2018 and 2019 were strengthened and new customers were attracted for the Bank, which show reliable results and offers good prospects for development.

Investbank JSC has upgraded its practice of attracting corporate customers by offering quality service, flexible solutions and through the professional qualities of its employees able to review, analyse and finalize transactions in short terms. Due to these features, our customers found a partner in the person of Investbank JSC for their projects, investments, growth and development plans in 2020, thus laying the foundations for a more successful year 2021, both for Investbank and for the corporate customers of the Bank.

A net growth of loans of 36% was realized in 2020 in the Large Corporate Customers (LCC) segment compared to the end of 2019, which in absolute value is over BGN 100 million.

The set budget for 2020 for the volume of loans, interest income and fee income was overfulfilled for each of the positions. Volume of loans - 120% fulfilment; Interest revenues - 112.9% fulfilment, and Revenues from loan and guarantees fees - 125.8% fulfilment.

Along with the good performance of the set goals, a significant improvement of the quality of the portfolio was achieved both in absolute value and the percentage of loans in Phase1 and Phase 2 compared to the total volume of loans.

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

Overall, year 2020 was successful for the Bank in the Large Corporate Customers segment, which is largely due to the professionalism of the team responsible for the management and development of the LCC portfolio, as well as the mutual efforts of all units and persons involved in the process.

RETAIL BANKING

The operations of Investbank JSC in 2020 in the field of retail business was influenced by the Covid-19 pandemic, as the Bank joined the program of the Bulgarian Development Bank AD (BDB AD) to guarantee interest-free loans in protection of people deprived of the opportunity to work due to the Covid-19 pandemic and the Program of BDB AD for portfolio guarantees in support of the liquidity of the enterprises affected by the emergency situation and the epidemic of Covid-19. In the other operations, the Bank continues the trends also valid for 2019 in this segment – the high interest in lending continues this year, which is mainly due to the low interest rates on newly issued loans, as well as the extremely fierce competition between banks in the field of retail banking.

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

The operations in 2020 were focused on a number of main areas:

- Optimization of the structure of the branch network of Investbank.
- Focus on attracting new customers from state and municipal enterprises, as well as employees from large companies in the country. Development of specialized loan offers for employees of these corporate customers.
- Realization of targeted marketing campaigns for the sale of mortgage and consumer loans and credit cards.
- Updating and modernization of the work processes in the Bank. Enrichment of the range of products relevant to customer demand and competitive demand. Trainings of the employees in the Bank's branch network regarding new products, qualitative structuring of the loan transactions, which will respectively lead to an increase in the Bank's business.
- Retail lending under the program of the Bulgarian Development Bank AD (BDB AD) for guaranteeing interest-free loans in protection of people deprived of the opportunity to work due to the Covid-19 pandemic.

LIQUIDITY AND INVESTMENT SERVICES

Asset and liability management

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

The Bank trades mainly in the following currencies: BGN, EUR, USD, CHF and GBP.

Priority is given to ensuring the Bank's liquidity.

The proper management of cash flows and increased deposits from natural persons and businesses did not allow the institution in 2020 to suffer from need for cash. In September, an agreement was signed with the depository intermediary Raisin GmbH, which in turn will enable the Bank to attract long-term deposits from citizens of European Economic Area member-states.

If necessary, the Bank has agreed limits with financial institutions to provide financial resources for borrowings from the interbank money market.

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

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

Management of securities portfolios

The result of the management of financial instrument portfolios for Investbank JSC, reflecting the impact of all revenues and expenses, including interest ones, for the last three years has always been a profit in accordance with market conditions, and the portfolios are structured on the basis of the expected changes in the market indicators in the relevant period of holding financial instruments. The net result reported at the end of the year compared to the level of 2019 shows a decrease in the net profit for the period by about BGN 886 thousand. The main reason for this is the decrease in the low bond yields. The portfolio is optimally structured, mainly with liquidity issues with minimal risk in size and maturity. Despite the low levels of yields (directly affecting interest earnings and depreciation expenses of portfolios) in key maturities of major issuers of debt securities in the Eurozone, the Bulgarian government and corporate debt market in 2020 continued the trend of record low levels of yields. Short-term and medium-term Bulgarian government bonds were traded at a negative yield, as a result of the trend in 2020 for a more pronounced differentiation between the leading countries in the Eurozone and the so-called periphery. Last but not least, the coronavirus pandemic, which is leading to a financial crisis, played a major role in 2020.

