Annual report 2017

Fibank

My bank

The present report is prepared on the grounds of and in compliance with the requirements of the Accounting Act, the Law on Public Offering of Securities, Ordinance №2 of the Financial Supervision Commission for the prospects of public offering and admittance for trade on a regulated market of securities and for the disclosure of information, Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and the National Corporate Governance Code, approved by the Financial Supervision Commission.

Who we are

First Investment Bank AD (Fibank) is a credit institution with a full license for banking activity in the Republic of Bulgaria and abroad. Fibank offers various products and services for individuals and corporate clients, based on deep financial competence and knowledge of the various industry sectors of the economy.

Our business

- Retail banking
- Microlending
- SME banking
- Corporate banking
- Card payments
- E-banking
- Trade financing
- International payments
- Money and capital markets
- Foreign exchange

History

In 2018, First Investment Bank is celebrating its 25th anniversary. It is the biggest Bulgarian-owned bank and the third largest bank in Bulgaria. Throughout the years its business profile has developed as a universal credit institution, having its own image and a brand for superior quality of service, an innovative, dynamic bank, preferred by the population and supporting good projects, and which competes with the best in the industry.

Governance structure

A two-tier governance system consisting of a Supervisory Board and a Managing Board

Employees

3,221 employees at end-2017.

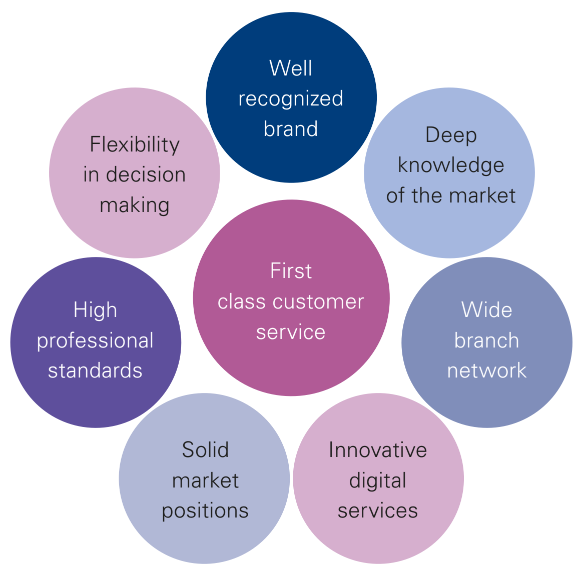
Headquarters

37, Dragan Tsankov Blvd., 1797 Sofia.

Business principles

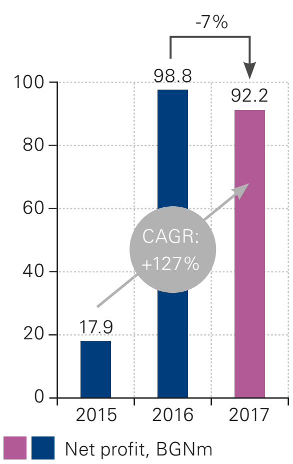
- We believe that trust is the basis of long-term relations
- We strive not only for the best practices and results, but we have the goodwill and discipline to achieve them
- We appreciate and respect our business partners
- We strive for development and proactive solutions
- We are engaged in social issues and we make our contribution to their solution
- We bear responsibility for our decisions and actions

Competitive advantages

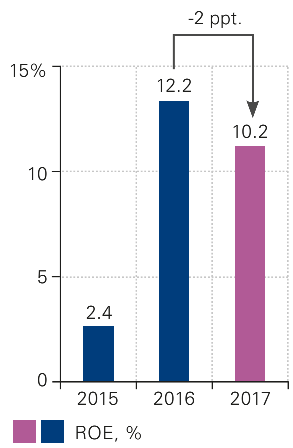


Selected indicators

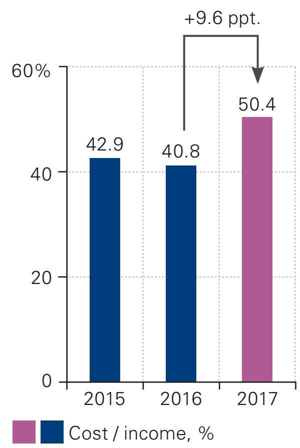
Net profit



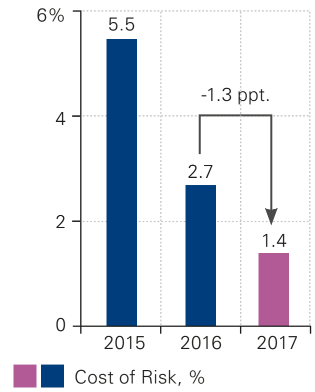
Return on equity (ROE)



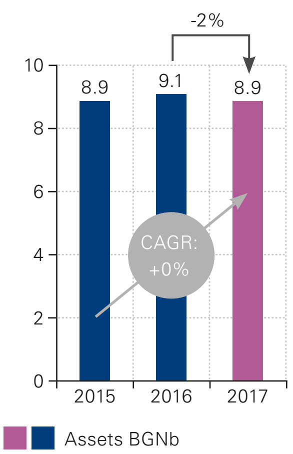
Cost / income ratio



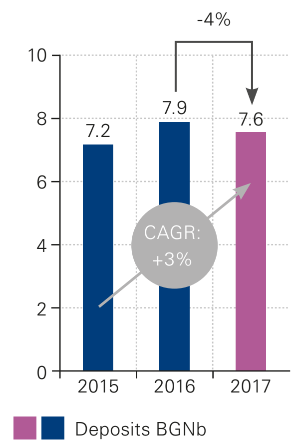
Cost of Risk



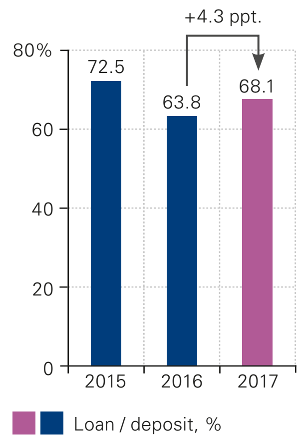
Assets



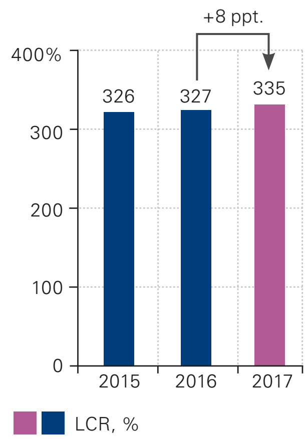
Deposits



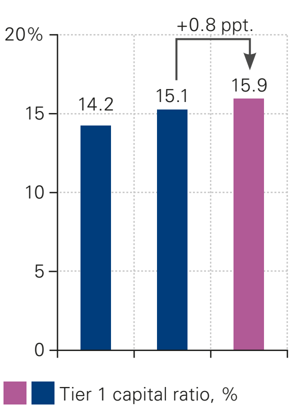
Loan / deposit ratio



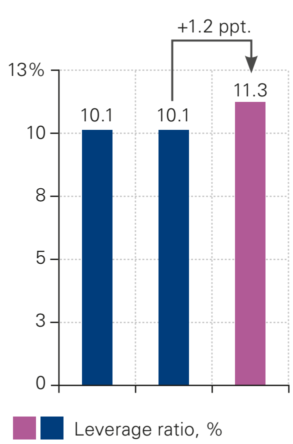
LCR



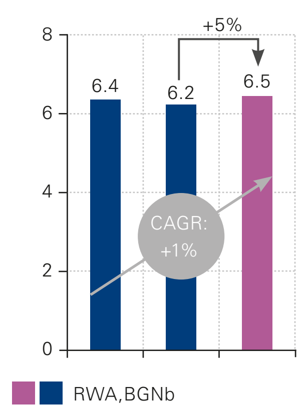
Tier 1 capital ratio



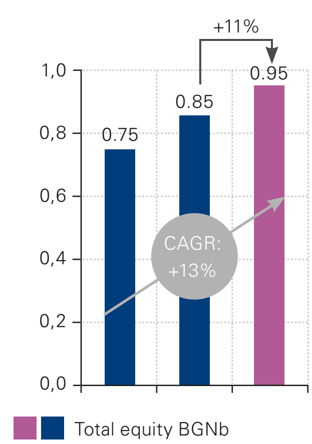
Leverage ratio



Risk-weighted assets (RWA)



Total equity



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Message from the Managing board

Dear Shareholders, Customers and Colleagues,

Our achievements in 2017 in all business areas: financial results, product development, technological solutions, risk management in line with European and local regulations, social and corporate responsibility and, above all, high customer satisfaction, are positive indicators of the sustainability of the business model of First Investment Bank AD, and of the professionalism and efforts of its team of over 3,000 employees.

In pursuit of our strategic targets for growth in the retail and SME banking sectors with an emphasis on the development of consumer financing and transaction business, we increased our loan portfolios in these business segments both in absolute terms and as a relative share of the total loan portfolio: 28.2% and 13.1% respectively. We updated our packages for individual and corporate clients and offered new products geared towards particular segments, such as IT companies and medical practices, and for the implementation of investment projects co-financed through EU structural fund programs. Our market shares in consumer and mortgage lending increased to 9.7% and 6.4%.

We continued to invest in technologies, service upgrades and innovations, with a special focus on digital solutions. We implemented the My Fibank project for a fully integrated e-banking platform, including all major digital channels for offering products and services. We added new functionalities to our mobile banking, developed the Digital Payments service for the management of digital bank cards, and updated the core banking information system by migrating to a higher version, Oracle Flexcube 12. The awards received for innovations in the consumer sector at the International Product of the Year awards, as well as for digital payments at the Webit 2017 innovation technology festival, serve as a testimony to our successful development.

Our business development in 2017 took place in an environment of sustainable deposit growth and gradually recovering investment activity, combined with low interest rates and the challenges of new European regulations. The implementation of our management policies contributed to the positive results. The corporate governance and risk minimization models were further developed, including through the specialized efforts of the new structural units for intensive loan management and asset management. This in turn contributed to raising the capital adequacy to 15.9%. Total assets amounted to BGN 8,921 million and the loan portfolio increased to BGN 5,163 million, while impairment was down by 28%. The liquidity ratio was 24.8% and the net loans/deposits ratio was 68.1% at year-end.

Notwithstanding the low interest rate levels, the deposit base (BGN 7,584 million) remained stable, with the Bank maintaining its third place in terms of deposits among credit institutions in the country. This served as an indicator of high market confidence and customer satisfaction, which in turn contributed to an increase in the volume of transaction business and lower-risk operations. A growth of 11% YOY was reported in net fee and commission income which reached BGN 102 million, increasing its share in total income to 25.1%. Thanks to the consistent implementation of its development plans, First Investment Bank ended 2017 with total operating income of BGN 406.6 million and net profit of BGN 92.2 million.

Changes were also made in the Bank's structure, the strategic focus being on retail banking development and further improvement of customer service and satisfaction. A project for the reorganization of banking offices in Sofia was implemented in 2017, including the introduction of 5 functional branches. The new structure was aimed at creating a unified organizational model in the Bank's branch network and a more efficient allocation of budget targets in line with market potential and geographic distribution of sales points, the ultimate effect being the attraction of new customers and an increase in cross-selling.

Our strategy is based on creating added value for customers, increasing their satisfaction and willingness to use our banking services. The professionalism and dedication of our employees are paramount to achieving our goals. Innovations are not just about technology. That is why we invest in innovative programs to upgrade the knowledge and skills of our staff, and build long-term relationships of trust with our customers.

In 2017, First Investment Bank continued its role as a socially responsible institution by making a contribution to addressing the problems of society, fostering young talents, and supporting disadvantaged people.

We thank our employees for their hard work and dedication, our shareholders for their support, and our customers for their loyalty in a dynamic and highly competitive environment. We thank all those who contributed to the growth and establishment of First Investment Bank as the Bulgarian brand for best quality and prosperity.

We confidently look forward to the fulfillment of our new plans and aspirations. We believe they will be worthy of the upcoming 25th anniversary of our bank.

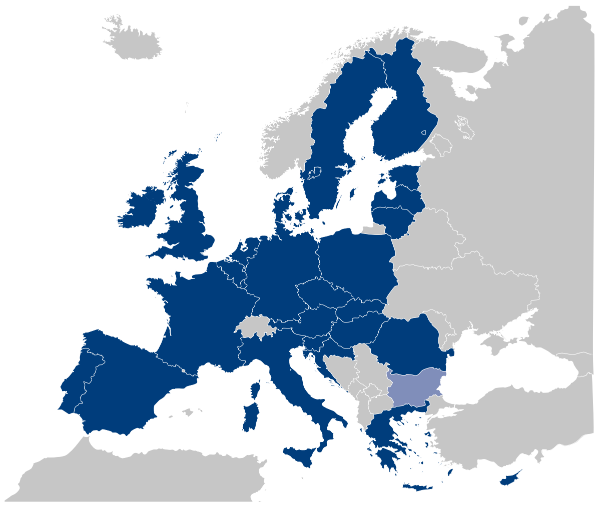
The Managememnt Board of First Investment Bank AD

Sofia, April 2018

With digitization, new worlds are becoming ever closer.
Approaching them, we carry with us our traditions,
human dreams and aspirations …

Macroeconomic development

Republic of Bulgaria



Indicators

Population	7.1 mln. people
Area	110,994 km^2
Member of the European Union	2007
Member of NATO	2004
Exchange rate EUR/BGN (fixed)	1.95583
Flat tax rate	10%
Moody's	Baa2, stable
Fitch Ratings	BBB, stable
S&P	BBB-, stable

In 2017, the Bulgarian economy registered positive development in the conditions of an improving external environment, as a result of a gradual increase in private consumption and investment activity, as well as the discontinuing of deflation processes in the country. The existing Currency Board system and the fiscal position continued to contribute to maintaining macroeconomic stability.

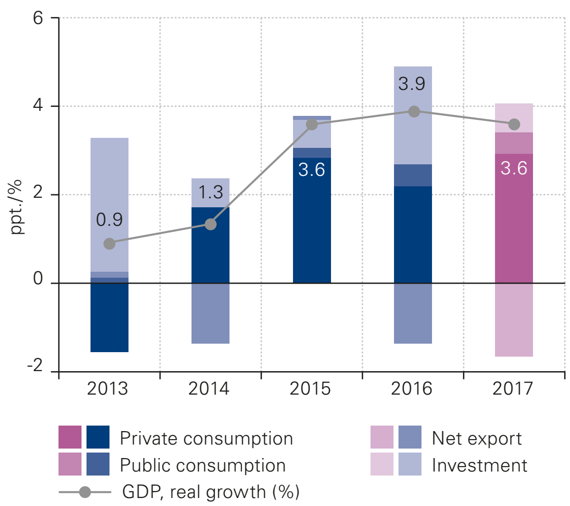
	2017	2016	2015	2014	2013
Gross domestic product (BGN million)	98,361	94,130	88,571	83,634	82,166
Gross domestic product, real growth (%)	3.6	3.9	3.6	1.3	0.9
Consumption, real growth (%)	4.5	3.3	3.8	2.2	(1.9)
Fixed capital formation, real growth (%)	3.8	(6.6)	2.7	3.4	0.3
Net export, real growth (%)	(3.2)	3.6	0.3	(2.1)	5.3
Inflation, at period-end (%)	2.8	0.1	(0.4)	(0.9)	(1.6)
Average inflation (%)	2.1	(0.8)	(0.1)	(1.4)	0.9
Unemployment, at period-end (%)	7.1	8.0	10.0	10.7	11.8
Current account (% of GDP)	4.5	2.3	0.0	0.1	1.3
Trade balance (% of GDP)	(4.1)	(2.0)	(5.8)	(6.5)	(7.0)
Reserve assets of BNB (EUR million)	23,662	23,899	20,285	16,534	14,426
FDI in Bulgaria (% of GDP)	1.9	2.2	5.5	2.7	3.3
Gross external debt (% of GDP)	66.1	71.1	74.0	92.0	87.9
Public and publicly guaranteed debt (% of GDP)	25.9	29.1	26.3	27.2	18.1
Consolidated budget balance (% of GDP)	0.8	1.6	(2.8)	(3.7)	(1.8)
Exchange rate of USD (BGN for USD 1)	1.63	1.86	1.79	1.61	1.42

Source: NSI, BNB, MF, Employment agency

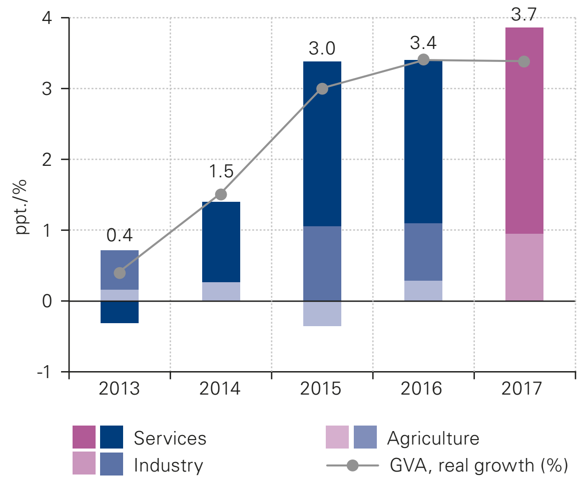
In 2017, the country's economy reported a real annual growth rate of 3.6% for the period (2016: 3.9%), influenced by the improving external environment on a global scale, as well as the growing economic activity in the countries of the European Union. The main driver of the economy was private consumption growing by 4.8% for 2017 (2016: 3.5%), due to higher internal demand and positive dynamics in the labor market. Gross fixed capital formation made an additional contribution to growth, increasing by 3.8% for the period (2016: -6.6%), reflecting the positive indications for the development of the business climate and companies' expectations.

A restrictive factor to growth was net export, which decreased by -3.2% y/o/y (2016: 3.6%), as a result of the faster growth in imports (2017: 7.2%) compared to exports (2017: 4.0%) and the related more positive dynamics in internal demand of goods and services, as well as the growing income of the population.

Components contribution to GDP



Sector contribution to gross value added

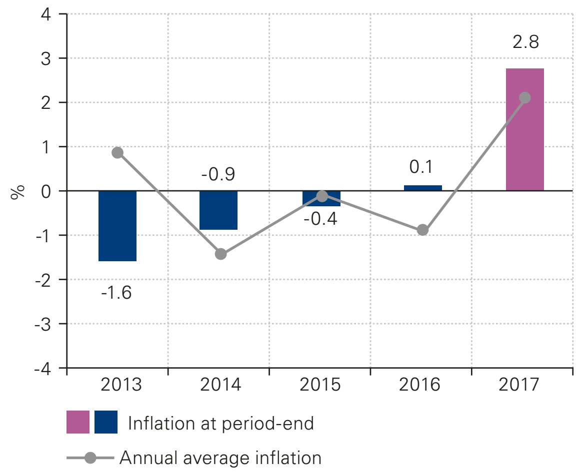


The gross value added in the economy grew by 3.7% for the year (2016: 3.4%), mainly driven by the services industry which reported real growth of 4.4% (2016: 3.3%), including the sectors of trade, transport and tourism (2017: 3.0%). Real estate transactions also grew by 9.4% for the year, as a result of the development of the real estate market and the construction sector in the country. In 2017, the index of house prices rose by 9.0% y/o/y by the third quarter, of which 5.5% was for newly built apartments and 10.9% for existing housing.

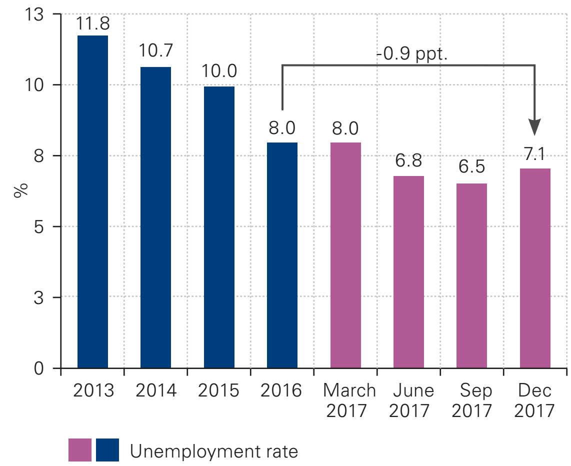
The industrial sector also had a positive impact on the value added in the economy, increasing by a total of 3.6% over the period (2016: 3.2%). 3.0% growth was reported in the mining and manufacturing industries, including in key import-oriented industries and in consumer goods. Value added in the construction sector was positive by 5.9% for the year (2016: -6.8%), reflecting the positive dynamics and indications for recovery of that sector. The agricultural sector made a negative contribution to the economy of -0.1% (2016: 5.3%), resulting mainly from the lower production of grain and industrial crops, compared to the higher agricultural yields and stronger indicators of the previous year.

In 2017, the labor market continued to show positive tendencies, including in seasonal employment, as the unemployment rate declined to 7.1% by the end of the period (2016: 8.0%; 2015: 10.0%), reflecting the improved expectations of companies in terms of investments and costs. The number of employed persons in the third quarter of 2017 amounted to 3,168 thousand and the employment ratio to 52.3%. The highest increase of employment was registered in the sectors of trade (5.5%), construction (11.3%), tourism and restaurants (10.6%), financial and insurance business (19.1%), manufacturing (5.2%) and agriculture (11.4%).