Indicators	31 Dec 2018	31 Dec 2019	31 Dec 2020
1. Securities portfolio	457,079	517,288	514,157
2. Net revenues on securities portfolios	7,472	5,105	2,905
2.1. Interest revenues from securities management	5,207	2,915	1,601
2.2. Net revenues from securities management	2,265	2,190	1,304
3. Yield of securities portfolio	1.63%	0.98%	0.57%

Net income on foreign currency operations

For 2020, Investbank JSC reports the net revenues from foreign exchange transactions and the revaluation of foreign currency balances in the amount of BGN 1,964 thousand.

The results as at 31 December 2020 reported a decrease in revenues compared to the end of the previous year, as a result of the reduced volume of foreign exchange transactions with customers, whereby the revenues are mainly from the achieved efficiency in managing the Bank's foreign currency assets and liabilities.

Bondholders' trustee bank

As at 31 December 2020, Investbank JSC is a bondholders' trustee bank of 9 corporate bond issues; reports on the activities of the companies are submitted within the legal time limits to the FSC and BSE, in accordance with the relevant corporate events. The annual revenues from this activity amount to BGN 97,280, excluding VAT, which is by BGN 18,533 less than the previous year, as one of the issues matured.

CARD BUSINESS

Card operations

In 2020 Investbank JSC **successfully completed** a joint project with the card organizations on the implementation of additional strong customer authentication measures with respect to the payer to be applied every time the payer accesses the relevant payment account online, initiates an electronic payment transaction or performs a remote operation.

Investbank JSC is a fully certified issuer and acceptor of cards and payment transactions, respectively, using the secure Internet payment technology 3D Secure (3D secure protocol and Visa Secure/ Mastercard Identity Check).

In connection with the regulatory requirements for the application of "**strong customer authentication**" in online card payments, one of the challenges for the participants in the payment process is to provide their customers with an effective solution for biometric authentication. It eliminates the need to remember passwords, and the biometric features become a means of access.

Investbank JSC also offers **biometric authentication** when paying online. The existing cardholders of Investbank JSC with registered cards for the 3D Card Protection service can now install the BORICA **3DSec** application, which is a standalone mobile application for smart phones.

The service is available to customers for both mobile devices running the Android operating system and iOS of Apple Inc.

The cardholder may choose an authentication method within the transaction and determine whether to verify the payment using a single-use (dynamic) OTP password + static password or through biometrics (fingerprint or facial recognition).

Benefits of 3D Secure for bank cards:

- The cardholder authentication process provides more data for increased security and minimizes losses from fraudulent and contested online transactions;
- Investbank JSC has a wide range of methods for authentication of its cardholders;
- The use of biometric features contributes to a high level of security and an improved customer experience;
- The service ensures compliance with the regulatory requirements.

For another year, Investbank JSC **implements a Cash Back Loyalty Program for credit cards** with a credit limit granted to natural persons and legal entities issued by Investbank JSC.

In the beginning of October 2020, Investbank JSC launched **a campaign to stimulate the issuance of Mastercard debit and credit cards** with cash rewards for the employees who achieved the highest sales results during the campaign period. This activity helped to increase the motivation of the employees in the banking offices and to direct their attention to the sale of card products that Investbank JSC successfully places on the market.

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

The holders of contactless debit and credit cards Mastercard and VISA issued by Investbank JSC **can now pay up to BGN 100 without entering a PIN code.** The new change has contributed to safer use of cards in retail outlets in the currently existing state of emergency and has helped consumers shop easily and with minimal risk of touching various surfaces.

In response to the requirements of the European Directive PSD2 and in order to ensure the security of customers' funds and minimize the risk of fraudulent bank card transactions, Investbank JSC introduced additional identification when performing contactless transactions without a PIN.