Inflation



Unemployment rate

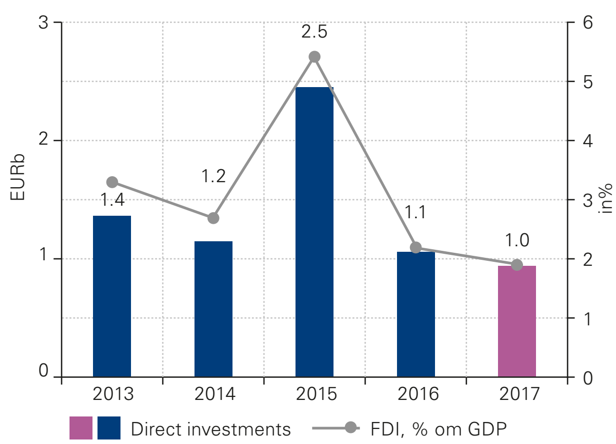


During the year, the deflationary processes in the country gradually subsided, as the average annual inflation for the period amounted to 2.1% (2016: -0.8%), while inflation at year-end reached its highest values for the last five years (2017: 2.8%; 2016: 0.1%; 2015: -0.4%; 2014: -0.9%; 2013: -1.6%). This was mainly driven by the appreciation in petrol and the main raw materials on the international markets and their reflection on internal prices, incl. on fuels and transport services (3.3%), as well as food products (3.8%) and public catering (3.0%). Goods and services with administered prices also made a positive contribution to overall inflation, incl. in tobacco products (2.7%) overhead expenses for water, electricity and gas (5.4%). The long-term trend in declining prices for telecommunication services and durable goods continued to have a negative influence. Harmonized inflation, which is one of the price stability criteria for joining the Eurozone, was 1.8% at year-end, and 1.2% on average for the period.

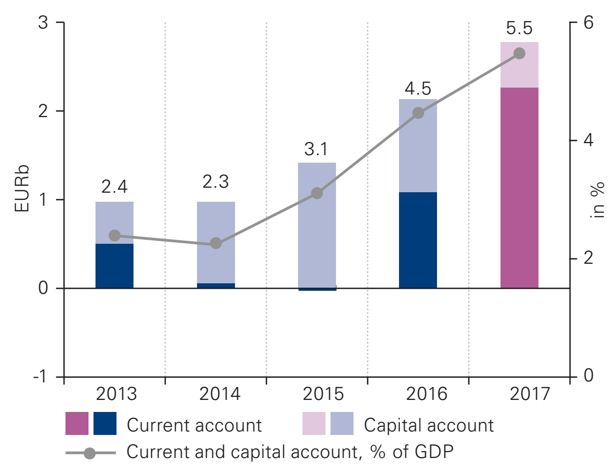
During the year foreign direct investments in the country amounted to EUR 950 million (1.9% of GDP) as of end-2017 (2016: EUR 1,080 million, or 2.2% of GDP). These dynamics reflected mainly the higher inflow from debt instruments (financial, obligational and commercial loans) at the expense of reinvested profits and investments in the form of equity share. By country, the largest investments attracted came from the Netherlands (EUR 885 million), followed by Germany (EUR 131 million) and Switzerland (EUR 130 million).

The faster growth in imports (15.5% y/o/y, to EUR 27,828 million) increased the trade deficit, which reached EUR -2,074 million or -4.1% of GDP at the end-2017 (2016: EUR -984 million, or -2.0% of GDP). The positive balance on the current and capital account increased to EUR 2,795 million or 5.5% of GDP, supported by higher income in the services sector (tourism and travelling), at the expense of capital transfers, incl. from EU programs.

Foreign direct investments in the country



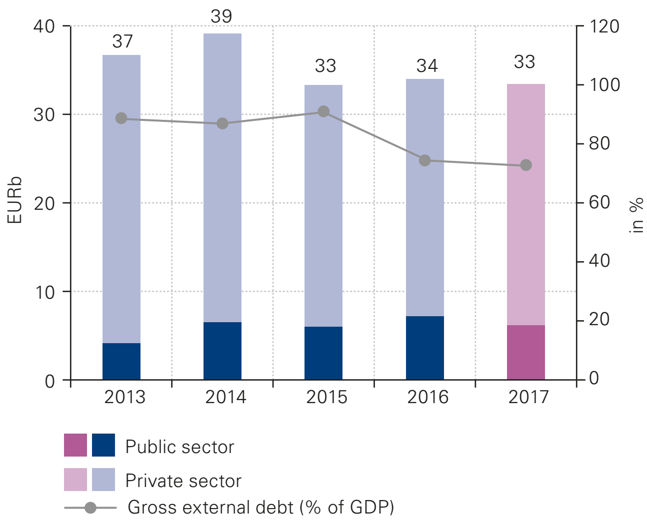
Current and capital account



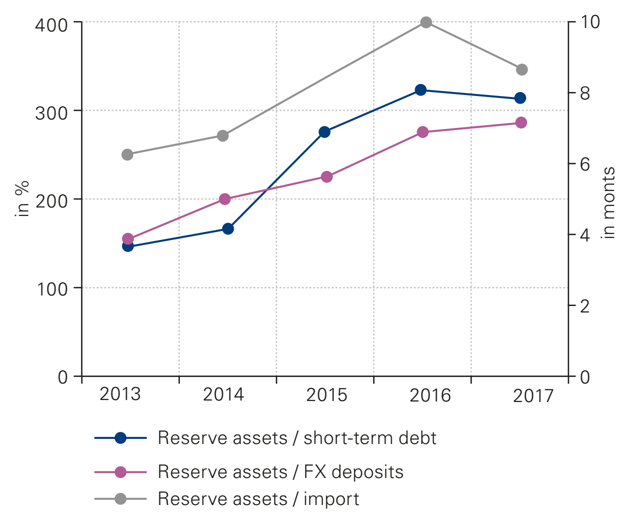
Exports grew by 11.5% as at end-2017. Raw materials (non-ferrous metals, foodstuffs, plastics and textiles) accounted for the main share at 39.5%, followed by consumer goods (foods, medicines, clothing, furniture) at 25.1%, investment goods (machinery, spare parts and equipment) at 25.8%, and energy resources, including petroleum products, at 9.3%.

The gross external debt of the country decreased by 2.7% y/o/y to EUR 33,309 million or 66.1% of GDP at the end of 2017 (2016: EUR 34,220 million, or 71.1% of GDP). This decrease was mainly attributable to the lower external debt of the private sector as well as of the public sector. The latter reached EUR 6,327 million or 12.5% for 2017 compared to EUR 7,229 million a year earlier, due to repaid Eurobonds issued by the Bulgarian government during the year.

Gross external debt



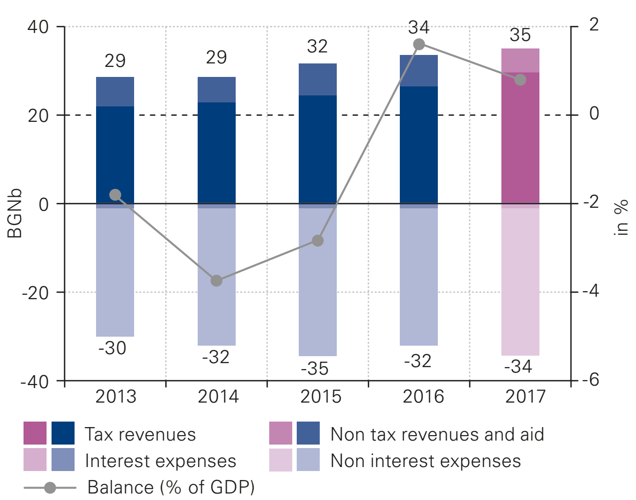
Reserve assets coverage



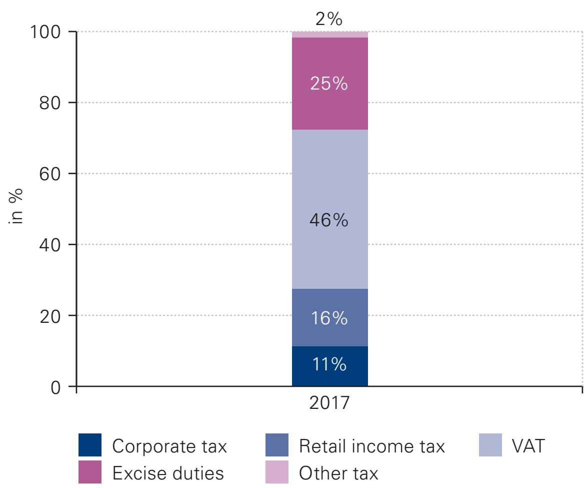
The total government and government-guaranteed debt, including debt issued in the domestic market, also declined to 25.9% of GDP (2016: 29.1%). The BNB reserve assets covered 314.1% of the short-term debt (2016: 321.6%), and 285.1% of the foreign currency deposits (2016: 276.2%) in the country.

In 2017, the consolidated budget surplus decreased to BGN 845 million or 0.8% of GDP (2016: BGN 1,465 million or 1.6% of GDP), reflecting the higher growth in costs – by 6.1% to BGN 34,470 million resulting mainly from the increase in pensions during the year and the related bigger social and health insurance payments. Capital expenses decreased to BGN 3,756 million (2016: 3,872 million) due to slower utilization on projects under the programme period 2014-2020 and co-funded financing by the government.

Consolidated budget



Structure of tax revenues



Tax revenues increased by 10% to BGN 29,581 million. An increase was reported in all major revenue groups, including corporate income tax (by 11.2% to BGN 2,308 million), personal income tax (by 12.6% to BGN 3,314 million), VAT (9.0% to BGN 9,320 million), excise duties (3.7% to BGN 4,985 million), and customs duties (12.3% to BGN 194 million). Proceeds from social contributions also increased, amounting to BGN 8,365 million, of which BGN 5,961 million were from social security contributions and BGN 2,404 million from health insurance contributions.

In 2017, the long-term credit rating of Bulgaria in foreign currency was upgraded by the international rating agencies: Fitch Ratings (BBB), and Standard & Poor's (BBB-), as well as affirmed by Moody's Investor Service (Baa2). The outlook on the rating of the country is stable by all three agencies.

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Bulgarian Presidency of the Council of the European Union

Since the beginning of 2018 Bulgaria has taken the rotary presidency of the Council of the European Union, as which within a period of six months it hosts a significant number of meetings, events and working groups of the bodies of the EU. The main priorities of the Bulgarian presidency are aimed at young people and their social convergence and economic growth; towards ensuring security and stability in a strong and unified Europe; developing further connectivity and a European perspective in the Western Balkans, as well as developing the digital economy and skills for the future.

The expectations for 2018 include a continuing acceleration of private consumption and investment activity in the private and public sector, as well as maintaining positive values in consumer prices, while reflecting the improving external environment globally and the related balanced risks in the development of the European economy. The estimates of the Ministry of Finance and the Bulgarian National Bank forecast retaining real GDP growth at levels around 3.5% - 3.9% for the 2018-2020 period. Additional acceleration in the utilization of funds from EU programs and funds would be a prerequisite for higher economic growth.

The banking system

In 2017, the banking system in Bulgaria registered stable indicators and good financial results in the conditions of sustainable deposit growth and gradually recovering credit and investment activity. The external environment and low interest rates continued to have an effect on banking activity, as well as the actions for the management of credit risk, incl. in the context of the introduction of new regulatory and accounting standards (IFRS 9) effective from 1 January 2018. The wide regulatory framework and the continuing integration with the European financial infrastructure had an additional effect on banking policies, including in relation to the growing importance of the digitalization of banking services.

in % / change in ppt	**2017**	**2016**	**2015**	**17/16**	**16/15**
Capital adequacy ratio	22.08	22.15	22.18	(0.07)	(0.03)
Tier 1 capital ratio	20.86	20.88	20.46	(0.02)	0.42
Leverage ratio	10.98[1]	10.89	10.85	0.09	0.04
Liquid assets ratio	38.97	38.24	36.71	0.73	1.53
Loan/deposit ratio (net)	65.95	66.37	69.93	(0.42)	(3.56)
Return-on-equity (ROE)	9.32	10.40	9.53	(1.08)	0.87
Return-on-assets (ROA)	1.20	1.37	1.03	(0.17)	0.34
Non-performing exposures[2]	14.78	18.28	20.36	(3.50)	(2.08)

Source: Bulgarian National Bank

1 Data as at September 2017

2 Without loans and advances to credit institutions and central banks (gross amount))

The level of total capital adequacy ratio of the system was 22.08% at the end of 2017 (2016: 22.15%), while the tier 1 capital ratio was 20.86% compared to 20.88% at end-2016. The indicators were significantly above the regulatory requirements. A contributor to the dynamics was mainly the growth in common equity tier 1, incl. retained profit, which increased at a slower rate compared to risk-weighted assets. Leverage ratio used as an additional regulatory indicator comparing tier 1 capital with total exposure of the banks' balance and off-balance positions grew to 10.98% at September 2017 against 10.89% as at 31.12.2016.

During the year the Bulgarian National Bank reviewed the capital buffer for systemic risk and affirmed its level applicable to all banks in the country in the amount of 3% of the risk exposures in Bulgaria, as well as identified as other systemically important institutions (O-SII) eleven banks to which individual levels for capital O-SII buffer were defined.

In 2017, liquidity remained at high levels in accordance with the continuing trend in deposit growth in the banks but there was slow acceleration in lending, which together with cautious policies were prerequisites for maintaining high liquid assets ratio at 38.97% at the end of 2017 compared to 38.24% a year earlier. The net loan/deposit ratio decreased to 65.95% (2016: 66.37%), reflecting the conservative assessment in managing credit risk as well as the banking sector potential for lending growth.

BGN million /change in %	**2017**	**2016**	**2015**	**17/16**	**16/15**
Net interest income	2,675	2,805	2,771	(4.6)	1.2
Net fee and commission income	996	921	890	8.1	3.5
Administrative expenses	1,613	1,587	1,850	1.6	(14.2)
Impairment on loans	745	807	1,090	(7.7)	(25.3)
Net profit	1,174	1,262	898	(7.0)	40.5

Source: Bulgarian National Bank

In 2017 the banking system reported net profit in the amount of BGN 1,174 million or 7% more than 2016, which resulted mainly from the continuing decreasing trend in interest rates and the related decrease in net interest income – by 4.6% y/o/y to BGN 2,675 million (2016: 2,805 million). Net fee and commission income grew to BGN 996 million compared to BGN 921 million a year earlier, and continued its solid contribution to the profit, forming 25.6% of total operating income of the system (2016: 22.6%). For 2017 the reported results ensured return-on-assets (ROA) at 1.20% at end-2017 (2016: 1.37%) and return-on-equity (ROE) at 9.32% (2016: 10.40%), which reflected the banking sector ability to generate good profitability in accordance with the development and conditions of the environment.

Total balance-sheet assets grew by 6.5% y/o/y to BGN 97,808 million (2016: BGN 92,095 million), as the changes in the structure of the balance of the system included an increase in the share of loans to 61.0% of total assets (2016: 60.7%) and the cash and balances at central banks to 19.9% (2016: 19.7%), which included mainly growth in on-demand deposits. A decrease was registered in the portfolios of financial instruments to 14.2% (2016: 14.4%) of total assets and more specifically in those held to maturity.

BGN million /change in %	**2017**	**2016**	**2015**	**17/16**	**16/15**
Assets	97,808	92,095	87,524	6.5	5.2
Loans to non-financial corporates	33,160	33,180	33,285	(0.1)	(0.3)
Loans to individuals, incl.:	19,789	18,575	18,312	6.5	1.4
Mortgage loans	9,460	8,772	8,764	7.8	0.1
Consumer loans	9,151	8,677	8,718	5.5	(0.5)
Deposits from business clients[1]	28,950	26,933	24,869	7.5	8.3
Deposits from individuals	49,456	47,196	44,407	4.8	6.3

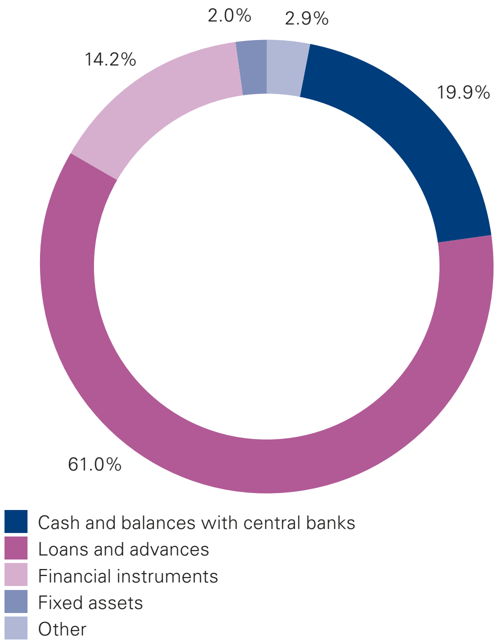
Source: Bulgarian National Bank

The gross loan portfolio (without credit institutions and central banks) increased by 3.0% during the year to BGN 56,084 million at the end of the period (2016: BGN 54,467 million). The decrease in loans to non-financial companies was compensated by an increase in the loans to individuals, which grew in share to 35.3% of the total portfolio (2016: 34.1%). Mortgage loans increased by 7.8% to BGN 9,460 million (2016: BGN 8,772 million), while consumer loans rose by 5.5% to BGN 9,151 million (2016: BGN 8,677 million) at end-period. Loans to non-financial companies remained structure-determining with 59.1% of total loans to

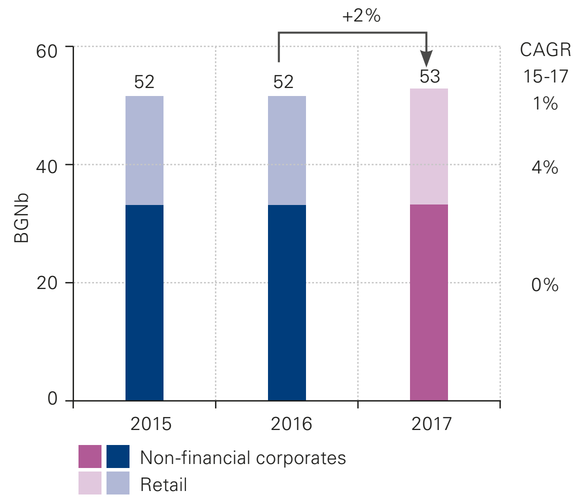
1 Includes deposits from non-financial corporates, other financial institutions and central government.

customers and amounted to BGN 33,160 million (2016: BGN 33,180 million), while these to other financial institutions increased to BGN 2,530 million (2016: BGN 2,026 million).

Asset structure at end-2017



Loans to individuals and NFIs



The share of non-performing exposures continued to decrease and amounted to 14.78% of the gross loan portfolio without credit institutions and central banks (2016: 18.28%). Non-performing loans were adequately covered by impairment and the additionally accumulated buffers by the system. In the structure of non-performing exposures, loans to non-financial corporations occupied the highest share (72.5%), followed by households (26.9%) and other financial institutions (0.6%).

In 2017, the borrowed funds in the banking system (excluding credit institutions and central banks) continued their upward trend by 5.8% and reached BGN 78,406 million (2016: BGN 74,129 million). An increase was registered in corporate deposits (by 7.5% to BGN 28,950 million), as well as in retail deposits (by 4.8% to BGN 49,456 million), which remained structure-determining with a relative share of 63.1% of attracted funds. In the currency structure of deposits, the share of BGN deposits increased to 60.4% (2016: 58.3%), at the expense of EUR deposits, which decreased to 31.5% (2016: 33.3%), while those in other currencies amounted to 8.1% (2016: 8.4%).

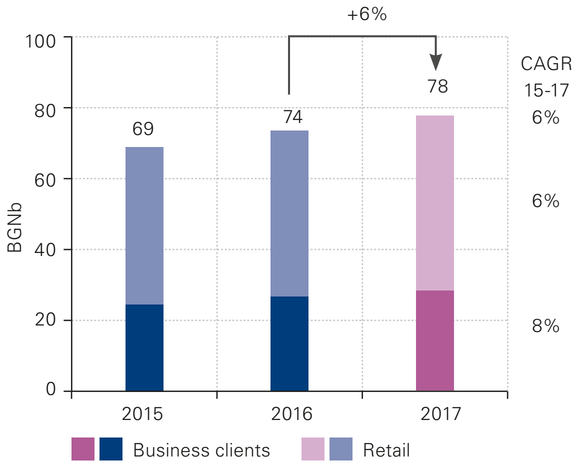
During the year, the downward trend in interest rates continued, in line with the dynamics in the Eurozone and the EU countries. Interest rates on deposits (new business) of households and non-financial institutions fell by 0.59 percentage points to 0.79% for 2016 compared to 1.38% a year earlier. A decrease was also observed in interest rates on loans (new business), to a greater extent in long-term loans (2016: 6.01%; 2015: 7.43%) rather than in short-term loans (2016: 4.83%; 2015: 5.87%).

During the year, the downward trend in interest rates continued, in line with the dynamics in the Eurozone and EU countries. Interest rates on deposits (new business[1]) of households and non-financial institutions fell by 0.26 percentage points and by 0.11% to 0.19% and 0.15% respectively at the end of 2017. A decrease was also observed in interest rates on loans (new business[2]). The rates in consumer loans reached 8.85% at year-end (Dec'16: 9.15%), in mortgage loans to 3.66% (Dec'16: 4.37%), while in non-financial corporates to 3.71% (Dec'16: 3.90%).

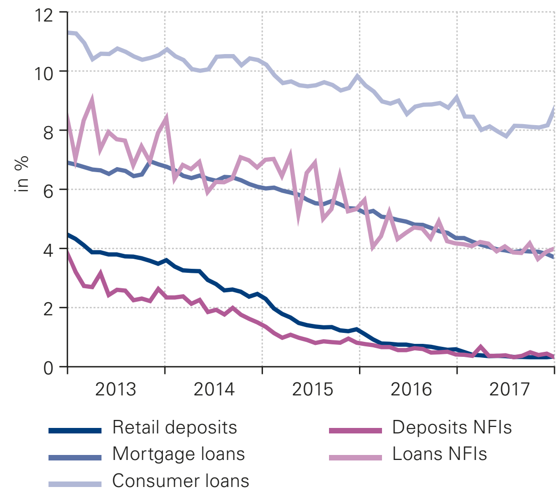
1 Term deposits in BGN up to 1 year.

2 Loans with original maturity in BGN

Deposits to retail and business customers



Interest rates on deposits and loans



During the year, 27 credit institutions operated in the country including 5 branches of foreign banks. Subsidiaries of EU banks formed 73.1%[1] of the system's assets, local banks 23.5%, branches of banks from the EU and banks and branches outside the EU formed the rest at 3.4%. The share of the other systemically important institutions (O-SII) in the country formed 82.2% of the banking assets.

In 2017, the main focus in legislative initiatives in the banking sphere continued to be implementing the requirements of the European regulatory rules through transposing into regulatory acts in the national legislation.

At the beginning of 2017, a new Independent Financial Audit Act entered into force extending the requirements for statutory auditing of the financial statements of enterprises by introducing new requirements for the appointment and rotation of registered auditors and further developing the functions of audit committees in public-interest entities, in accordance with Regulation 537/2014 of the European Parliament and of the Council on specific requirements regarding the statutory audit of public-interest entities. Amendments to the Law on Credit Institutions also introduced a joint independent financial audit of banks by two registered audit firms. As a result, during the year the Bulgarian National Bank and the Commission for Public Oversight of Registered Auditors adopted new uniform criteria for coordinating the selection of auditors.

During the reporting period, the banking system was preparing for the introduction of the new requirements of IFRS 9, effective from 1 January 2018. IFRS 9 introduces a new impairment model based on expected loss, to replace the IAS 39 model of incurred loss. The new standard also introduces requirements and guidance on the classification and measurement of the quality of financial assets. A new Regulation (EU) 2017/2395 of the European Parliament and of the Council amending Regulation (EU) No 575/2013 was adopted at the end of December 2017, introducing the possibility for banks to apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. A five-year transitional period is envisaged, during which banks may include in their Common Equity Tier 1 capital the amount calculated in accordance with the approach chosen (static approach or static approach with a dynamic component) and apply transitional treatment factors of 0.95 for 2018, 0.85 for 2019, 0.70 for 2020, 0.50 for 2021, and 0.25 for 2022.

A new Law on Payment Services and Payment Systems was drafted in 2017, which, together with the complementing technical standards and guidelines of the European Banking Authority, aims to implement in the national legislation the requirements arising from Payments Services Directive 2. The new regulations, in line with the changes related to technology developments, introduce two new types of payment services provided entirely online: initiation of payments and account information, as well as means and methods for enhancing the security of payments in the internet environment.

1 Data as at the end of the third quarter of 2017.

In order to transpose the new regulatory requirements arising from the European legal framework in the field of financial markets: Directive 2014/65/EU of the European Parliament and of the Council and Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments (the "MiFID2/MiFIR package"), a new Law on Markets in Financial Instruments was drafted during the year aimed at enhancing investor protection and improving the performance of market participants in the trading and clearing of financial instruments, as well as introducing new standards of disclosure and transparency in relation to investment services and activities.

Amendments to the Law on Credit Institutions were adopted in December 2017 to further develop the requirements for transactions with administrators and other parties related to the bank. The scope of persons covered by the regulation was extended, as well as the exposure definition which also included claims other than credit commitments. The procedure of approval of exposures was also amended to require, apart from the unanimous decision of the management body, also prior approval of the bank's supervisory authority if the exposure amount exceeds certain levels or pre-approved limits.

In 2018, the challenge will remain for banks to align their activity with the requirements of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation - GDPR), which introduces a number of new requirements, including extension of the definition of personal data, pseudonymization, data protection at the design stage and by default, profiling, new rights, etc.

Changes and new requirements for banks are also expected in the area of anti-money laundering measures, arising from the new draft Law on Measures Against Money Laundering which aims to introduce into Bulgarian legislation the Fourth European Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (Directive (EU) 2015/849).

Digitization does not take us by surprise: developing high-tech solutions that enable customers to bank at any time and from anywhere in the world, is an essential part of our bank's Mission.

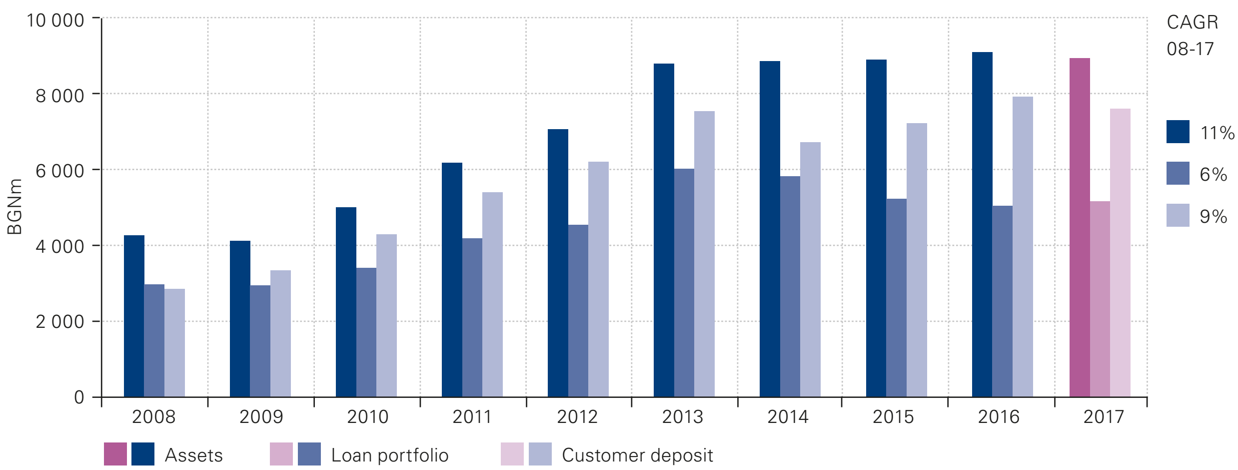
Mission

First Investment Bank AD aspires to continue to be one of the best banks in Bulgaria, recognized as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services to its customers, ensuring excellent careers for its employees, and contributing to the community. The Bank shall continue to develop high-technological solutions providing its customers with opportunities for banking from any place around the world at any time.

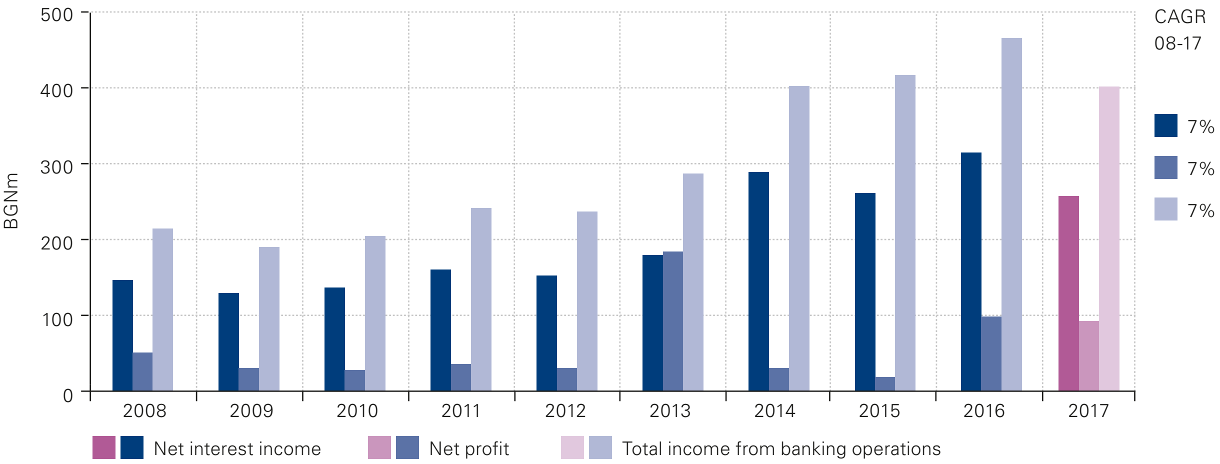
Stable ground for development

In 2017, First Investment Bank continued to develop the capital and the buffers maintained, including through the non-distribution of profits and undertaking actions aimed at diversification of the loan portfolio, active management of the credit risk, as well as accelerating the process of disposal of repossessed assets, which, together with the sustainable and successful development of business activity, ensure a stable foundation and increased potential for future growth and development. In following its strategic goals, the Bank focused in growing its presence in the retail banking and SME segments with further development in the consumer financing and transaction business. Fibank affirmed its position as an innovative institution, offering a wide range of digital services and first-class customer service.

Balance-sheet indicators



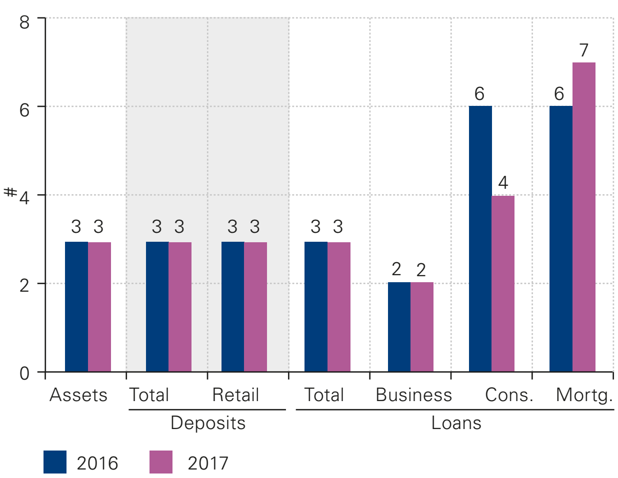
Financial indicators



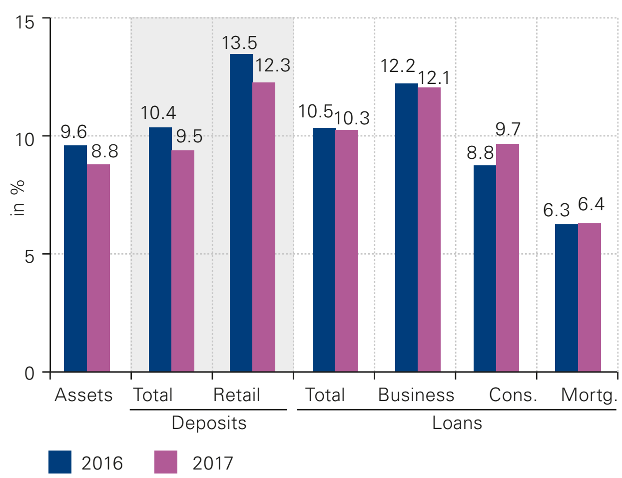
Solid market positions

In 2017 First Investment Bank reported solid market positions and increased market shares in the Bank's strategic segments of the consumer and mortgage financing. The Bank retained its third place in the banking system in the country in terms of total assets, loans and deposits.

Market positions



Market shares



In 2018, First Investment Bank is celebrating its 25th anniversary. During all these years of development, success, challenges and growth, Fibank has proven its significance and contribution to the development of modern banking in Bulgaria in line with global trends and best practices, as well as confirming the Bulgarian brand as a standard for high quality in the industry.

Bank profile

Corporate status

First Investment Bank is a joint-stock company registered with Sofia City Court pursuant to a ruling dated 8 October 1993. Since 28 February 2008 the Bank has been registered in the Commercial Register of the Registry Agency.

First Investment Bank is a public company registered in the Commercial Register of Sofia City Court by a decision dated 4 June 2007 and in the register of public companies and other issuers held by the Financial Supervision Commission by a decision dated 13 June 2007.

The Bank owns a universal banking license for domestic and international operations. First Investment Bank is a licensed primary dealer in government securities and it is a registered investment intermediary.

In execution of the obligations resulting from Regulation (EC) № 648/2012 of the European Parliament and of the Counsel on OTC derivatives, central counterparties and trade repositories (EMIR), the Bank has a LEI code (Legal Entity Identifier): 549300UY81ESCZJ0GR95, issued by Global Markets Entity Identifier (GMEI) Utility.

In compliance with the Agreement between the Government of the Republic of Bulgaria and the Government of the United States, requiring registration of all financial institutions with the Internal Revenue Service of the United States (IRS), First Investment Bank is registered as a Lead Financial Institution (Lead FFI) of an Expanded Affiliated Group. The Global Intermediary Identification Number (GIIN) of the Bank is: SP7FU7.00000.LE.100.

Participations and memberships

- Association of Banks in Bulgaria
- Bulgarian Stock Exchange – Sofia AD
- Central Depository AD
- Borica AD
- MasterCard International
- VISA Inc.
- S.W.I.F.T.

Market position[1]

- Third in assets
- Third in lending
  - Second in corporate lending
  - Fourth in consumer loans
  - Seventh in mortgage loans
- Third in deposits
  - Third in deposits from individuals
- Among the leading banks in the card business
- Among the leading banks in payment services, including international payments and trade operations

1 Market positions are based on unconsolidated data from the BNB and Borica AD.

Market share[1]

- 8.84% of bank assets in Bulgaria
- 10.29% of loans in the country
  – 12.10% of corporate lending
  – 9.72% of consumer lending
  – 6.39% of mortgage lending
- 9.45% of deposits in the country
  12.28% of deposits from individuals

Correspondent relations

Fibank has a wide network built up of correspondent banks, through which it performs international payments and trade financing operations in almost all parts of the world. The Bank executes international transfers in foreign currency, and issues cheques and performs different documentary operations.

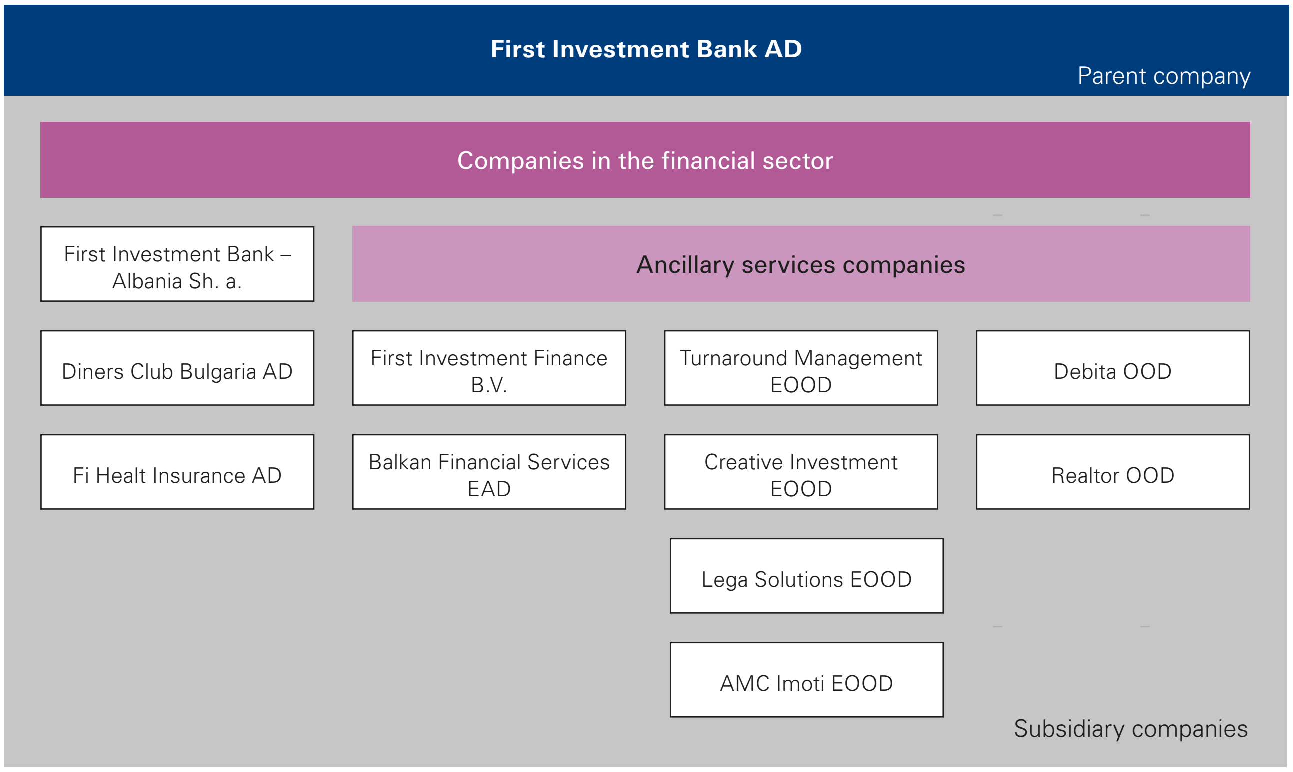
Fibank is a respected, reliable and fair partner, which has built over the years a good reputation among international financial institutions and gained valuable experience and know-how from its numerous business partners, investors, customers and counterparties.

Branch network

As at 31 December 2017 the Group of First Investment Bank had a total of 166 branches and offices: 155 branches and offices, incl. Head Offices, throughout Bulgaria, a foreign branch in Cyprus, as well as the Head Office and 9 branches of the subsidiary bank First Investment Bank – Albania Sh.a.

1 Market shares are based on unconsolidated data from the BNB.

Subsidiaries



First Investment Bank AD had eleven subsidiary companies as at 31 December 2017: First Investment Bank - Albania Sh.a. (100%), Diners Club Bulgaria AD (94.79%), Fi Health Insurance AD (59.10%), First Investment Finance B.V. (100%), Debita OOD (70%), Realtor OOD (51%), Balkan Financial Services EAD (100%), Creative Investment EOOD (100%), Turnaround Management EOOD (100%), Lega Solutions EOOD (100%) and AMC Imoti EAD (100%).

For further information regarding subsidiary companies see section "Business overview of subsidiary companies", as well as note 36 "Subsidiaries" of the Consolidated Financial Statements as at 31 December 2017.

Awards 2017

- First Investment Bank was once again recognized as the strongest brand among financial institutions in Bulgaria by the global organization Superbrands based on an independent consumer segment survey.
- Fibank was awarded as "Best Consumer Banking Brand" and "Best SME Banking Brand for 2017" by the international Global Brands Magazine.
- For the seventh time in its history, First Investment Bank was distinguished as "Bank of the Customer" for maintaining high quality of customer service at the Bank of the Year 2017 competition organized by the Bank of the Year Association.
- Fibank was awarded as the "Innovative Company of the Year" at the annual b2b Media Awards 2017, winning the "Innovative Idea of the Year", "Mobile Innovation" and "Technology Innovation of the Year" categories.
- First Investment Bank received two STP Awards from Commerzbank and KBC for the excellent quality of foreign currency payments and financial transfers.
- Fibank received three awards for innovations in the consumer sector at the international "Product of the Year" awards for its digital cards, online consumer loans, and debit cards for children and youths, in the Mobile Financial Services, Consumer Loans and Bank Cards categories respectively.
- First Investment Bank received the "Best Digital Payment Solution" award at the Webit 2017 innovation technology festival.
- Fibank received second prize as "Favorite Brand of the Bulgarian Consumer" in the "Financial Institutions" category of the competition My Love Marks 2017.
- First Investment Bank was distinguished by the "Golden Heart" award by Business Lady Magazine in the "Cultural Projects" category for its charity campaign with the calendar "Actors with Good Hearts".
- The Bank received an award for outstanding achievements in marketing communications by the Bulgarian Association of Advertisers in the category "Service Innovation and Re-marketing".
- First Investment Bank received a certificate for overall socially responsible activity of national significance, and a special contribution in support of the "Do It For Bulgaria" campaign organized by the National Cause Movement.

First Investment Bank: dates and facts

1993	First Investment Bank was established on 8 October 1993 in Sofia. Fibank was granted a full banking license for carrying out operations in Bulgaria and abroad.
1994-95	The Bank developed and specialized in servicing corporate clients.
1996	First Investment Bank was the first in Bulgaria to offer services enabling banking from home or from the office. Fibank was the first bank to receive a 5-year loan from the European Bank for Reconstruction and Development for financing small and medium-sized enterprises in Bulgaria.
1997	The Bank started issuing Cirrus/Maestro debit cards, Eurocard/Mastercard credit cards and the American Express card. Fibank was the first Bulgarian bank to offer debit cards with international access. Thompson Bankwatch awarded Fibank its first credit rating. The Bank opened its first branch abroad, in Cyprus.
1998	First Investment Bank obtained its first syndicated loan from foreign banks. The Bank negotiated financing for the import of investment goods from a number of EU countries, guaranteed by export insurance agencies.
1999	The Bank negotiated a syndicated loan organized by EBRD to the total amount of EUR 12.5 million. First Investment Bank received a medium-term loan for EUR 6.6 million from a German government organization for financing of Bulgarian companies. The Bank opened a foreign branch in Tirana, Albania offering banking services to Albanian companies and individuals.
2000	First Investment Bank started developing its business in the field of retail banking. Deposits from private individuals grew 2.3-fold.
2001	Fibank launched the first virtual bank branch in Bulgaria, allowing customers to bank via the Internet. The Bank was awarded the prize "Bank of the Year" by 'Pari' ('Money') daily. Maya Georgieva (Executive Director of First Investment Bank), received the prize "Banker of the Year" from 'Banker' Weekly.
2002	Fibank was named "Bank of the Client" in the annual rating of 'Pari' daily.
2003	Products and services to individuals became the focus of the Bank's activities. Loans to individuals increased over five times during the year. Fibank was named "Bank of the Client" for the second time in the annual rating of 'Pari' daily.
2004	The Bank expanded its infrastructure. The branch network expanded by 27 new branches and offices, the ATM network more than doubled. First Investment Bank was awarded the prize "Financial Product of the Year" for its Mortgage Overdraft product.