After five consecutive contactless payments made without requiring entry of PIN, the cardholder is required to enter a PIN for the sixth consecutive contactless payment, regardless of the transaction amount.

At the end of 2020, a project was launched to develop a **co-branded card product for the needs of the customers of both Investbank JSC and Bulgaria Insurance AD Insurance Company** by adding a health insurance to the debit card, which is to be valid throughout the country. At the moment, no similar joint product is offered on the Bulgarian banking market and we believe that the development of such an innovative joint product would make Investbank JSC distinguishable among the users of banking services and would contribute to the expansion of the portfolio of both companies.

Terminal network

In 2020 Investbank JSC completed a project for modernization and optimization of its ATM network. The main goals of this project are:

- Ensuring the readiness of Investbank JSC to meet the challenges of the "digital era" through the complete technological transformation of its ATM network to the latest generation of ATM devices from the leading manufacturer in this field "Diebold Nixdorf";
- The modernization of the network of ATM devices favours the convenience and the optimal level of service, providing uninterrupted 24/7 service to the Bank's customers. Since the end of August 2020, the customers of Investbank JSC have been able to make contactless transactions, to deposit cash on their accounts, as well as to repay credit card obligations during non-working hours and on weekends.
- The new service is available through the installed new-generation high-tech ATMs with 15-inch touch screens and wider operational functionality.

  Investbank JSC launches a service through which it enables its customers to deposit funds and operate them in their accounts less than 30 minutes after their deposit, regardless of whether the deposit is made during working hours, at night or on weekends. ATMs with a deposit function accept simultaneously different banknotes of BGN 10, 20, 50 and 100, and with one operation up to 50 banknotes can be deposited without the need for their preliminary sorting.

  In addition to added value and convenience for natural persons, the innovative technology also allows the companies to reduce their collection costs.

  The new ATMs also provide a function for contactless transactions which provides an easy, secure and convenient method to withdraw and deposit cash using bank cards, thus eliminating the risk of forgetting the plastic or retaining it in the device, as well as preventing a number of fraud.

The high-tech ATM terminals ensure a transfer of routine operations traditionally performed in a bank office and fully meet the conditions of security and reliability in compliance with the regulatory requirements of the VISA and Mastercard payment schemes.

- Achieving high competitiveness of Investbank JSC in the dynamic market of financial and technological services;
- Offering a new user experience and new type of service through ATM devices:
  - with a modern and advanced appearance;
  - with large 15-inch colour touch-screens;
  - with contactless cash withdrawal functionality;
- Providing an additional channel for communication with customers through the capabilities of the new ATM devices for the visualization of targeted messages;
- Optimizing the number of locations and keeping the most cost-effective locations;
- Increasing the efficiency of the ATM network;

In connection with the need to change the work organization and take preventive measures to minimize the impact of coronavirus on the Bank's employees, the work process was optimized for using ATMs and ensuring servicing a maximum number of customers.

As of the end of 2020, the total number of ATM terminals installed is 83, which allows the Bank to provide additional services to the population in more than 80 settlements in the country. Currently, Investbank JSC maintains and expands a well-developed network of POS terminals that support dual chip/stripe interface and VISA/Mastercard wireless technology. The number of POS terminals in 2020 has remained at approximately the same level.

In 2020, a number of projects were completed related to **improving the security of card payments** and the development of additional value-added functionalities for both the Bank’s POS merchants and the end customers. The card activity and the alternative routes used for the implementation of the electronic services offered by Investbank JSC continue to develop in compliance with all regulatory requirements of the payment card schemes.

Investbank JSC is certified to operate not only with standard POS devices, but also with specific **payment terminals intended to be integrated in vending/parking machines model Unattended POS terminal Ingenico iSelf and has a competitive advantage over other banks**.

The POS terminal network is constantly updated in accordance with the regulations of the VISA/Mastercard payment schemes and our terminals support contactless functionality, providing users with additional convenience, speed and flexibility.

The Bank has a real-time monitoring system for card transactions, which monitors devices and prevents suspicious transactions.

PAYMENT SERVICES

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

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

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

In 2020 the Bank concluded an agreement with the German company Raisin GmbH and after notification by the BNB it began to attract time deposits in Germany, Austria, Spain, the Netherlands, France, Italy.

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

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

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

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

Investbank JSC participates in the following payment systems:

- Bank integrated system for processing of customer payments in BGN (BISERA6);

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

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

INFORMATION TECHNOLOGY

Development of information systems

In 2020 the information systems in Investbank JSC were developed under the specifics of an external environment marked by the emergency situation announced due to the spread of Covid-19. Along with the ongoing renovation, sustainable upgrading and gradual modernization, the Bank undertook a number of activities to ensure the normal implementation of its core activities in the non-standard conditions of a pandemic. The timely planned and implemented measures regarding the creation of conditions for remote access to the information systems made it possible to preserve the functionality and the security of the internal and external IT services and systems, combined with maximum protection of the Bank's employees and customers.

Over the years, the Bank has systematically and purposefully invested in technologies in line with modern trends in the field of banking.

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

An in-depth analysis was performed and a project was launched to digitize the Bank's archives.

In order to expand the range of products and services for the Bank's customers, during the year active actions were taken in the field of optimization, development and upgrading of the functionality of the basic banking system, the card system and the Internet banking system.

The processes for calculating and accounting for provisions pursuant to IFRS 9 were fully automated, as were those for generating financial statements for FATCA and CRS purposes.

In the field of payment systems, the GPI project - Basic Tracker was implemented. The project covers a package of cloud-based tools and provides an option to improve customer service in cross-border and local payments. Using SGPI-Basic Tracker banks are able to follow the end-to-end payments of their customers. The project for selection of a network provider for the ESMIG (European Single Market Infrastructure Gateway) service required for the access to the new consolidated TARGET platform was finalized, as well as the project for consolidation of the TARGET2 (including TIPS) and TARGET2-Securities platforms for technical and functional level was launched.

During the year, serious attention was also paid to the upgrading of the implemented Project on Ensuring the Activities for Providing Continuous and Fault-Free Operation of the Bank's Information Systems, aiming at achieving a high degree of security in the execution of banking transactions, as well as maintaining reliable databases, networks and systems in order to ensure continuity of service and key processes at the Bank. After a detailed analysis of the implemented comprehensive DR test, the redundancy of a number of critical systems, as well as the processes of archiving and backing up the information were refined and improved.

Along with the projects for the introduction and development of the main systems, the Bank also continued to optimize and upgrade the internal information infrastructure. The scope of IP telephony in the branch network was expanded, the UPS devices for a number of branches of the Bank were replaced, the work on optimizing the printing at the bank continued. Together with the communication provider and the system integrator, network capacities and reliability of communication connections were increased.

The work on the optimization of the complex antivirus and firewall protection continued for the control of all input-output devices, installed software, etc. The anti-spam protection of the Bank's e-mail server was also updated.

Projects in the field of software and technical support - 2021

All projects launched in 2020 are to be developed and finalized in 2021, with efforts focused on the strict implementation of the planned schedules.

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

- Updating and expanding the functionality of the Bank's internal corporate website.
- Developing the internal document information system.
- Analysing and providing of full redundancy of telephone services through centralized SIP signalling, duplicating the connectivity to the backup location and migration to IP telephony in a branch network.
- Improving DDoS protection, protecting the Bank's electronic channels.

DIGITAL SERVICES

Development of digital services and products

The development of the digital services and products in Investbank JSC in 2020 took place in compliance with the adopted Strategy for Development of Remote Sales Channels in Investbank JSC.

The Bank successfully implemented a number of projects related to the digital transformation of the Bank and offered its customers new innovative services such as "Online Deposit" and "Online Fast Credit", using remote customer identification and signing documents with cloud QES. The Fast Credit functionality was developed in the Bank's offices, and the process is automated with an approval time of up to 15 minutes.

The Internet banking service was upgraded with new functionalities.

The Bank started joint operations with RAISIN BANK AD and RAISIN OOD for the acceptance of foreign deposits.

Projects were launched for the development of a mobile banking application and for a new corporate website, with a specially developed design in line with modern trends.