2005	Fibank acquired 80% of the capital of Diners Club Bulgaria AD. The Bank issued Eurobonds to the amount of EUR 200 million on the Luxembourg Stock Exchange. Fibank was also the first Bulgarian bank to issue perpetual subordinated bonds. Matthew Mateev (Deputy Chief Executive Director of First Investment Bank) was awarded the prize "Banker of the Year" by 'Banker' weekly.
2006	Fibank was named "Bank of the Client" for the third time in the annual rating of 'Pari' daily. First Investment Bank received a syndicated loan, to the amount of EUR 185 million, organised by Bayerische Landesbank, in which 33 banks participated. The Bank's share capital was increased from BGN 20 million to BGN 100 million by transforming retained profits into new shares.
2007	First Investment Bank realized the biggest banking initial public offering of shares in Bulgaria. The Bank became a public company and increased its issued share capital to BGN 110 million. "Fibank Mobile" – the first banking mobile portal created by the Bank with useful financial information for its customers, started functioning. Fibank is among the first banks in Bulgaria to implement new chip technology by issuing debit and credit cards. The Albanian Central Bank issued a full banking license to First Investment Bank – Albania Sh.a.
2008	Fibank implemented new centralized and integrated core banking information system FlexCube. First Investment Bank received a syndicated loan to the amount of EUR 65 million from 11 leading banks all over the world. Fibank became the first bank in Bulgaria with its own corporate blog. The Bank received the prestigious card business award OSCARDS of Publi-News in the Europe region for innovation in the card business.
2009	Fibank became the first and only bank in Bulgaria to start offering the sale and redemption of investment diamonds. First Investment Bank offered a new Internet service "My FIBank", which provides e-statements on bank accounts and credit cards.
2010	Fibank welcomed its one millionth client. First Investment Bank signed an agreement with IFC for cooperation in the field of trade finance. Fibank was the first Bank in Bulgaria to offer contactless payments based on PayPass technology. Fibank acquired a controlling interest in Health Insurance Fund FI Health AD.
2011	First Investment Bank was recognized as the Best Bank in Bulgaria in 2011 by the financial magazine Euromoney. New Executive Directors of the Bank were appointed – Dimitar Kostov, Vassil Christov, Svetoslav Moldovansky. Maya Georgieva (Executive Director of First Investment Bank) received the Banker of the Year 2011 award from "Banker" Weekly for market sustainability achieved and customer confidence earned.

2012	Fibank was granted "Bank of the Year" award from "Bank of the Year" Association, with the best complex performance. The Bank signed an agreement with the European Investment Fund for the financing of SME under the JEREMIE initiative. Vassil Christov, Executive Director of First Investment Bank won the prestigious award "Banker of the Year" of the "Banker" Weekly.
2013	First Investment Bank AD signed an agreement with the Hungarian MKB Bank Zrt. for the acquisition of 100% of the shares of MKB Unionbank EAD. Fibank finalized the issuance of new hybrid debt (two bonds emissions) to the total amount of EUR 100 million, included in the Tier I capital. Clients were provided with the opportunity to purchase online products of investment gold and other precious metals. Maya Oyfalosh was elected Executive Director of First Investment Bank AD.
2014	The merger of Union Bank EAD into First Investment Bank AD was implemented, incl. entire integration of operational systems, procedures, infrastructure, human resources, products and services. First Investment Bank successfully overcame the pressure on the banking system thanks to existing high liquidity, high professionalism, as well as to the liquidity support pursuant to EC Decision C(2014) 4554/29.06.2014. Fibank was awarded as best bank in the field of retail banking from the international portal Global Banking & Finance Review.
2015	First Investment Bank realized a joint project with the IFC for upgrading the systems for risk management and corporate governance in Fibank in accordance with the principles of the Basel Committee and recognized international standards. A new independent member of the Supervisory Board was elected: Mr. Jyrki Koskelo, an accomplished professional with extensive experience in the IFC. Fibank repaid a perpetual debt instrument with an original principal amount of EUR 27 million after approval from the BNB and EC. A new organizational structure of the Bank was adopted, further elaborating the control functions and introducing new positions, incl. CEO, CRO, CCO. In an effort to maintain an open line of communication with investors and enhance dialogue with minority shareholders, a Club of investors was created. First Investment Bank was distinguished as the favorite brand among financial institutions in Bulgaria by the global organization Superbrands.
2016	An innovative platform was launched for electronic payments via mobile devices with contactless (NFC) function and use of digital bank cards. First Investment Bank repaid a perpetual debt instrument with an original principal amount of EUR 21 million after approval from the BNB and EC. The Bank repaid in full the liquidity support according to decision C(2014)8959 of 25.11.2014 of the EC. Fibank successfully passed the asset quality review and the stress test of the banking system conducted in the country. New contactless debit cards designed for children and teenagers were developed.

Highlights 2017

January

- First Investment Bank launched a fully online consumer loan application on the Bank's website at: www.credit.fibank.bg.
- New and more competitive terms were offered for the "Right of Choice" housing loan, including fixed interest rate for the first three years and no disbursement or management fees.
- The Bank continued to optimize the terms on its deposit and saving products in accordance with market conditions and external environment.

February

- Fibank implemented the project for creating an integrated e-banking platform My Fibank by integrating the existing remote banking services, and adding new functionalities accessible through a single customer service channel.
- A new "Panagyurishte Treasure" series of silver coins with partial gold coating was offered, developed jointly with the New Zealand Mint.

March

- A new consumer loan for purchasing goods from a retail chain was launched, with maximum amount of BGN 5,000 and a term of up to 36 months.
- A new internal organization was created for the intensive management of customer exposures with increased credit risk transferred from the lending departments.
- First Investment Bank continued its steps to increase capital buffers, in line with its risk management strategy and objectives.
- As part of the annual review process, the Bank updated its ICAAP and ILAAP reports in line with the budget and development objectives, refining the assumptions and the stress tests and scenarios applied.
- An application for contactless payment with cards Diners Club on POS terminals Ingenico and Verifone was developed, as well as tests implemented for the integration of the system for secure payments in internet "ProtectBuy" (3D secure internet payments).

April

- A new agreement was signed with the National Guarantee Fund for the implementation of a guarantee scheme for financing of Bulgarian micro, small and medium-sized enterprises through a risk-sharing mechanism.
- First Investment Bank became a direct participant in the pan-European payment system STEP2 SCT (SEPA Credit Transfer) operated by EBA Clearing within the Single Euro Payments Area (SEPA).
- The Bank launched a new debit card program for children and youths featuring, over a 1-year period, a refund of 10% of the monthly amounts spent at POS terminals at retail outlets.

May

- The regular Annual General Meeting of Shareholders of First Investment Bank decided that the entire net profit of the Bank for 2016 will be capitalized, and also made changes to the composition of the Audit Committee and adopted changes to its work status.
- Changes were made to the Management Board in line with the Bank's key growth and strategic objectives.
- The terms were optimized of the banking packages for business customers "Fibank Business Class" and "Fibank Business Class +".
- The internal regulatory framework was further developed in accordance with the best practices and standards in corporate governance, including a whistleblowing mechanism.

June

- An innovative microcard was launched, issued as an additional debit card to the Debit MasterCard Pay Pass kids/teen cards, built into a special accessory (bracelet or keychain), with contactless payment feature.
- The services offered under the "My Choice" and "My Online Choice" banking packages for individuals were expanded.
- New credit products were developed for purchase/repair of an office, or for working capital, specifically designed for IT companies.
- An innovative human resource project named "We Are" was introduced, emphasizing strengthening and developing attitudes and working behaviors aimed at proactivity and efficiency in sales, service quality and customer interaction.
- First Investment Bank – Albania took part in a campaign for raising funds for the purchase of new technological equipment for the state pediatric hospital in Albania.

July

- Fitch Ratings upgraded the Long-Term IDR of First Investment Bank AD to ‘B’ from ‘B-’ and its Viability Rating (VR) to ‘b’ from ‘b-’.
- Moody’s Investors Service assigned B1 long-term ratings to the Bank, stable outlook.
- New credit solutions for SMEs and micro companies were offered in connection with the implementation of investment projects and payment of VAT costs for such projects, co-financed by EU Structural Fund programs.

- The process was launched of introducing additional modules, functionalities and adjustments to the current information system servicing the Bank’s activity as an investment intermediary in order to meet the new financial market requirements related to the MiFID 2/MiFIR package.
- Diners Club Bulgaria conducted a promotional campaign for revolving credit cards Diners Club Classic and Diners Club International First Lady – with competitive interest rates without membership fee for the first year, as well as no withdrawal fee on ATM’s in Bulgaria and abroad for the first 3 reporting periods.

August

- New credit products in the retail banking segment were developed especially for doctors and dentists, including an overdraft and an investment loan.

- The limits for debt and equity instruments applied by the Bank were further developed in order to minimize risks and improve the overall risk limit framework.
- A new silver coin-medallion “Madonna with Child” was launched, developed in partnership with the Swiss PAMP refinery.
- The Risk and control self assessment (RCSA) methods were improved in the field of operational risk, serving as an additional tool for performance analysis and reducing this type of risk.
- First Investment Bank – Albania signed an agreement with the Albanian State Insurance Agency, which gives pensioners the opportunity to receive their pensions in every branch of the Bank in Albania.

September

- Fibank upgraded its core banking information system by migrating to the highest version of Oracle Flexcube 12, with a view to faster and easier parameterization of new, more flexible and individualized banking products and services, and to increasing the speed of service over both physical and digital distribution channels.
- Changes were made to the Management Board in line with the Bank’s strategic focus on growth and development in the field of retail banking.
- A new flexible credit product was developed without a fixed repayment plan, with maximum amount of up to 10 times the monthly proceeds to the account, but not exceeding BGN 25,000.
- A regular meeting with minority shareholders was held, as part of Fibank’s policy of open dialogue and transparency.

October

- A new silver coin of the New Zealand Mint was launched, as well as new gold and silver bars of the Swiss PAMP refinery, dedicated to the Year of the Dog 2018.
- The successful practice continued of distinguishing employees with key contributions in delivering high performance, customer service development and team interaction under the "Together We Can Do More" program.
- The Bank was actively involved in the preparation of internal regulations, processes and systems in compliance with the new regulatory requirements arising from the General Data Protection Regulation (GDPR).

November

- The first stage was implemented of a project for the reorganization of bank offices in Sofia through the introduction of 5 functional branches, with offices allocated under each branch based on territorial location and business indicators.
- First Investment Bank launched the "Money in Minutes" service as an agent of Western Union.
- The procedure was streamlined for consumer loan applications through the contact center of the Bank.

December

- An extraordinary general meeting of the shareholders of First Investment Bank was held and a second registered auditor – Mazars OOD – was appointed to perform an independent financial audit of the annual financial statements of the Bank for 2017.
- An extension of the framework agreement with Taiwan's Eximbank was signed for financing deliveries of goods made by Taiwanese suppliers to customers of Fibank.
- First Investment Bank brought its internal regulatory framework and systems in line with the requirements of IFRS 9 applicable to banks in Bulgaria as of 1 January 2018.
- Fibank presented its charity calendar for 2018, which is part of a social project in support of the birth promotion campaign "Do it for Bulgaria".
- First Investment Bank – Albania donated computer equipment to schools in the northern part of Albania, with the aim of supporting the educational development of children of school age.

Process automation and digitization
help build an eco-friendly environment,
increase efficiency and reduce risks.

Financial review

Key indicators

	2017	2016	2015	2014	2013
Financial indicators (BGN thousand)					
Net interest income	260,926	319,179	263,546	291,911	181,711
Net fee and commission income	102,146	92,163	84,217	87,425	86,691
Net trading income	15,326	13,937	11,017	11,997	9,381
Total income from banking operations	406,589	471,570	421,582	406,647	284,445
Administrative expenses	(204,698)	(192,307)	(180,827)	(190,981)	(156,239)
Impairment	(78,850)	(156,120)	(329,137)	(299,621)	(70,305)
Group profit after tax	92,245	98,811	17,851	30,764	184,904
Earnings per share (BGN)	0.84	0.90	0.16	0.28	1.68
Balance-sheet indicators (BGN thousand)					
Assets	8,921,198	9,089,855	8,885,364	8,827,882	8,777,993
Loans and advances to customers	5,162,907	5,044,850	5,221,360	5,810,328	6,020,792
Loans and advances to banks and financial inst.	54,402	51,863	109,455	112,078	120,126
Due to other customers	7,583,819	7,911,911	7,203,969	6,699,677	7,535,756
Liabilities evidenced by paper	127,493	70,367	135,726	177,544	196,444
Total Group equity	947,350	856,836	749,846	726,897	692,515
Key ratios (in %)					
Capital adequacy ratio[1]	15.89	15.13	14.72	14.89	14.26
Tier 1 capital ratio[1]	15.87	15.10	14.23	13.64	13.31
Liquid assets ratio	24.78	28.12	25.37	26.25	22.66
Net loans/deposits ratio	68.08	63.76	72.48	86.73	79.90
Cost of Risk	1.37	2.66	5.53	4.73	1.12
Return-on-equity (after tax)	10.24	12.17	2.43	4.33	33.34
Return-on-assets (after tax)	1.03	1.12	0.20	0.35	2.47
Net interest income/total income from banking operations	64.17	67.68	62.51	71.78	63.88
Cost/income ratio	50.35	40.78	42.89	46.96	54.93
Resources (in numbers)					
Branches and offices	166	168	173	179	221
Staff	3,221	3,322	3,234	3,291	3,554

1 Values for 2014-2017 were calculated as per Regulation (EU) №575/2013 requirements.

Credit rating

First Investment Bank has credit ratings from the international agencies for credit rating Fitch Ratings and Moody's Investors Service.

Fitch Ratings	2017	Change	2016
Long-term rating	B	↑	B-
Short-term rating	B	=	B
Viability rating	b	↑	b-
Support rating	5	=	5
Support rating floor	NF	=	NF
Outlook	Stable	=	Stable

In July 2017 Fitch Ratings upgraded the long-term rating of First Investment Bank from "B-" to "B", as well as the viability rating of the Bank from "b-" to "b", and affirmed the other ratings, as follows: short-term rating "B", support rating "5" and support rating floor "NF (No Floor)". The outlook on all ratings is stable.

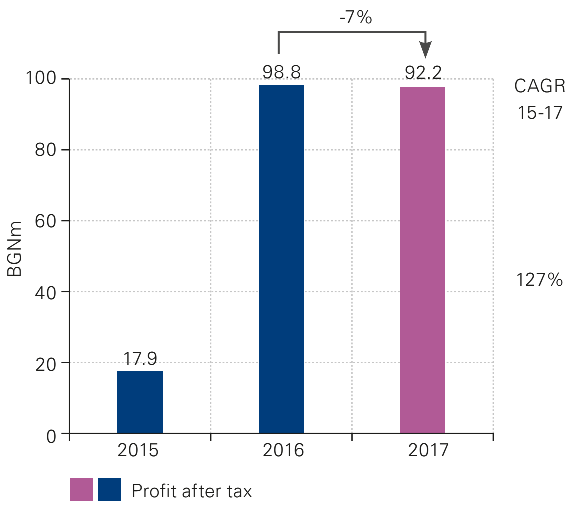
Moody's Investors Service	2017	Change	2016
Long-term rating	B1	N/A	N/A
Short-term rating	NP	N/A	N/A
Baseline Credit Assessment	b2	N/A	N/A
Counterparty Risk Assessment	Ba1/NP	N/A	N/A
Outlook	Stable	N/A	N/A

During the year First Investment Bank was rated by second international rating agency – Moody's Investor Service. In July 2017 the agency assigned ratings to First Investment Bank, as follows: long-term rating "B1", short-term rating "NP (Not Prime)", baseline credit assessment "b2", counterparty risk assessment "Ba1/NP". The outlook on all ratings is stable.

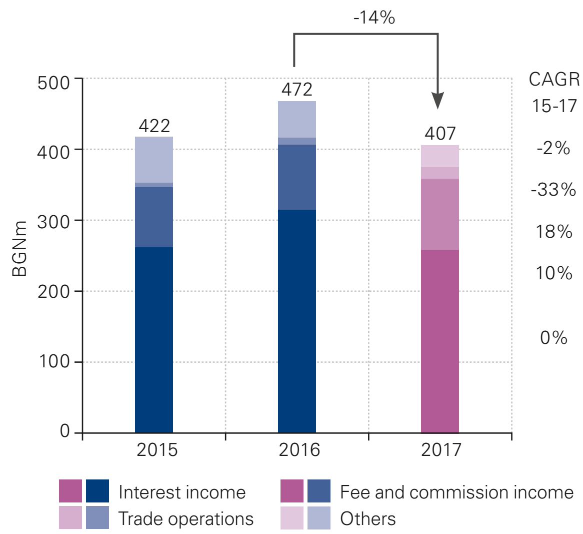
Financial results

In 2017 the Group of First Investment Bank reported stable financial results. Profit after tax amounted to BGN 92,245 thousand compared to BGN 98,811 thousand a year earlier, a contributor being the lower interest income generated in an environment of continuing low interest rates. Return on equity (after tax) was 10.24% (2016: 12.17%), return on assets (after tax) at 1.03% (2016: 1.12%) and earnings per share at BGN 0.84 (2016: BGN 0.90).

Group profit after tax



Total income from banking operations



Total income from banking operations amounted to BGN 406,589 thousand (2016: BGN 471,570 thousand). The decrease registered in net interest income was partly compensated by the growth in net fee and commission income and in net trading income.

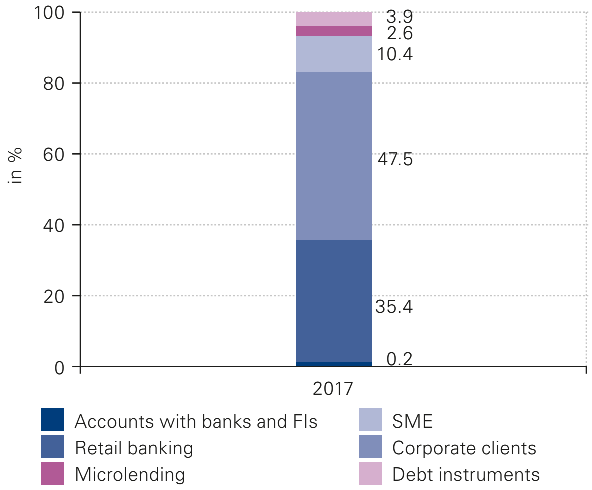
For 2017, net interest income amounted to BGN 260,926 thousand or 18.3% less than the previous year (2016: BGN 319,179 thousand), and remained a major source of income for the Group, constituting 64.2% of total operating income (2016: 68.7%). Fibank's operations abroad formed 4.9% of net interest income of the Group (2016: 4.0%) reflecting the development of the activity of the subsidiary bank in Albania. For further information about First Investment Bank – Albania Sh.a. see section "Business overview of subsidiary companies".

For the reporting period net interest income decreased to BGN 356,173 thousand (2016: BGN 441,225 thousand), reflecting the market trend for the reduction in interest rates, as well as the competitive conditions offered by the Bank. A decrease was recorded in all main business lines[1], including corporate customers (2017: BGN 36,965 thousand; 2016: BGN 41,366 thousand), as well as in the retail segment, including retail banking (2017: BGN 126,072 thousand; 2016: BGN 139,464 thousand) and microlending (2017: BGN 9,213 thousand; 2016: BGN 9,541 thousand). Interest income related to debt instruments amounted to BGN 13,752 thousand compared to BGN 16,975 thousand a year earlier. This was according to the dynamics and the conditions on the markets of debt instruments.

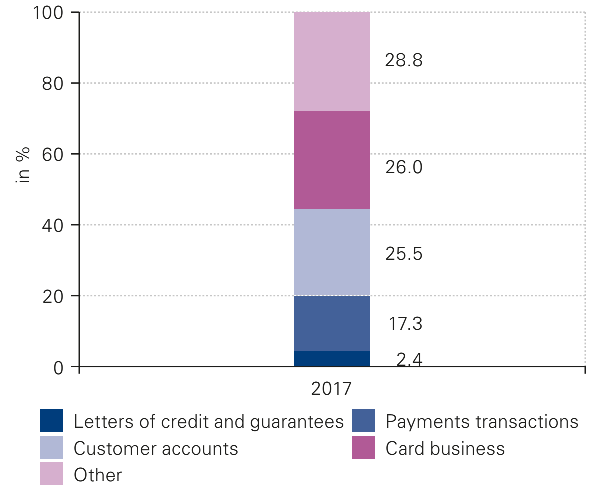
The trend in interest expenses remained, decreasing to BGN 95,247 thousand (2016: BGN 122,046 thousand) mainly due to a reduction in the expenses on customer deposits, which reached BGN 69,142 thousand against BGN 112,425 thousand a year earlier and formed 72.6% of total interest expense. During the year, First Investment Bank continued to adjust interest rates on deposit products in accordance with market conditions and competitive environment, as well as regarding the levels of liquidity. The net interest margin of the Group amounted to 4.14% for the period.