Projects in the field of digital services - 2021

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

- Developing in stages and implementing the mobile banking application.
- Developing the functionalities in the Internet banking service.
- Continuing the development and implementation of the corporate website of the Bank.
- Developing the internal document information system.
- Developing new online products.
- Developing the remote signing of documents for the Bank's customers.

INFORMATION SECURITY

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

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

The document of Information Security Policy (Policy) adopted by the MB on 14 February 2014 with Minutes No.14 and approved by the SB, aims to define the minimum requirements for maintaining an acceptable level of risk for the Bank in terms of information security, as well as and the obligations of the management and the employees for the protection of the information assets of Investbank JSC.

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

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

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

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

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

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

The main objective of the Business Continuity Plan of Investbank JSC (adopted along with the appendices thereto on 5 March with Minutes No. 15 of the meeting of the MB and approved by the SB with Minutes No. 9 dated 9 March 2015) is to minimize financial losses in the event of an incident and to ensure timely recovery of critical business processes by creating the necessary prerequisites for:

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

HUMAN RESOURCE MANAGEMENT

Human resource management and development activities in 2020 were affected by the Corona virus crisis. The emergency situation required rapid adaptation to the new reality and repeated readjustment of activities and processes in a situation of dynamic changes. Over the past year, the efforts were focused on two main areas - ensuring the health and safety of the employees and the effective functioning of the operations essential for the implementation of the strategic objectives of the Bank.

An organization was set up to provide personal protective equipment and disinfection for the Bank's employees and customers. A number of repeated campaigns were carried out to provide information, instruction and consultation on prevention and health measures. Through the internal communication channels, the employees were promptly notified of all changes and decisions of the state bodies. To help employees and their families, psychological counselling was provided as part of the package of health services within the supplementary Health Insurance. In order to reduce contacts in the Bank's premises, flexible forms of employment such as remote working, variable working hours and 'available' work.

Despite the challenges, the training and development program was maximized. After the announcement of the epidemic emergency situation, the Bank fully introduced a form of distance learning both for internal trainings and for those organized by external providers. During the calendar year, 77 employees of the Bank were enrolled in external trainings related to regulatory changes, professional and personal development. All newly appointed employees involved in cash operations attended trainings under BNB Ordinance No. 18 and in Cash Foreign Exchange Transactions. The e-learning platform was used effectively to conduct 9 internal trainings, which were attended by 1209 employees. Extensive training of employees in the branch network occupying commercial positions related to customer service and sales of banking products was conducted.

During the year, a policy of evaluation and optimization of processes, organization of work and staffing was gradually implemented in order to create a more efficient, modernized and sustainable institution.

In 2020, the Bank took part in the first virtually organized Career Days. The forum was attended by students from various specialties and schools. Despite the epidemic situation and distance learning at universities, the internship program attracted many students, some of whom successfully passed all stages and continued their careers in Investbank.

REAL ESTATE

Asset realization

Like the economy as a whole, the real estate market in 2020 was also affected by the pandemic situation, albeit to a lesser extent than expected. For the period March-April, the stagnation was complete, with the interest in purchase-sales starting gradually to recover, and the prices generally remained at their levels. The difference, however, was in the speed with which buyers decided to finalize the deals. The rental market was drastically affected, and industries such as trade and especially tourism almost completely ceased operations.

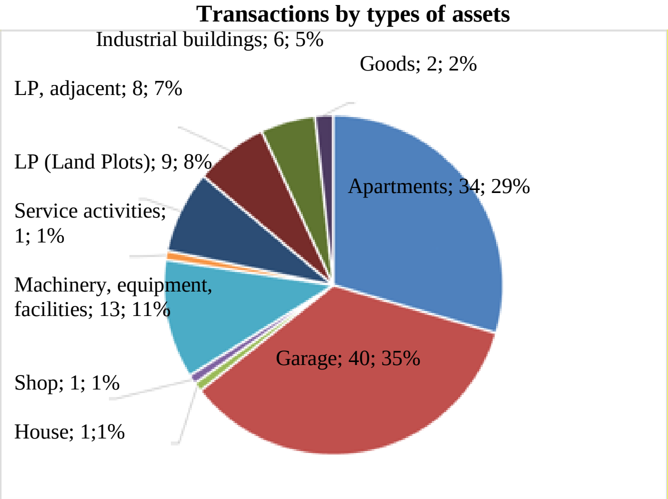
Against this background we can note the following:

- Industrial sites in Sofia and the surrounding area were successfully realized;
- The deals with apartments in Sofia and holiday properties in Bansko continued;
- Rental and lease agreements were signed for agricultural lands acquired by the Bank;
- The activities for the completion of several buildings owned by the Bank and their putting into operation have continued, with a view to increasing the options for the realization of the properties in the respective sites.

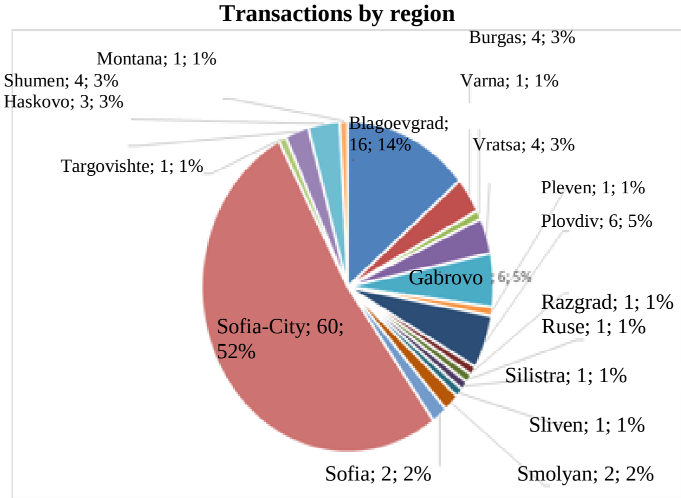
The main focuses were in the following areas:

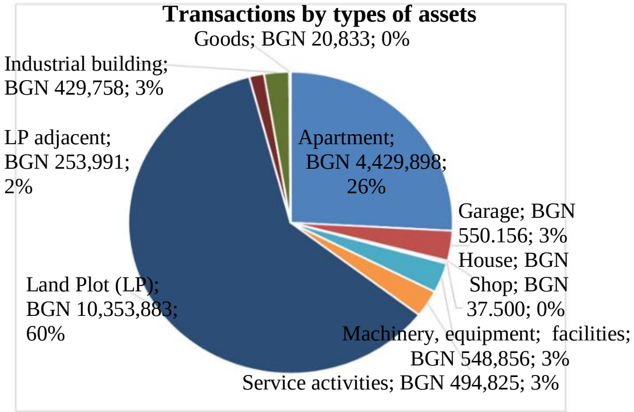
- Improving asset quality;
- Transformation of the operating model - digitalization and active offering of assets for sale;
- Participation in the centralized property insurance, owned by the Bank;
- Cost optimization.

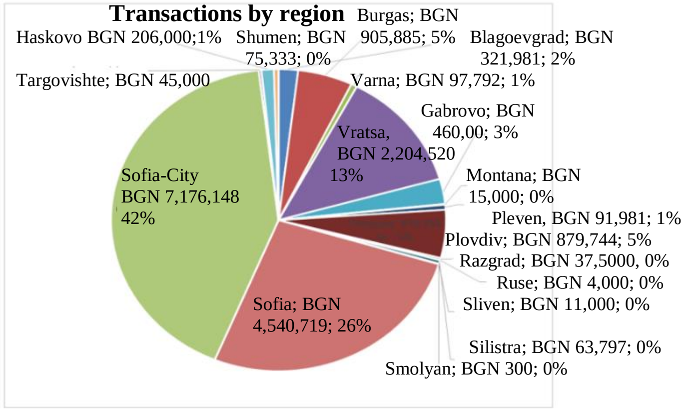
Transactions by types of assets



Transactions by region







CORPORATE COMMUNICATIONS

In 2020 the activity of the directorate was realized in two main directions – active communication of the process of digitalization of the Bank and the introduced modern solutions, as well as providing timely notification of our employees and customers of the arising pandemic situation. The Corporate Communications Directorate managed the information flow on the external and internal corporate website concerning important health measures and aimed at minimizing health risk. Through this information flow we managed to communicate the Bank as an effective, flexible and responsible institution and to form a spirit of trust and cohesion among employees, as well as among our customers and partners. At the same time, the Directorate conducted a number of advertising campaigns in favour of innovative digital solutions introduced for the customers of Investbank JSC during the year as part of the ongoing process of digitalization of the Bank using a variety of channels and advertising forms according to the specific banking product.

The budget for advertising and PR activities of Investbank JSC for 2020 was distributed efficiently and flexibly according to the most competitive offers. In the field of **Corporate Social Responsibility**, the Corporate Communications Directorate supported a number of charitable initiatives, which were simultaneously reflected on the internal and external corporate websites. /At the beginning of the school year, the Bank donated dispensers and disinfectants to 10 schools in need located in different municipalities; sponsored Rhodope-Smolyan Volleyball Sports Club; supported the Bulgarian Christmas campaign/.

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

Internal communications – The internal corporate communication during the year was actively carried out, following the mission to keep the Bank's employees informed, confident in the measures taken by the institution and motivated to achieve maximum results in their work. In addition to communication on limiting the distribution of Covid-19, the internal corporate website featured news on the digital products and other innovations introduced by the Bank, as well as on the achievements of peers in the financial centers in Sofia and throughout the country. The Corporate Communications Directorate assisted in the reactivation of the intra-corporate charitable fund and actively helped the Human Resources Management Directorate in the preparation of a Management Meeting held in September.

Advertising – Investbank JSC implements its annual advertising strategy by combining traditional advertising forms such as television, radio, print media, banner and Google advertising with innovative digital formats such as Mobile Marketing and advertising through the AdHash platform.

The focus in the Bank's advertising activities in 2020 was placed on product advertising for fast consumer loan and online deposit, using the following advertising channels for the purpose: Internet, television, printed materials for offices. Internet advertising was realized both in social networks and in authoritative information and specialized websites which to the maximum extent covered the target audience.

In connection with the launch of the product "Fast Consumer Credit" by Investbank JSC, an advertising video was prepared and broadcast on NOVA TV and 11 other channels of Nova Broadcasting Group. At the same time, with a vision advertising the product, the email abv.bg, part of the digital media group Net Info, was fully branded for a 10-day period. Digital marketing, sponsored Facebook posts and Google Search advertising were also part of the large-scale advertising campaign.

The Bank also expanded its advertising activities in the field of contextually offered brand content. This type of projects, which reach a large number of users and are perceived with a high degree of trust due to the added value of their content, were implemented jointly with national and specialized business publications: "24 hours", Money.bg, "Manager" magazine.

Supporting advertising and layout of the financial centers

The Corporate Communications Directorate continued to work in a timely manner for the advertising support of the Bank's financial centers, providing printed advertising materials, as well as branding the locations.

Online communications

In order to optimize the results of its activity in the social networks, the Directorate made an analysis of the current trends and jointly with the digital agency updated and specified its strategy. Throughout the year, the indicators of the various types of publications were monitored, as well as the comments and inquiries received from potential and current customers on the social networks about the Bank's products and services, after which feedback was provided to peers in the relevant units.

Digital projects

The Directorate was engaged in the process of developing the new external and the new internal corporate websites of the Bank, both in terms of design and functionality.

Relations with media and other key partners

The Directorate maintains and expands its partner network of media, advertising and digital agencies, as well as other types of counterparties. Part of the activities in this direction was the realized Christmas campaign during which holiday gifts were sent to key partners of the Bank's Management and advertising materials with current design were printed – corporate notebook, calendar and branded paper envelopes.

In 2021, the Directorate will continue to develop fruitful media partnerships, allowing us to further diversify the forms of advertising used and to show flexibility and maximum efficiency in the upcoming campaigns in support of the Bank's products. The forthcoming launch of a new external corporate website, as well as the Mobile Banking service will be properly communicated to the external audience, as well as among employees; we will further modernize our presence in social networks and work to build a strong brand identity through new campaigns in the field of Corporate Social Responsibility.