1 Business lines based on the Bank's internal criteria for customer segmentation

Interest income



Fee and commission income



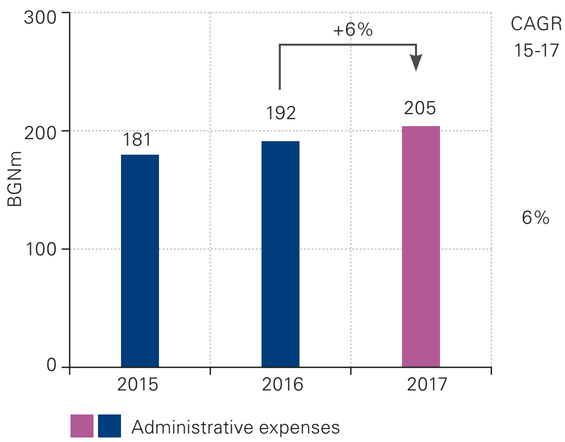
Net fee and commission income increased by 10.8% to BGN 102,146 thousand compared to BGN 92,163 thousand the previous year. Growth was recorded in all main services, including from customer accounts (2017: BGN 30,863 thousand; 2016: BGN 28,064 thousand), payment transactions (2017: BGN 20,862 thousand; 2016: BGN 18,210 thousand), the card business (2017: BGN 31,375 thousand; 2016: BGN 29,544 thousand), as well as from other services (2017: BGN 34,776 thousand; 2016: BGN 31,610 thousand), including those related to lending. For 2017, net fee and commission income increased its share to 25.1% of total income from banking operations of the Group (2016: 19.5%), while providing solid input to the operating profit. Fibank's operations abroad formed 3.7% of net fee and commission income (2016: 3.9%).

For 2017, net trading income grew by 10.0% and amounted to BGN 15,326 thousand (2016: BGN 13,937 thousand). The increase reflected higher income arising from foreign exchange operations (2017: BGN 14,843 thousand; 2016: BGN 13,121 thousand) and from debt instruments (2017: BGN 218 thousand; 2016: BGN 29 thousand). Those related to equity instruments amounted to BGN 247 thousand compared to BGN 777 thousand a year earlier. The share of net trading income increased, but remained insignificant at 3.8% of total income from banking operations of the Group (2016: 3.0%).

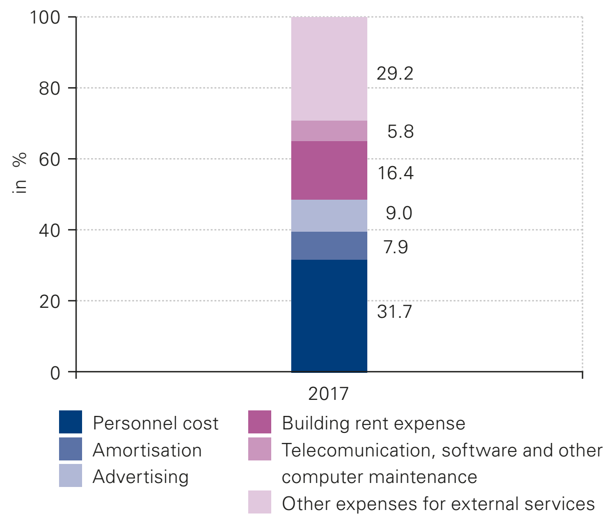
Other operating income reported a decrease for the period to BGN 28,191 thousand to BGN 46,291 thousand a year earlier, when Fibank reported additional income amounting to BGN 24,930 thousand, arising from the Bank's membership in VISA Europe and its acquisition by VISA Inc. Higher operating income was reported from rents (2017: BGN 11,283 thousand; 2016: BGN 6,177 thousand), as well as from debt instruments (2017: BGN 12,384 thousand; 2016: BGN 4,604 thousand).

For the year, administrative expenses increased to BGN 204,698 thousand against BGN 192,307 thousand a year earlier, mainly driven by higher costs for personnel (2017: BGN 64,968 thousand; 2016: BGN 61,034 thousand), for advertising (2017: BGN 18,379 thousand; 2016: BGN 14,788 thousand), as well as for external services (2017: BGN 59,838 thousand; 2016: BGN 53,975 thousand). The other major expenditure groups remained at levels close to the previous year, including building rent expenses (2017: BGN 33,475 thousand; 2016: BGN 33,446 thousand) and for telecommunications, software and other computer maintenance (2017: BGN 11,832 thousand; 2016: BGN 11,511 thousand). A decrease was recorded in amortization expenses, which fell to BGN 16,206 thousand from BGN 17,553 thousand for the previous year. For the period, cost/income ratio amounted to 50.35% on an unconsolidated basis (2016: 40.78%).

Administrative expenses



Structure of administrative expenses



During the year, in line with the development of the economic environment and conditions, a decrease in net impairment losses on loan exposures was reported, which decreased in 2017 to BGN 78,850 thousand (2016: BGN 156,120 thousand). For the period additional write-downs were made in the amount of BGN 95,924 thousand and the reversal of write-downs was BGN 17,074 thousand.

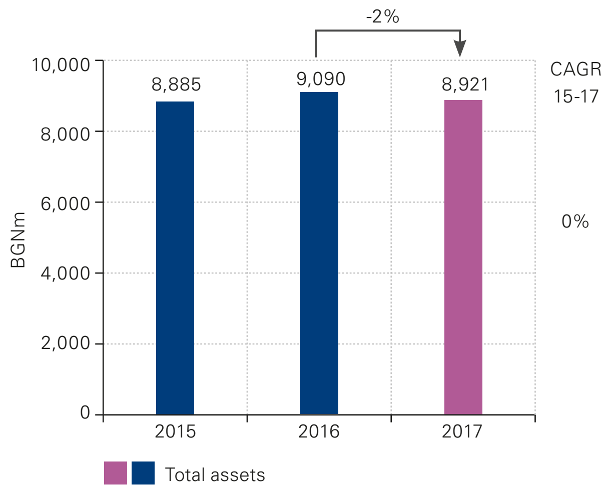
For the reporting period, the Group of First Investment Bank reported other net costs of BGN 20,431 thousand, which included mainly expenses for contributions that the Bank made to the Deposit Insurance Fund and the Bank Restructuring Fund (2017: BGN 36,371 thousand; 2016: BGN 36,719 thousand). Additional income amounted to BGN 10,642 thousand are realized as a part of activating process for the sale of assets, compared to BGN 3,947 thousand a year earlier.

For further information see the Consolidated financial statements for the year ended December 31, 2017.

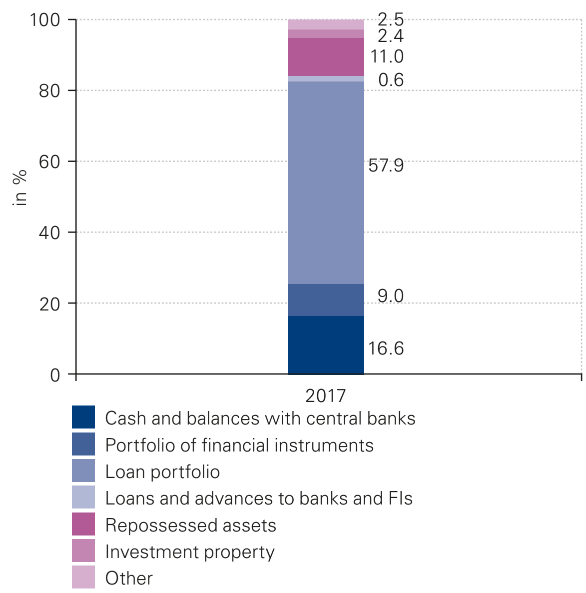
Balance

In 2017, total assets of the Group of First Investment Bank amounted to BGN 8,921,198 thousand compared to BGN 9,089,855 thousand a year earlier. The dynamics reflected the diversification policies for the loan portfolio, including priority development in the sphere of retail banking and SMEs, as well as the measures for managing risk exposures, while at the same time maintaining stable levels of liquidity and increasing efficiency. Fibank retained its leading positions among the banks in the country. It was ranked third in terms of assets among banks in the country with market share of 8.84% on an unconsolidated basis (2016: 9.61%).

Assets



Structure of assets



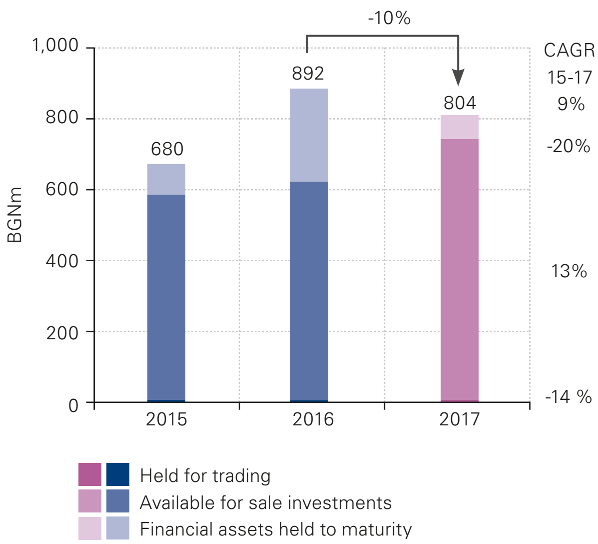
In the structure of the Group's assets, the loans and advances from clients increased their share and remained structure-determining with 57.9% of total assets (2016: 55.5%), followed by cash and balances with central banks to 16.6% (2016: 18.0%) and the portfolio of financial instruments (financial assets held for trading, investments available for sale and financial assets held to maturity) to 9.0% (2016: 9.8%). Repossessed assets formed 11.0% (2016 11.4%) and investment property, which the Group holds in order to generate additional income and return, formed 2.4% (2016: 2.4%) of total assets. The loan/deposit ratio amounted to 68.1% compared to 63.8% the previous year. This represented actions for increasing effectiveness, reflecting a conservative approach to credit risk management.

Cash and balances with central banks amounted to BGN 1,478,594 thousand or 9.8% less than the end of 2016 at BGN 1,639,888 thousand. The dynamics reported mainly a decrease in the receivables from central banks, which reached BGN 898,134 thousand at the end of the period (2016: BGN 1,157,101 thousand) and reflected the activities for optimal management and use of resources, as well as for additional increase in profitability. First Investment Bank manages cash funds in accordance with customer needs and security requirements, as well as an optimal return from the available resources. At the end of 2017 cash on hand amounted to BGN 192,935 thousand compared to BGN 159,869 thousand a year earlier.

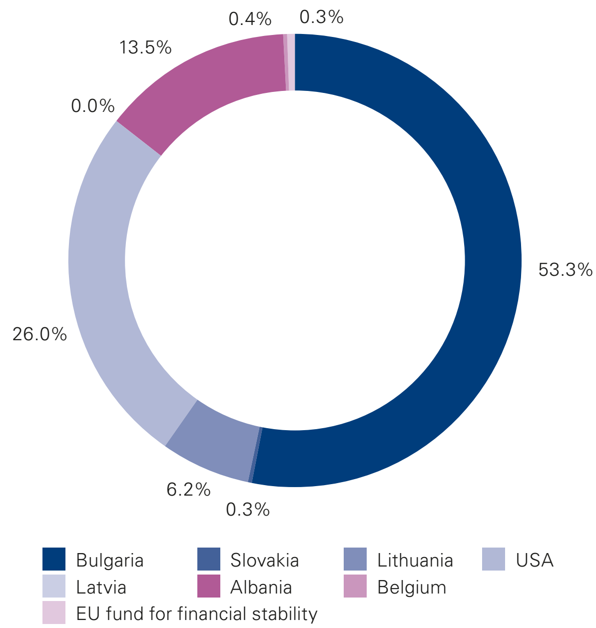
Loans and advances to banks and financial institutions increased during the year, amounting to BGN 54,402 thousand at period-end (2016: BGN 51,863 thousand). An increase was registered in receivables from foreign banks and financial institutions (2017: BGN 42,722 thousand; 2016: BGN 22,545 thousand), at the expense of the local financial institutions (2017: BGN 11,680 thousand, 2016 BGN 29,318 thousand).

Available for sale investments increased by 19,8% and reached BGN 742,306 thousand as at 31 December 2017. The increase reflected mainly the growth in investments from foreign governments, including treasury bonds at BGN 250,731 thousand (2016: BGN 100,334 thousand). The bonds issued by the Bulgarian government decreased their share, but remained structure-determining, forming 51.2% (2016: 64.3%) of the available for sale portfolio and amounted to BGN 379,985 thousand at the end of the year (2016: BGN 398,551 thousand).

Portfolio of financial instruments



Portfolio of government debt by countries



During the period, the financial assets that the Group intends to hold to maturity in order to generate additional income decreased to BGN 53,714 thousand (2016: BGN 262,437 thousand). This was due to matured securities issued by foreign governments, which amounted to BGN 241,475 thousand at the end of 2016. Financial assets held for trading amounted to BGN 7,979 thousand at the end of the year (2016: BGN 9,562 thousand), reflecting the Bank's investment policy to maintain a limited trading portfolio. They included mainly government bonds issued by the Bulgarian government, as well as a portfolio of equity instruments.

As of 31 December 2017, Fibank's operations abroad increased their share and formed 3.5% of Group's assets or BGN 316,371 thousand (2016: 3.1% or BGN 281,987 thousand) in line with the policy for development of the activity of the subsidiary bank in Albania and focus on retail and SME segments.

Repossessed assets reported a decrease to BGN 984,448 thousand (2016: BGN 1,034,501 thousand) mainly in buildings, as well as in machinery, equipment and vehicles. The dynamics represented the actions for activation of the process for management and realization of repossessed assets. Investment property also decreased to BGN 218,212 thousand compared to BGN 222,267 thousand a year earlier. Other assets of the Group amounted to BGN 118,096 thousand (2016: BGN 95,082 thousand), including deferred expenses, gold and other receivables.

For further information see the Consolidated financial statements for the year ended December 31, 2017.

Loan portfolio

Loans

In 2017, the loan portfolio of the Group of First Investment Bank before impairment decreased to BGN 5,764,768 thousand (2016: BGN 5,879,189 thousand), mainly due to a decrease in the segment of corporate clients, which declined to 58.7% of total loans (2016: 63.0%) due to the targeted efforts of the Bank for diversification of the loan portfolio and focusing of the activity in the field of retail banking and SMEs.

In BGN thousand / % of total	2017	%	2016	%	2015	%
Retail customers	1,507,337	26.1	1,453,502	24.7	1,497,181	25.1
Microlending	121,533	2.1	108,561	1.9	102,218	1.7
Small and medium enterprises	753,438	13.1	612,093	10.4	570,490	9.6
Corporate customers	3,382,460	58.7	3,705,033	63.0	3,784,966	63.6
Gross loan portfolio	**5,764,768**	**100**	**5,879,189**	**100**	**5,954,855**	**100**
Impairment	(601,861)		(834,339)		(733,495)	
Net loan portfolio	**5,162,907**		**5,044,850**		**5,221,360**	

An increase was registered in all other business lines, including retail banking – up to 26.1% of the total portfolio (2016: 24.7%), microlending – up to 2.1% (2016: 1.9%) and SMEs – up to 13.1% (2016: 10.4%, in execution of the strategic goals for future development and growth in these segments. As of 31 December 2017, First Investment Bank kept its third place in terms of loans among banks in the country with a market share of 10.29% (2016: 10.49%) on an unconsolidated basis.

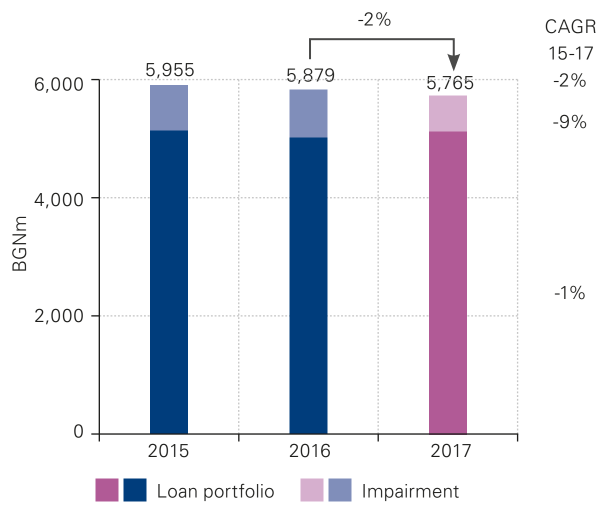
In BGN thousand / % of total	2017	%	2016	%	2015	%
Loans in BGN	2,723,674	47.2	2,167,709	36.9	2,108,965	35.4
Loans in EUR	2,920,875	50.7	3,466,313	58.9	3,591,628	60.3
Loans in other currency	120,219	2.1	245,167	4.2	254,262	4.3
Gross loan portfolio	**5,764,768**	**100**	**5,879,189**	**100**	**5,954,855**	**100**
Impairment	(601,861)		(834,339)		(733,495)	
Net loan portfolio	**5,162,907**		**5,044,850**		**5,221,360**	

In the currency structure of the loan portfolio, the loans in BGN increased up to BGN 2,723,674 thousand (2016: BGN 2,167,709 thousand) or 47.2% of the total portfolio (2016: 36.9%), at the expense of the loans in EUR, which amounted to BGN 2,920,875 thousand at the end of the period (2016: BGN 3,466,313 thousand), but they remained predominant with a share of 50.7% (2016: 58.9%) of the total portfolio. In this regard, the functioning Currency Board Arrangement in the country was a factor, by minimizing currency risk - BGN/EUR. Loans in other currencies continued to decrease in absolute amount to BGN 120,219 thousand (2016: BGN 245,167 thousand), and as a share of total loan portfolio to 2.1% (2016: 4.2%) at the end of the reporting period.

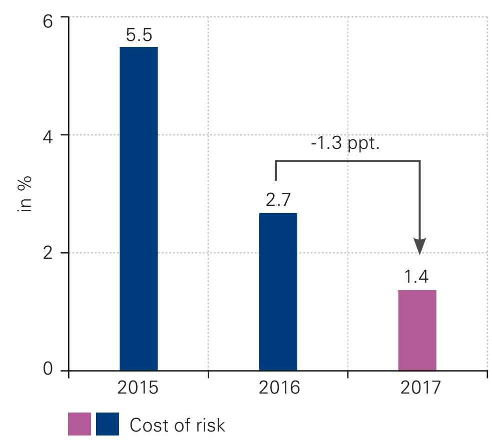
Loans granted by First Investment Bank's units abroad amounted to BGN 155,617 thousand before allowances (2016: BGN 122,981 thousand), reflecting the increase in the loan portfolio of First Investment Bank – Albania Sh.a to individuals and SMEs.

For further information see section "Business overview of subsidiary companies".

Loan portfolio and impairment



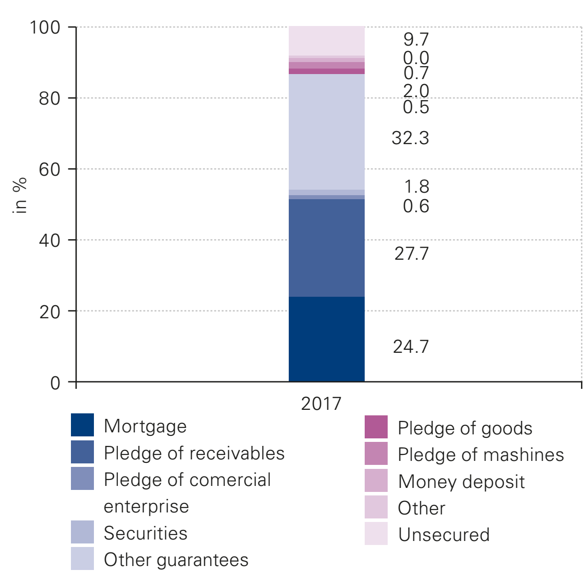
Cost of risk



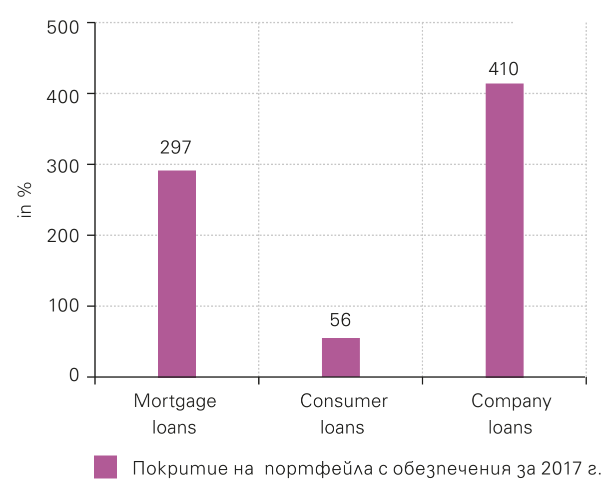
In 2017, Fibank continued to proactively manage the credit risk, focusing on portfolio quality and maintaining a conservative approach to assessing risks. The impairment for calculating potential losses from credit risk reached BGN 601,861 thousand at the end of the period compared to BGN 834,339 thousand a year earlier. The decrease resulted from measures undertaken for write-offs of fully impaired loans amounting to BGN 308,913 thousand (2016: BGN 57,148 thousand) for the entire year.

The Bank's policy is to require customers to provide adequate collateral before granting loans. It accepts all types of collateral permitted by law and applies discount rates depending on the expected realizable value. At the end of 2017 collaterals with the largest share in the portfolio of the Group were other guarantees at 32.3%, followed by pledges of receivables at 27.7% and mortgages at 24.7%.

Loan portfolio by type of collateral



Coverage of the portfolio with collateral



For further information on credit risk, see Note 3 "Risk Management" of the Consolidated Financial Statements for the year ended December 31, 2017.

Related party transactions

In the normal course of business the Bank carries out transactions with related parties. These transactions are effected in market conditions and are in compliance with the effective legislation.