RESEARCH AND DEVELOPMENT

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

DISCLOSURES

Information about the persons managing and representing the Bank

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

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

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

The remunerations of the executive directors and the Management Board as at 31 December 2020 amount to BGN 490 thousand (year 2019: BGN 620 thousand) and those of the Supervisory Board amount to BGN 387 thousand (year 2019: BGN 376 thousand).

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

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

SB MEMBERS

- Petya Ivanova Barakova Slavova
  Festa Holding AD – over 25% of the capital and participation in the management (Chairperson of the Board of Directors)
  Festa Hotels AD – participation in the management (Chairperson of the Supervisory Board)
  Investbank JSC – participation in the management (Chairperson of the Supervisory Board)
  Properties PS – over 25% of the capital and participation in the management (Manager)
  Job SRL – over 25% of the capital (Manager)
  Chernomorsko Zlato AD - participation in the management (Chairperson of the Supervisory Board)
  ZAD Bulgaria – participation in the management (Chairperson of the Supervisory Board)
  Association of the Bulgarian Tourism Industry - participation in the management (Chairperson of the Management Board)
  F Assets AD – participation in the management (Chairperson of the Board of Directors)
- Dimitriyka Lazarova Andreeva
  DA Finance EOOD - over 25% of the capital and participation in the management
- Festa Holding AD
  Festa Security – over 25% of the capital (Member of the Supervisory Board)
  F Assets AD – over 25% of the capital
  Investbank JSC – over 25% of the capital (Member of the Supervisory Board)
  Bulgaria Insurance AD - more than 25% of the capital
  Re PAK AD – participation in the management (Member of the Board of Directors)
  Festa Hotels AD – over 25% of the capital and participation in the management (Member of the Supervisory Board)

MB MEMBERS

- Vesela Ivanova Koleva-Dzhidzheva
  There is no data for participation in the Commercial Register and Declaration pursuant to Art. 45 of Credit Institutions Act (CIA)

- Zdravka Rumenova Ruseva
  There is no data for participation in the Commercial Register and Declaration pursuant to Art. 45 of Credit Institutions Act (CIA)
- Lyudmila Stoyanova Vasileva
  LV Consulting EOOD – over 25% of the capital
  Yovnov Consult EOOD – Manager
- Maya Ivanova Kolarova (Stancheva)
  There is no data for participation in the Commercial Register and Declaration pursuant to Art. 45 of Credit Institutions Act (CIA)

Responsibility of the Management

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

In preparing these statements, the Management confirms that:

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

The management declares that:

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

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

DEVELOPMENT PLANS

The strategic goal in the development of Investbank JSC is the establishment of a sustainable business model, allowing the formation of such an income structure that will allow for the internal generation of capital and increase of the market price of the shareholding while simultaneously pursuing a moderately conservative policy in adopting risk and maintaining an acceptable risk profile of the Bank's assets and liabilities.

This goal will be achieved by:

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

Core business segments:

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

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

Particular attention will be paid to:

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

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

EVENTS AFTER THE DATE OF THE STATEMENT OF FINANCIAL POSITION

1. By a decision under Minutes of Meeting dated 4 January 2021 of the Board of Directors of Festa Holding AD, Mr. Ivaylo Stoyanov Stoyanov was appointed and elected as a new representative - natural person of the company as a member of the Supervisory Board of Investbank JSC, according to the preliminary approval of BNB with Decision of the BNB Governing Board No. BNB-107413 of 26 November 2020.
2. On 15 January 2021 Mrs. Maya Ivanova Stancheva was registered with the Commercial Register as a new Executive Director of Investbank JSC, who until this date was a member of the Management Board only.

Zdravka Ruseva	Maya Stancheva
Executive Director	Executive Director

"ИНВЕСТБАНК" АД * ЦЕНТРАЛНО УПРАВЛЕНИЕ · СОФИЯ ibank

I, the undersigned Svetlana Velikova Milenkova certify the true translation from Bulgarian into English of the document attached – Annual Management Report of Investbank JSC for 2020. The translation consists of 63 pages.

Translator: .... Svetlana Velikova Milenkova