In BGN thousand	2017	2016	2015
Loans			
Parties that control or manage the Bank	753	1,363	1,500
Enterprises under common control	1,280	1,554	16,137
Off-balance sheet commitments			
Parties that control or manage the Bank	1,291	2,259	2,484
Enterprises under common control	322	464	838

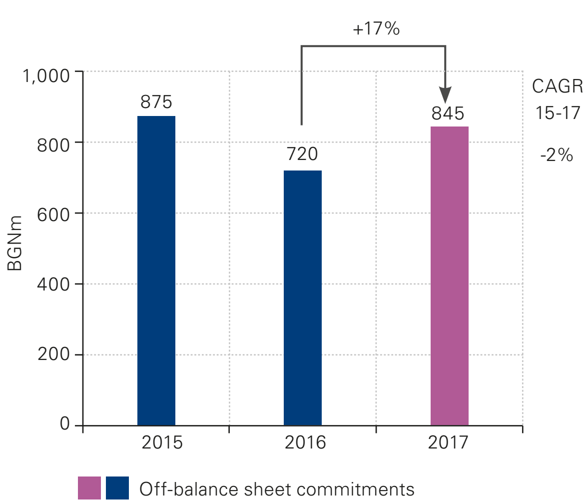
For more information regarding related party transactions, see Note 35 "Related party transactions" of the Consolidated financial statements for the year ended December 31, 2017.

Commitments and contigent liabilities

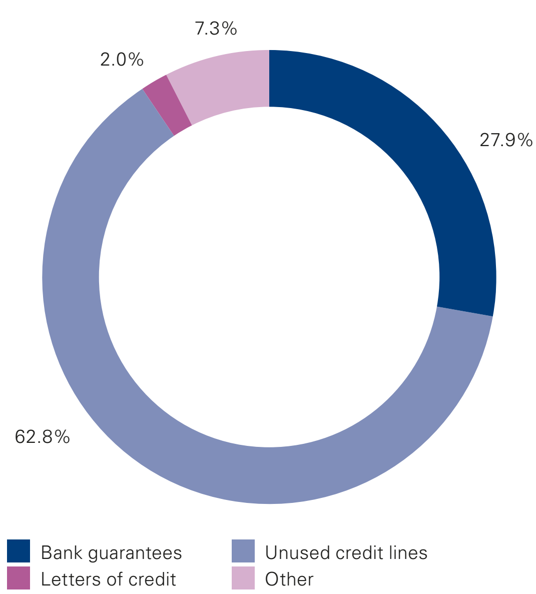
Contingent liabilities undertaken by the Bank include bank guarantees, letters of credit, unused lines of credit and promissory notes, and more. They are provided according to Fibank's general credit policy for risk assessment and security. With respect to the offered documentary operations the Bank also applies the unified international rules in this area, protecting the interests of the parties that are involved in the operation.

Contingent liabilities are the preferred instrument of credit institutions because they carry lower credit risk, while being a good source of income from fees and commissions. They are also preferred by customers because they are cheaper than immediate payment, and help to facilitate payments and provide additional security for the parties to the transaction.

Off-balance sheet commitments



Structure of off-balance sheet commitments



At the end of the reporting period the total amount of off-balance sheet commitments amounted to BGN 845,464 thousand compared to BGN 720,381 thousand a year earlier. The increase was mainly the result of the increase in bank guarantees up to BGN 235,521 thousand (2016: BGN 215,258 thousand), in unused credit lines up to BGN 530,796 thousand (2016: BGN 416,566 thousand), as well as in letters of credit, which reached BGN 16,981 thousand compared to BGN 16,315 thousand a year earlier. The other off-balance sheet commitments amounted to BGN 62,166 thousand at year-end (2016: BGN 72,242 thousand).

For more information on off-balance sheet commitments, see Note 32 "Commitments and contingent liabilities" from the Consolidated financial statements for the year ended December 31, 2017.

Attracted funds

In 2017, attracted funds from customers amounted to BGN 7,583,818 thousand (2016: BGN 7,911,911 thousand), thus remaining the main source of funding for the Group with 95.1% of total liabilities (2016: 96.1%). Fibank offered various deposit and savings products, as well as package programs, which it updates on an ongoing base in line with the market conditions and customers' needs.

As at 31 December 2017, First Investment Bank maintained its third place in terms of deposits among banks in Bulgaria (2016: third). The market share of Fibank amounted to 9.45% on an unconsolidated basis (2016: 10.38%) at the end of the period.

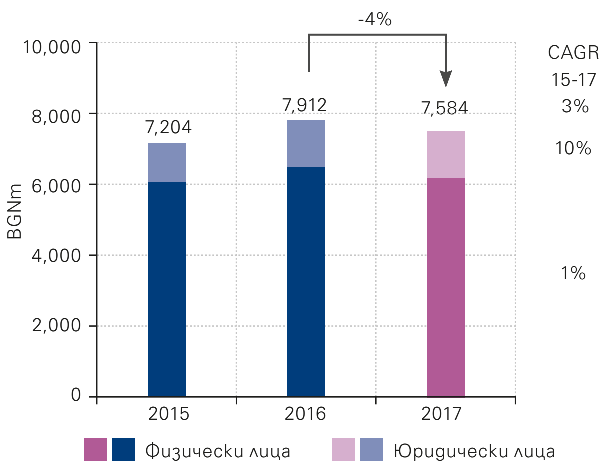
The funds attracted from individuals amounted to BGN 6,305,463 thousand at the end of period compared to BGN 6,593,972 thousand a year earlier. They retained their structure-defining share in the total deposits due to customers at 83.1% (2016: 83.3%). In the currency structure of attracted funds from individuals, funds in BGN formed the majority at 45.7% of total deposits from customers (2016: 42.7%), followed by those in EUR at 29.2% (2016: 32.5%) and in other currencies at 8.2% (2016: 8.1%).

In BGN thousand / % of total	2017	%	2016	%	2015	%
Attracted funds from individuals	**6,305,463**	**83.1**	**6,593,972**	**83.3**	**6,146,440**	**85.3**
In BGN	3,467,849	45.7	3,382,026	42.7	3,044,936	42.3
In EUR	2,216,508	29.2	2,568,645	32.5	2,506,032	34.8
In other currency	621,106	8.2	643,301	8.1	595,472	8.3
Attracted funds from corporate, state-owned and public institutions	**1,278,356**	**16.9**	**1,317,939**	**16.7**	**1,057,529**	**14.7**
In BGN	768,027	10.1	670,174	8.5	659,299	9.2
In EUR	343,011	4.5	291,756	3.7	261,272	3.6
In other currency	167,318	2.2	356,009	4.5	136,958	1.9
Total attracted funds from customers	**7,583,819**	**100**	**7,911,911**	**100**	**7,203,969**	**100**

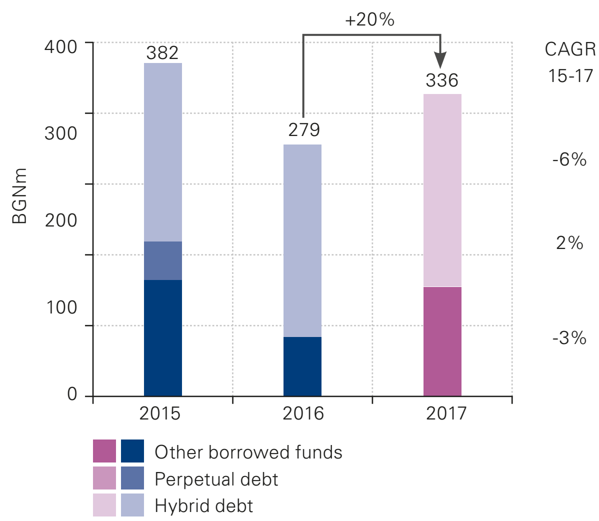
In accordance with regulatory requirements First Investment Bank allocates the required annual premiums for the Deposit Insurance Fund, as according to the law, the amount guaranteed by the Fund on a customer's bank accounts held with the Bank is BGN 196,000.

Attracted funds from corporates and institutions amounted to BGN 1,278,356 thousand (2016: BGN 1,317,939 thousand) at the end of the year. In the period, the Bank continued its efforts to increase cross sales and transactional business. At the end of 2017 their share increased to 16.9% of total deposits from customers (2016: 16.7%). In the currency structure of attracted funds from corporates and institutions, funds in BGN formed 10.1% of total deposits from customers (2016: 8.5%), those in EUR at 4.5% (2016: 3.7%), while those in other currencies formed 2.2% (2016: 4.5%).

Customer deposits



Other attracted funds



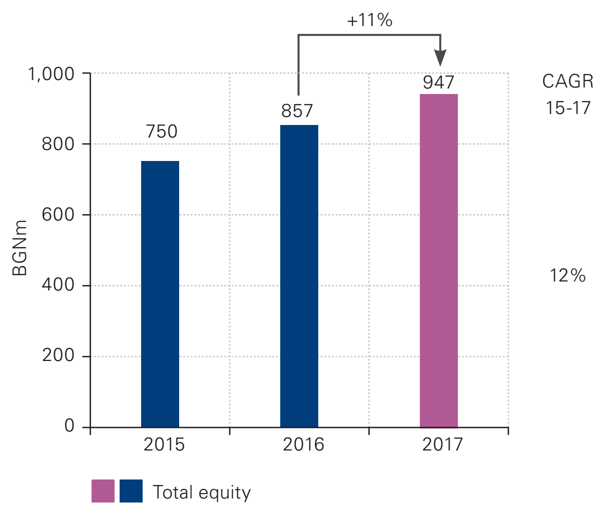
Other borrowed funds increased to BGN 127,493 thousand as at 31 December 2017 compared to BGN 70,367 thousand a year earlier, mainly due to newly attracted financing in the form of debt related to agreements for full swap of profitability amounting to BGN 73,211 thousand, as well as liabilities under repurchase agreements amounting to BGN 9,099 thousand at the end of the period. A decrease was registered in the acceptances under letters of credit to BGN 16,941 thousand, (2016: BGN 21,602 thousand), as well as in the other financings from financial institutions to BGN 28,242 thousand (2016: BGN 48,765 thousand). They included attracted funds from the European Investment Fund under the JEREMIE 2 initiative at BGN 24,254 thousand (2016: BGN 42,050 thousand), from the Bulgarian Development Bank AD at BGN 3,615 thousand (2016: BGN 6,025 thousand) and from the Agriculture State Fund at BGN 373 thousand (2016: 690 thousand).

For more information on borrowings see the Consolidated Financial Statements for the year ended December 31, 2017.

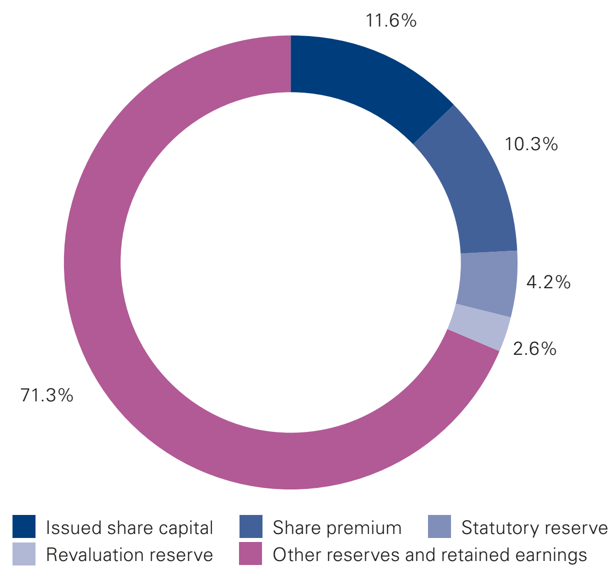
Capital

Shareholders' equity of the Group of First Investment Bank increased throughout the year by 10.6% to BGN 947,350 thousand (2016: BGN 856,836 thousand), due primarily to the increase in other reserves and retained earnings which reached BGN 673,571 thousand at the end of the period (2016: BGN 584,513 thousand), as well as in the revaluation reserve on the available for sale investments – up to BGN 21,431 thousand, compared to BGN 20,543 thousand a year earlier.

Total equity



Structure of equity



The issued share capital of First Investment Bank amounted to BGN 110,000 thousand, divided into 110,000,000 ordinary, registered, dematerialized, voting shares in the General Meeting of Shareholders, with a nominal value of BGN 1 each. The issued share capital is fully paid.

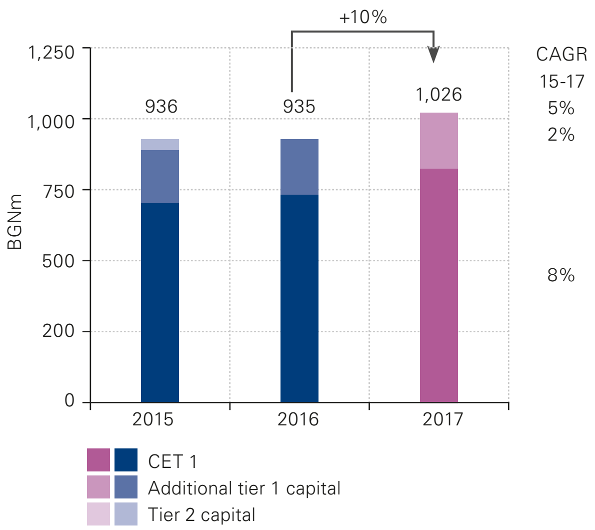
Regulatory capital

First Investment Bank maintains own funds for the purpose of capital adequacy under the form of common equity tier 1 and additional tier 1, following the requirements of Regulation (EU) No575/2013, incl. the EC implementing regulations, and Ordinance No7 of the BNB on the organization and management of risks in banks.

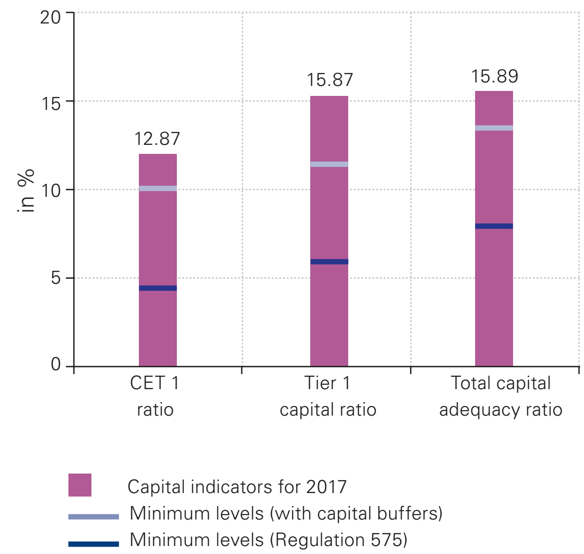
In 2017, First Investment Bank continued its consistent policy for capital development focusing on common equity tier 1 capital. At the end of the reporting period common equity tier 1 grew by 12.0% to BGN 831,161 thousand (2016: 741,802 thousand), including a registered increase in the reserves, and in retained earnings. As a result of this, tier 1 capital also grew to reach BGN 1,025,305 thousand (2016: BGN 933,095 thousand) at the end of the period. The total own funds amounted to BGN 1,026,205 thousand compared to BGN 934,895 thousand a year earlier.

As at 31 December 2017, First Investment Bank had issued two hybrid instruments (bond issues) with an original principal in the amount of EUR 40 million (ISIN: BG2100008114) and EUR 60 million (ISIN: BG2100022123), which fully comply with the requirements of Regulation (EU) No 575/2013 and are included in the additional tier 1 capital. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. The amortised cost of the hybrid debt at the end of the period was BGN 208,786 thousand compared to BGN 208,740 thousand a year earlier. Both hybrid bond issues are admitted to trade on a regulated market at the Luxembourg Stock Exchange.

Regulatory capital



Capital adequacy in 2017



For the purpose of reporting large exposures and qualifying holdings outside the financial sector, First Investment Bank applies the definition of eligible capital, which includes tier 1 capital and tier 2 capital, which cannot exceed 1/3 of tier 1 capital. As at 31 December 2017, the eligible capital of First Investment Bank, calculated in accordance with Regulation (EU) No 575/2013 and Ordinance No7 of BNB for the organization and management of risks in banks amounted to BGN 1,026,205 thousand.

Pursuant to Regulation (EC) 2017/2395 of the European Parliament and of the Council of 12 December 2017 for amending Regulation (EC) 575/2013, as from 1 January 2018 the banks have been provided with the option to choose to apply transitional measures for mitigating the impact of the introduction of IFRS 9 on regulatory own funds. With these a five-year term is being defined for gradual introduction during which banks can add a specific amount to the common equity tier 1, calculated in accordance with the approach chosen (the so-called static approach or static approach with dynamic part included) and in accordance with the coeficients for transitional arrangements in the amount of 0.95 for 2018, 0.85 for 2019, 0.70 for 2020, 0.50 for 2021 and 0.25 for 2022.

In this regard after the reporting date, First Investment Bank has decided during the transitional period until 2022 to apply the measures under Article 473a of Regulation (EU) No 575/2013, including the additional relief provided for in paragraph 4 – the so-called dynamic part of the transitional treatment. With permission from BNB, the Bank has the right to change once its first decision during this transitional period.

Capital requirements

At end-2017 the capital indicators of First Investment Bank were as follows: the common equity tier 1 ratio was 12.87%, the tier 1 capital ratio was 15.87% and the total capital adequacy ratio was 15.89%.

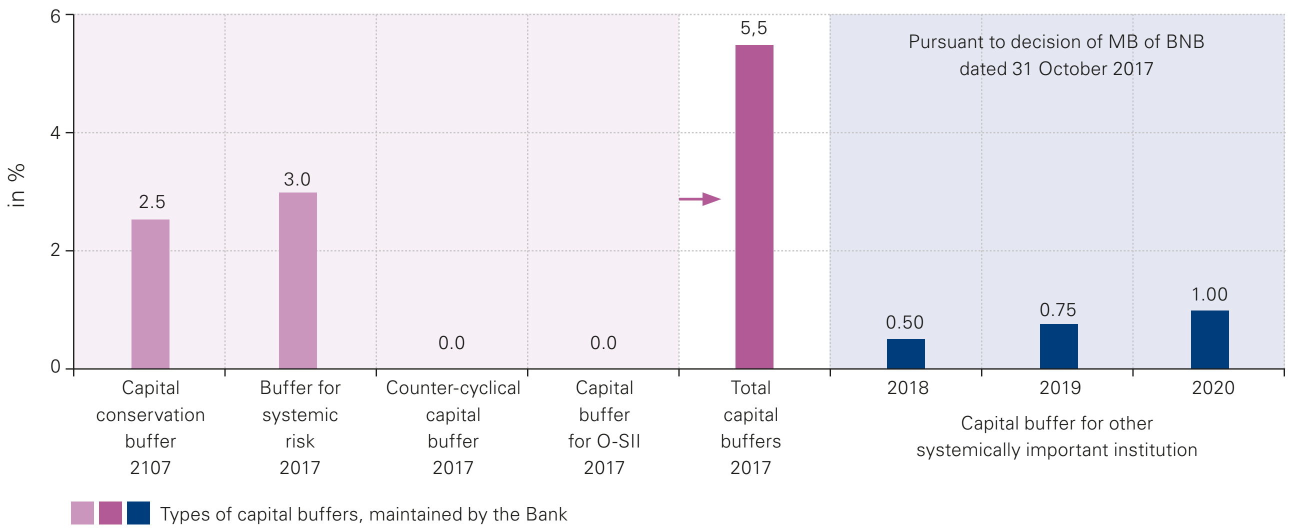
In BGNth/% of risk exposures	2017	%	2016	%	2015	%
CET 1 capital	831,161	12.87	741,802	12.01	716,850	11.28
Tier 1 capital	1,025,305	15.87	933,095	15.10	904,427	14.23
Own funds	1,026,205	15.89	934,895	15.13	935,878	14.72
Total risk exposures	**6,458,822**		**6,178,635**		**6,355,988**	

In execution of the policy for further upgrading capital buffers, in 2017 the initiatives undertaken for realizing capital levers in key areas were continued, including through profit retention, diversification of the loan portfolio, maintaining high discipline with regards to risk management and increasing profitability and income from banking operations.

Capital buffers

In addition to the capital requirements pursuant to Regulation (EU) No 575/2013, First Investment Bank maintains four capital buffers in compliance with the requirements of Ordinance No8 of the BNB on capital buffers.

Capital buffers



First Investment Bank maintains a capital conservation buffer, comprised of common equity tier 1 capital, equal to 2.5% of the total risk exposure of the Bank, with the aim of ensuring additional funds to be used for recovery and/or restructuring in times of crisis.

The Bank also maintains a buffer for systemic risk covered by common equity tier 1 capital with the aim of decreasing the effect of potential long-term non-cyclical system or macroprudential risks in the banking system in the country. In 2017, the Bulgarian National Bank reviewed the buffer for systemic risk, by keeping its level applicable to all banks in the country unchanged at 3% of the total risk exposures in Bulgaria.

With the aim of the protection of the banking system against potential losses arising from accumulated cyclical systemic risk in periods of excessive credit growth, the banks in Bulgaria, incl. Fibank, maintain countercyclical capital buffers, applicable to credit risk exposures in the Republic of Bulgaria. Its level is determined by the Bulgarian National Bank each quarter as during the whole of 2017 and for the first quarter of 2018 is defined at 0%.

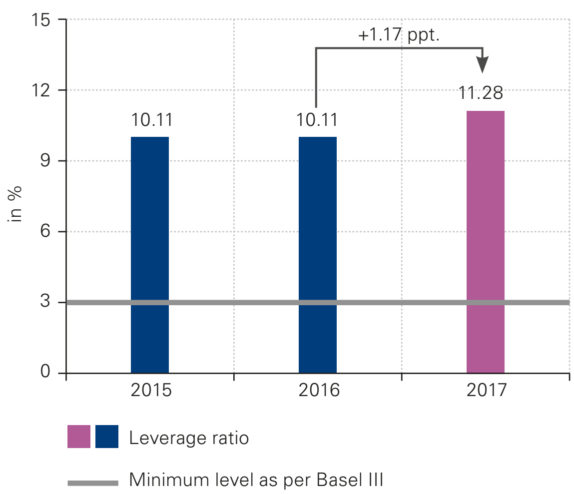
In addition, the other systemically important institutions (O-SII) in the country determined by BNB, among which is First Investment Bank AD, should maintain a buffer for O-SII with a view to their significance for the national economy and financial system. The buffer applicable for Fibank for O-SII on an individual and consolidated basis, determined as a share of the total value of the risk exposures, is in the amount of 0% for 2017 and it will gradually grow from 0.5% in 2018 to 1% in 2020. With a decision of MB of BNB dated from 31 October 2017 the levels of the buffer for O-SII applicable for First Investment Bank for the period 2018-2020 were confirmed, as follows: 0.5% for 2018, 0.75% for 2019 and 1.0% for 2020.

Leverage

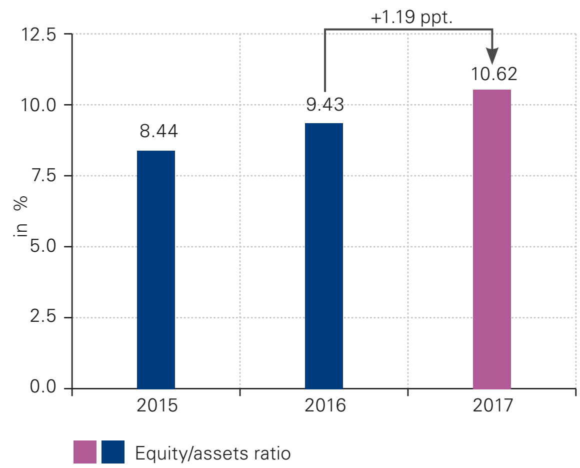
The leverage ratio is an additional regulatory and supervisory tool introduced by the CRR/CRD IV package which measures the required capital maintained by banks that is not risk-sensitive or risk-weighted, thereby complementing and building on the risk-based capital ratios applicable under the existing regulatory framework. In terms of the leverage ratio, an observation period is under way during which banks measure and disclose the ratio, with a view to its introduction by 2019 as a mandatory requirement after an appropriate review and calibration by the regulatory authorities with a potential minimum level of 3%.

First Investment Bank calculates the leverage ratio by matching its Tier 1 capital to the total exposure of the Bank (assets, off-balance sheet items, and other exposures to derivatives and securities financing transactions), subject to the requirements of Delegated Regulation (EU) 2015/62 of the Commission concerning the leverage ratios and the other applicable regulations. As at 31 December 2017, the leverage ratio amounted to 11.28% on a consolidated basis compared to 10.11% for the previous period.

Leverage ratio



Equity / assets ratio



The Bank applies the requirements regarding the models and guidelines for supervisory reporting, as well as the standards for disclosure of leverage ratio in accordance with Commission Implementing Regulation (EU) 2016/428 laying down technical standards with regard to the supervisory reporting of institutions, and as regards the reporting of the leverage ratio in accordance with Commission Implementing Regulation (EU) 2016/200 laying down technical standards with regard to disclosure of the leverage ratio.

First Investment Bank has written policies and processes in place to identify, manage and monitor the risk of excessive leverage resulting from potential vulnerability of the Bank related to the maintained levels of leverage. The risk of excessive leverage is currently monitored based on specific indicators, which include the leverage ratio calculated in accordance with applicable regulatory requirements, as well as mismatches between assets and liabilities. The Bank manages this type of risk using various scenarios, including such that take into account its possible increase due to a decrease in the Tier 1 capital resulting from potential losses. The leverage ratio is also part of the capital indicators of the system for ongoing monitoring and early warning, and is incorporated in the framework for risk management at the Bank, including in the management processes in case of potential financial risks.

For more information on capital see the Consolidated Financial Statements as at 31 December 2017.

Risk management

First Investment Bank has built, maintained, and developed a wide-scope risk management system which ensures the timely identification, assessment and management of risks inherent to its activity.

In 2017 First Investment Bank performed its activity in line with the approved risk strategy and in accordance with the goals for development, by further enhancing the control mechanisms with respect to risks inherent to the banking activity, including developing additional capital and liquidity buffers, maintaining an effective control environment with respect to the current business processes, as well as refining the internal risk management framework in compliance with the challenges of the environment and the new regulatory requirements and standards, incl. IFRS 9.

Risk management strategy

The risk management strategy of First Investment Bank is an integral part of its business strategy. The main objective in managing the overall risk profile of the Bank is to achieve a balance between risk, return and capital. The risk profile is relevant to the product policy of the Bank and is determined in accordance with the economic factors in the country and the Bank's internal characteristics and requirements.

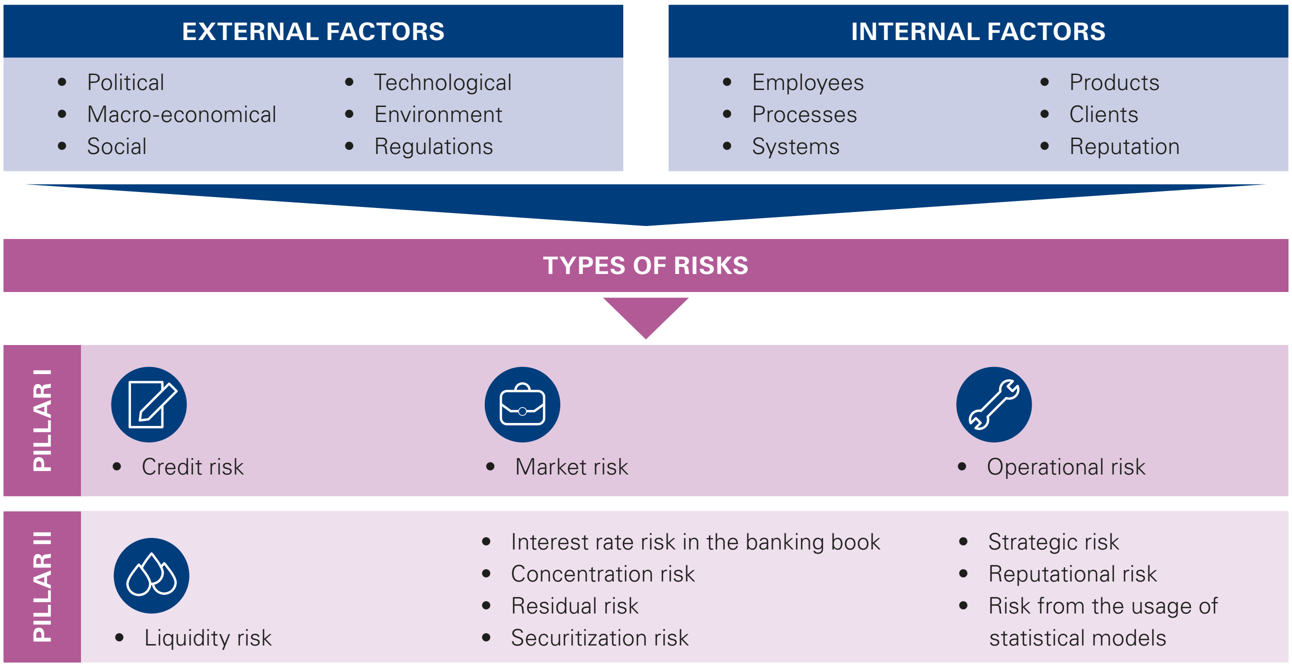
Key elements of risk strategy

The Bank determines its risk propensity and risk tolerance levels so that they correspond to its strategic objectives and stable functioning. First Investment Bank assumes risks while ensuring the required level of equity capital and an effective management process. The Bank maintains financial resources that are comm ensurate with the volume and type of operations performed and with its risk profile, by developing internal control systems and mechanisms for risk management in accordance with the regulatory requirements and best practices.

Risk map

First Investment Bank develops a risk map, which classifies risks into different types and identifies those the Bank is exposed to or may be exposed to in its activity. It is updated once a year or more often if needed, aiming at defining all material risks and their adequate integration within the risk management framework of the Bank.

Risk profile and risk map



The types of risks are differentiated into groups (Pillar 1 and Pillar 2, under Basel III) as well as the methods for their measurement in accordance with the applicable regulatory framework (the CRR / CRD IV package).

Risk appetite

Risk appetite reflects the types and size of risks the Bank is able and willing to take in order to achieve its strategic business goals. The risks identified in the risk map are included in the risk appetite. With the aim of maintaining a moderate risk profile, the main goals on the basis of which the risk strategy is structured, are defined, as follows:

- achieving a sustainable level of capital to ensure good risk taking capacity, as well as capacity to cover risks in the long term;
- maintaining good asset quality while providing for an efficient decision-making process;
- achieving a balanced risk/return ratio for all business activities of the Bank.

The risk appetite is subject to review by the Managing Board and approval from the Supervisory Board once a year or more often, if needed, in accordance with the business environment dynamics. It is part of the annual process for defining the strategy and planning within the Bank.

Risk culture

In compliance with the best risk management standards, the Bank seeks to develop a risk culture that will further enhance visibility and prevention in terms of individual risk types, their identification, evaluation and monitoring, including by applying appropriate forms of training among the employees and senior management involved in risk management.

The Bank aims at applying the following principles for ensuring high risk culture:

- risk taking within the approved risk appetite;
- approval of every risk in accordance with the effective approval levels and the internal risk management framework;
- current/ongoing monitoring and risk management;
- responsibility of employees of all levels to the management and escalation of risks, while applying a conservative and future-oriented approach in their assessment.

Risk management framework

The risk management framework of First Investment Bank includes automated systems, written policies, rules and procedures, mechanisms for the identification, assessment, monitoring and control of risks, and measures to reduce them. Its main underlying principles are: objectivity, dual control of any operation, centralized management, separation of duties, independence, clearly defined levels of competencies and authority, adequacy of the intrabank requirements to the nature and volume of activity, and effective mechanisms for internal audit and control. The Bank meets the requirements of current legislation for credit institutions for the preparation and maintenance of current recovery plans in case of potential occurrence of financial difficulties and for the continuity of processes and activities, including with regard to recovery of all critical functions and resources.

Lines of defence

The risk management framework of First Investment Bank is structured in accordance with the principle and model of the three lines of defense which is in compliance with the Basel Committee for Banking Supervision principles for corporate governance in banks:

- First line of defense: the business units which take the risk and are responsible for managing it, including through identification, assessment, reporting in accordance with current limits, procedures and controls implemented in the Bank;
- Second line of defense: the Risk Management and Compliance functions which are independent of the first line of defense. The Risk Management function monitors, assesses and reports risks, while the Compliance function monitors and controls the maintaining of internal regulations in compliance with the applicable regulatory provisions and standards;
- Third line of defense: Internal Audit which is independent of the first and the second lines of defense. It provides an independent review of the quality and effectiveness of risk management, business processes and banking activity, as well as of the business planning and internal policies and procedures.

Structure and internal organisation

First Investment Bank has a developed risk management and control function, organized in line with the recognized international practices and standards, under the management of a Chief Risk Officer (a member of the Managing Board) with appropriate experience and qualifications and directly reporting to the Risk Committee of the Supervisory Board.

The Chief Risk Officer organizes the overall risk management framework of the Bank, manages the process of its implementation, coordinates the activities of the risk committees of the Bank, and controls the credit process in its entirety, including the process of collection of problem loans. He ensures the effective monitoring, measuring, controlling and reporting of all types of risk to which the Bank is exposed.

First Investment Bank has also developed a compliance function, whose main objective is to identify, assess, monitor and report the risk of non-compliance. The function ensures the compliance of activities with regulatory requirements and recognized standards, and supports the Managing Board and senior staff in the management and control of this risk. The function is organized under a Chief Compliance Officer who is subordinated to the Chief Executive Officer and has direct reporting to the Risk Committee of the Supervisory Board.

The Chief Compliance Officer is responsible for the overall organization and management of the Compliance function in First Investment Bank. He coordinates the identification of regulatory requirements and the compliance of the Bank's activity with them, and ensures integration of the Compliance function in the established risk management framework across the Bank, by all business units and at all levels.

The Bank maintains an information system allowing for the measurement and control of risks through the use of internal rating models for assessment of the quality of the borrower, assigning of credit rating to exposure, and obtaining quantitative assessment of risk. The information system ensures maintenance of a database and subsequent processing of data for the purposes of risk management, including for preparation of the regular reports necessary for monitoring the risk profile of the Bank.

Collective risk management bodies

The overall process of risk management is carried out under the guidance of the Managing Board of First Investment Bank. The Supervisory Board exercises control over the activities of the Managing Board on risk management, liquidity and capital adequacy, directly and/or through the Risk Committee which functions as an auxiliary body to the Supervisory Board in accordance with existing internal bank rules and procedures.

The Risk committee advises the Supervisory Board and the Managing Board in relation to the overall current and future strategy on ensuring compliance of the risk policy and risk limits, risk-taking propensity and control on its execution by the senior management. As at 31 December 2017, the Risk Committee consisted of three members of the Supervisory Board of First Investment Bank AD. The Chairman of the Risk Committee is Mr. Evgeni Lukanov, Chairman of the Supervisory Board of the Bank.

For supporting the activity of the Managing Board in managing the various types of risks, the following collective management bodies operate at the Head Office of First Investment Bank: a Credit Council, an Asset, liability and Liquidity management Council (ALCO), a Restructuring Committee and an Operational Risk Committee, which carry out their activities on the basis of written structure, scope of activities and functions.

The **Credit Council** supports the management of the credit risk undertaken by the Bank by issuing opinions on loan transactions in accordance with the authority level assigned thereto, including with regards to proposals from the operational/business units in the Head Office, as well as from the branches of the Bank in the country and abroad. The Chairman of the Credit Council is the Chief Risk Officer (CRO), while the other members include the Chief Corporate Banking Officer (CCBO), the Director and Member of the Managing Board regarding SME Banking, as well as the Director of the Credit Risk Management, Monitoring and Provisioning department.

The Asset, Liability and Liquidity management Council (ALCO) is a specialized collective body which advises the Managing Board on matters relating to implementing the policy for asset and liability management, and maintaining adequate liquidity in the Bank. It carries out systematic analysis of the interest-rate and maturity structure of assets and liabilities and of liquidity indicators, with a view to possible early warning and taking actions for their optimization. The Chairperson of the Liquidity Council is the chairman of the Managing Board of the Bank, and other members include the Chief Risk Officer (CRO), the Chief Financial Officer (CFO), and the directors of the Treasury, Risk Analysis and Control, Corporate Banking, and Retail Banking departments.

The Restructuring Committee is a specialized internal bank body responsible for the monitoring, evaluation, classification, impairment and provisioning of risk exposures and commitments. It also gives motivated written proposals to the Managing Board, and decides on restructuring of exposures according to the current authority levels in the Bank. The Chairman of the Restructuring Committee is the Director of the Impaired Assets department, while the rest of its members include: the Director of the Accounting department and representatives from Credit Risk Management, Monitoring and Provisioning; Corporate Banking; SME Banking; Retail Banking; and Legal departments. The members of the Restructuring Committee are employees of the Bank who are not directly involved in taking lending decisions.

The Operational Risk Committee is an advisory body to the MB, designed to help the adequate management of operational risk by monitoring and analyzing operating events. The Committee proposes measures to minimize operational risks, as well as prevention measures. The Operational Risk Committee includes representatives of the following departments: Risk Analysis and Control; Compliance – Regulations and Standards; Accounting; Operations; Branch Network; Legal. The Chairman of the Operational Risk Committee is the director of the Risk Analysis and Control department.

Apart from the collective management bodies, the following departments also function in First Investment Bank which are independent (separate from the business units) structural units in the organizational structure of the Bank: Risk Analysis and Control; Credit Risk Management, Monitoring and Provisioning; Compliance – Regulations and Standards; Compliance – Specialized Monitoring and Control.

The Risk Analysis and Control department performs functions for the identification, measurement and management of the various types of risks inherent in the Bank's activity. The department monitors the determined levels of risk appetite and risk tolerance, is responsible for the implementation of new requirements relating to risk assessment and capital adequacy, and assists other departments in carrying out their functions related to risk management.

The Credit Risk Management, Monitoring and Provisioning department performs the functions of management and monitoring of credit risk, and exercises secondary control over risk exposures according to the current authority levels on loan transactions in the Bank. The department manages the process of categorization of credit exposures, including the assessment of potential losses.

The Compliance – Regulations and Standards department carries out the activities of identifying, assessing and managing the risk of non-compliance, ensures adequate and legitimate internal regulatory framework in the structure of the Bank, and monitors for compliance of the Bank's products and services with existing regulations.

The Compliance – Specialized Monitoring and Control department coordinates the Bank's activities related to the prevention of money laundering and financing of terrorism as a specialized office under Art. 6, para. 5 of the Law on Measures against Money Laundering, and exercises control over the application of requirements for combating and preventing fraud. As part of the compliance function within the Bank special units for customer complaints and control of investment services and activities exist.

Recovery plan

In pursuance of the Recovery and Resolution of Credit Institutions and Investment Firms Act, banks in the country are required to prepare and maintain recovery plans in case of potential occurrence of financial difficulties.

In 2017, as part of its annual review process, First Investment Bank further developed and updated its recovery plan in line with the regulatory requirements applicable to banks in the country, including those of the Commission Delegated Regulation (EU) 2016/1075 on the regulatory technical standards specifying the content of recovery plans and resolution plans, as well as according to the Guidelines of the European Banking authority in this area. The frequency and levels of reporting of the risk indicators were reviewed, the stress scenarios were updated, as well as the role of the internal and registered auditors was refined, as parties that can review and make recommendations, if necessary, with regards to the contents and fulfillment of the plan.

The Recovery plan includes a detailed process of escalation and decision-making, as well as the units and bodies within the Bank responsible for its updating and implementation. It includes quantitative and qualitative early warning and recovery indicators, based on a wide range of capital, liquidity, profitability, asset quality, market-based and macroeconomic indicators, upon the occurrence of which a phased process is initiated, involving analysis and identification of the best way to overcome the crisis situation, as well as taking of decisions to trigger the appropriate actions according to the procedures for reporting and escalation.

For the purposes of the plan, the key business lines and the critical functions of the Bank have been identified that are necessary for its smooth operation. According to the applicable requirements and in order to determine the range of hypothetical events, different stress scenarios of idiosyncratic, systemic and combined shock have been defined, against which effective recovery measures have been identified.

In connection with the implementation of the plan, an effective process of communication and disclosure has been structured in First Investment Bank, including internal communication (to internal bank bodies and employees) and external communication (to supervisors, shareholders and investors, customers and counterparties, and other stakeholders), as well as measures for management of potential negative market reactions.

The primary mechanisms and tools for the management of different types of risk are summarized below:

Credit risk

Credit risk is the risk arising from the debtor's inability to meet the requirements of a contract with the bank or inability to act in accordance with the agreed terms. The different types of credit risk include concentration risk, residual risk, dilution risk, counterparty risk, and settlement risk. Credit risk is the major source of risk to the banking business and its effective assessment and management are crucial for the long-term success of credit institutions.

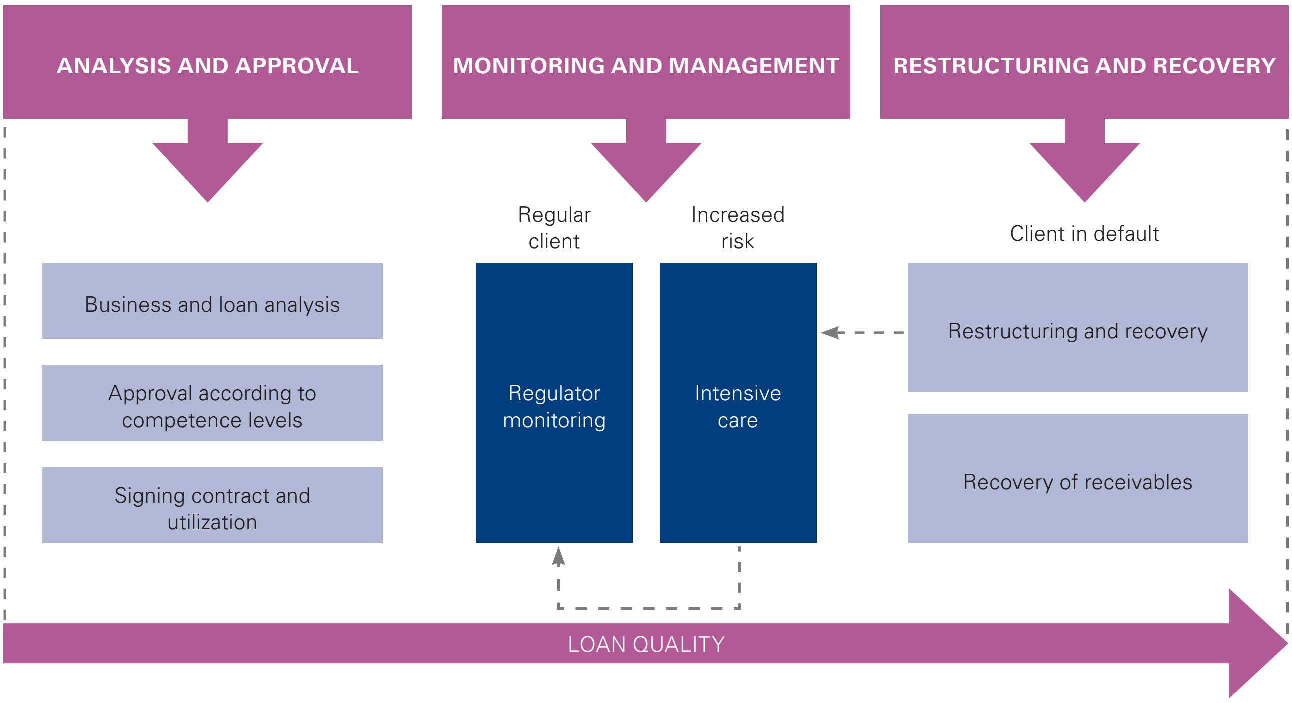
First Investment Bank manages credit risk by applying internal limits on exposures, on customers/counterparties, types of instruments, industry sectors, markets, by written rules and procedures, by internal rating and scoring models, as well as by procedural requirements in originating and managing of loan exposures (administration).

The internal bank regulations regarding credit risk are structured in accordance with the business model and organization of the activity, as well as in compliance with the regulatory requirements and recognized banking practices and standards, which include internal rules for lending and managing problem exposures, rules for impairment and the provisioning of risk exposures, approval levels in the origination of loan exposures, as well as the methodology for conducting of credit analysis and internal credit ratings (scoring models) regarding the creditworthiness of customers. Internal rules and procedures are updated regularly with the aim of identifying, analyzing and minimizing potential and existing risks. The applied limits on credit risk exposures are monitored on an ongoing basis and in compliance with the market conditions and regulatory framework.

Loan process

The loan process in First Investment Bank is automated through a Workflow system integrated with the main information system of the Bank, which includes controls and authority levels when considering transactions. Approved transactions are administered centrally by the Loan Administration department, applying the "four eyes" principle.

Loan life-cycle



First Investment Bank maintains systems for the ongoing administering and monitoring of different portfolios and exposures to credit risk, including aiming at recognizing and managing exposures in default and performing adequate value adjustments for credit risk. Considering the impact of the economic cycle, Fibank actively manages exposures in default with a view to their timely diagnosis and taking measures consistent with the repayment capacity of the clients and the Bank's policy on risk-taking.

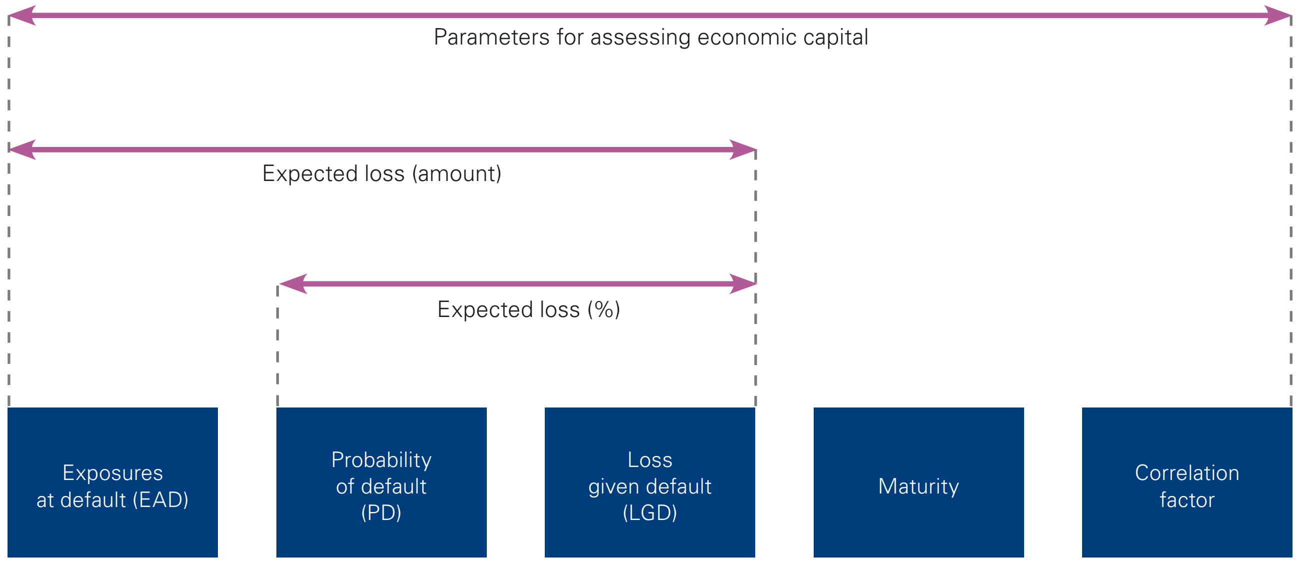
In 2017 the Bank continued to develop the procedures for monitoring and management of credit exposures, incl. early warning systems. During the year a new department for Intensive loan management was created in order to manage the exposures of customers transferred from the business units with increased credit risk compared to the initial disbursement of the loan, as well as from the impaired assets unit, when there are indicators for recovery of the exposure and objective possibility for future regular servicing. The changes are part of the consistent efforts of the Bank for enhancing the effective management of the loan portfolio, the early warning and management of exposures, as well as for decreasing the overall level of credit risk for the Bank.

Models for credit risk measurement

First Investment Bank applies internal credit risk models to assess the probability of default (PD), loss given default (LGD), and exposure at default (EAD) which allows the calculation of risk-adjusted returns. All credit risk exposures are controlled on an ongoing basis.

The framework, defined in accordance with the Basel standards, sets minimum regulatory capital requirements to cover financial risks. In addition to regulatory capital, First Investment Bank also calculates economic capital which is included in the internal measurement and management of risk. Economic capital is maintained for the purpose of protection and covering of unexpected losses arising from market conditions or events.

Risk parameters for assessing expected and unexpected losses



For further information regarding economic capital see subsection "Internal Capital Adequacy Analysis".

The Bank uses internal models for credit assessment of corporate, SME, micro, and retail customers. Assessment models are based on quantitative and qualitative parameters, weights of individual parameters being defined on the basis of historical experience. The business clients are assigned a credit rating, while individuals are based on scoring. Additional assessment for business clients is made based on a behavioral scoring model. The credit risk assessment derived from the rating models is further examined by a credit specialist.

Credit risk mitigation methods

Credit risk is managed also by acceptance of guarantees and collateral of types and in amounts according to the current regulations and the Bank's internal rules and requirements. First Investment Bank requires collateral for credit risk exposures, including for contingent liabilities which bear credit risk. For reduction of the credit risk the Bank applies established techniques, procedures and rules, ensuring effective credit protection, including through the monitoring and control of residual risk. Secured protection is ensured by assets which are liquid enough and have relatively unchanging value in time. The Bank applies internal written rules regulating eligible collaterals by type and amount, in compliance with the regulatory requirements for their recognition, as well as the legal requirements for supporting documentation. For reduction of credit risk, First Investment Bank applies the financial collateral simple method under the requirements of Regulation (EU) No 575/2013.

In 2017, First Investment Bank continued to develop and enhance the rules and processes existing in the Bank with respect to the acceptance, evaluation and management of collaterals, including with regards to the methods for valuation and the relative weights used, in line with the best practices and internationally recognized standards in this area.

Problem exposures and impairment

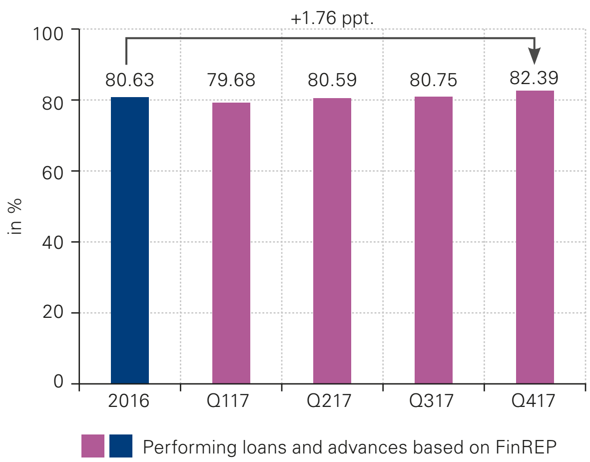
First Investment Bank has internal rules and written procedures for managing problem credit exposures, which include all main actions related to management of problem loans, including analysis and assessment of risk exposures, restructuring and recovering, enforced collection, sale and writing off of problem exposures. Fibank uses also a specialized system for integrated management of problem assets, which includes all stages for monitoring and recovery of receivables.

During the year the Bank actively managed the credit risk in line with the risk strategy and external environment, with a view to on-time diagnosis and taking measures in accordance with the customers' capabilities and the Bank's policy on risk taking. Activities were undertaken for enhancing the internal regulatory framework aiming more efficient process management, including with regards to early collection of receivables, restructuring of problem exposures, as well as repossessed assets, incl. in the cases of financial leasing and debt-to-asset swap.

With respect to impairment and provisioning of risk exposures, First Investment Bank applies written rules, which are structured based on the principles of individual and portfolio evaluation of risk exposures, depending on the classification and amount of exposure. For exposures reported as non-performing specific impairment is determined, calculated on the basis of individual cash flows for individually significant exposures, or on portfolio basis for the others. Regarding exposures reported as performing, the Bank applies impairment on a portfolio basis (taking into account potential losses), grouping exposures with similar credit risk characteristics.

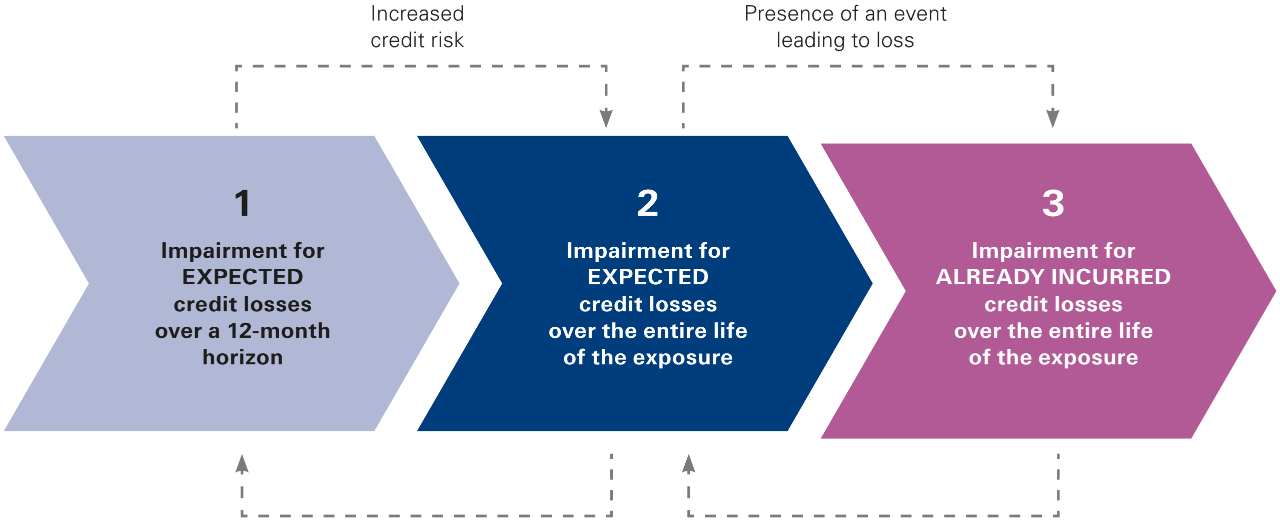
As at end-2017 the performing loan exposures of First Investment Bank based on FinREP reporting framework were 82.39% of all loans and advances on a consolidated basis (89.83% average for the banking system), registering a growth of 1.76 ppt. compared to the end of 2016. The decrease in the amount of non-performing loan exposures during 2017 was a result of the Bank's policy for management of the credit risk in compliance with the increased regulatory requirements, BNB recommendations and macroeconomic development.

Performing loans and advances based on the financial reporting frame FinREP



In 2017 First Investment Bank amended its rules for impairment and provisioning of risk exposures in compliance with the requirements of IFRS 9, which are applicable for banks in the country effective from 1 January 2018. According to the new rules an allowance for impairment loss is calculated equal to the expected credit losses over the life of the instrument, if the credit risk of the financial instrument has increased significantly since the original recognition. Otherwise, an allowance for impairment losses is calculated equal to the expected credit losses over a 12-month horizon.

Impairment of risk exposures



The Bank has written parameters for defining the increased credit risk, which include days past due, as well as other indicators i.e. presence of forborne measures, deterioration in the rating/scoring of the client and others.

With regards to applying the IFRS 9 in the internal regulatory framework of the Bank are included also the applicable business models for classification of financial assets, as well as defined the parameters for meeting the cash flow test for solely payments of principal and interest (SPPI test).

Market risk

Market risk is the risk of losses due to changes in the price of financial instruments resulting from general risk factors inherent in the markets and not related to the specific characteristics of individual instruments, such as changes in interest rates, exchange rates and/or specific risk factors relating to the issuer.

The management of market risk is based on applying internal limits and written rules and procedures with respect to the processes and control environment. For the purpose of assessing and minimizing market risk the Bank applies internal models for assessment, which are based on the "Value at Risk" (VaR) concept, as in addition other duration analyses, calculation of stressed VaR, stress tests and scenarios are used.

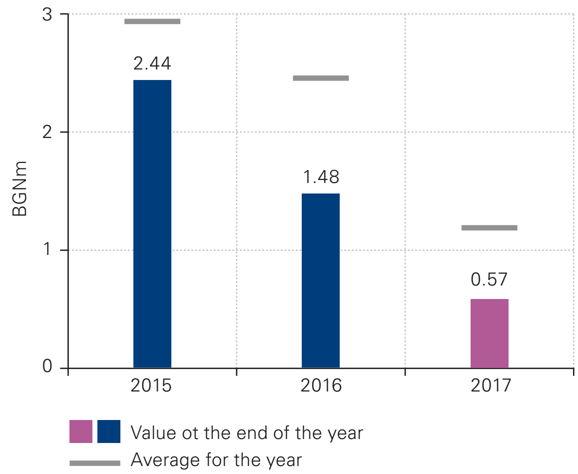
In 2017, the limits for debt and capital instruments were further enhanced with the aim for minimizing the risk and implementing a wider and risk-based framework of limits, which is directly connected with the risk profile of the investments, as well as with the dynamics of the risk profile in time.

Interest rate risk

Interest rate risk is the current or potential risk of change in the income of the Bank as a result of adverse changes in interest rates. First Investment Bank is exposed to interest rate risk from the trading and the banking portfolios.

It is the policy of the Bank to maintain an insignificant trading portfolio in accordance with the criteria of Regulation (EU) № 575/2013. Therefore it does not calculate capital requirements for interest rate and pricing risk in this portfolio. For quantifying measurement of the interest rate and position risk in the trading portfolio, the Bank applies VaR analysis with a 1-day horizon and 99% confidence level, which means that there is 1% probability for the trading portfolio to depreciate within a 1-day interval more than its calculated VaR. The model is calculated and monitored on a daily basis by estimating the maximum loss that could occur over a specified horizon under normal market conditions, due to the adverse changes in the market rates, if the positions remained unchanged for the specified time interval.

Interest rate VaR for the portfolio of debt instruments



Interest rate VaR for the portfolio of debt instruments during 2017

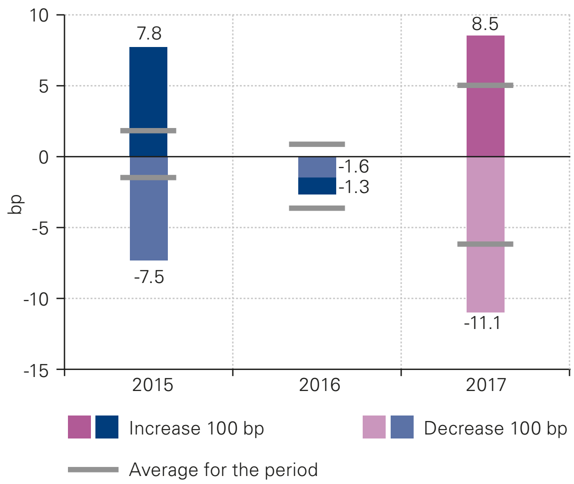
In compliance with the European Banking Authority guidelines, the Bank measures stressed value at risk (sVaR) of the debt securities portfolio, where model inputs are calibrated so as to reflect an extended period of significant stress at the international financial markets.

With regards to the interest rate risk in the banking book, First Investment Bank manages this type of risk though written rules, limits and procedures aimed at reducing the mismatch between interest rate sensitivity of assets and liabilities. Interest rate risk in the banking book is measured using models that assess the impact of interest rate scenarios on the economic value of the Bank and on the net interest income within a one-year horizon.

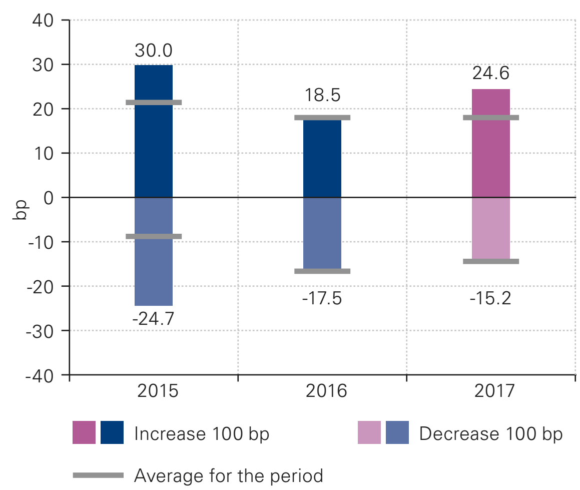
Evaluation of the impact on the economic value of the Bank is based on models of the duration of interest-bearing assets and liabilities. The evaluation of the impact on net interest income is based on a maturity table of interest-bearing assets and liabilities and the estimated change in interest rates by classes of instruments following a change in market interest rates.

As at 31 December 2017 the interest rate risk on the economic value of the Bank following a standardized shock of +100/-100 bp was BGN +24.6/-15.2 million, while on the net interest income one year forward was BGN +8.5/-11.1 million.

Effect on the interest income



Effect on the equity



Currency risk

Currency risk is the risk of loss resulting from an adverse change in exchange rates. Fibank's exposure to currency risk arising from positions in the banking and trading book is limited by the application of regulatory-required and internal limits. The Bank actively manages the amount of its overall open foreign exchange exposure, and seeks to maintain negligible levels of currency mismatches in its entire activity. In addition, First Investment Bank calculates, based on an internal VaR model, the maximum loss that could be incurred within 10 days at a confidence level of 99.0%.

The Bank is also exposed to currency risk as a result of proprietary trading transactions. The volume of such transactions is very limited and controlled through limits on open foreign currency positions, and stop-loss limits on open positions.

For further information regarding market risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2017.

Liquidity risk

Liquidity risk originates from the funding of the banking business and in positions management. It includes the risk of failure to meet a payment when due, or failure to sell certain assets at a fair price and in the short term to meet an obligation.

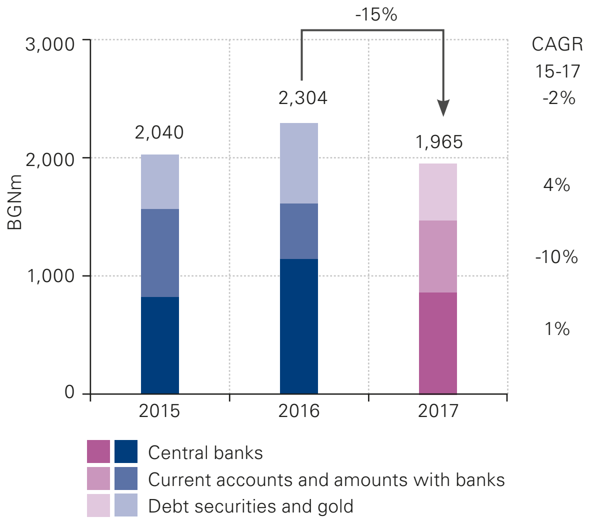
First Investment Bank manages liquidity risk through an internal system for monitoring and daily liquidity management, maintenance of a sufficient amount of cash consistent with the maturity and currency structure of assets and liabilities, regular gap analysis of inflows and outflows, maintaining a low risk portfolio of assets to meet current liabilities, and operations on the interbank market.

In order to maintain a moderate risk profile, Fibank has established an adequate framework for liquidity risk management. The Bank's policy on liquidity management is designed so as to ensure meeting all obligations even under stress originating from the external environment or from the specifics of banking activity, as well as to maintain an adequate level and structure of liquid buffers and apply appropriate mechanisms for the distribution of costs, profits and risks related to liquidity. The Bank applies a combination of methods, financial models and instruments for assessment and management of liquidity, including the requirements for reporting and monitoring of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) in compliance with Regulation (EU) No 575/2013 and the applicable delegated regulations of the European Commission. In order to reduce the liquidity risk, preventive measures have been taken aimed to extend the maturity of borrowings from customers, to encourage long-term relationships with clients and to increase customer satisfaction. In order to adequately manage liquidity risk, the Bank monitors cash flows on a daily basis.

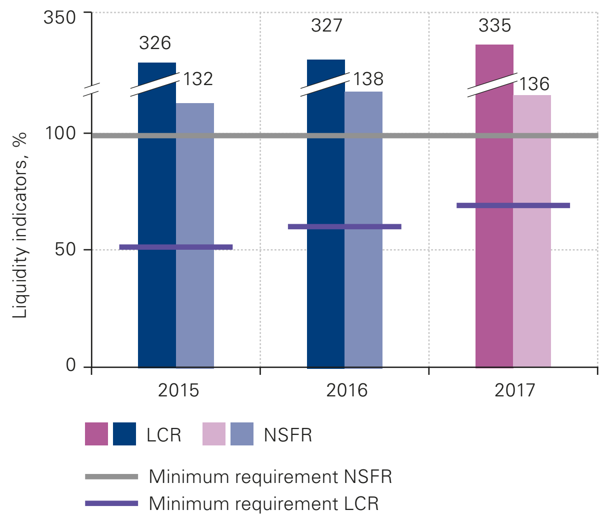
In 2017, the Bank further developed and specified its policies for asset, liability and liquidity management in compliance with the applicable regulations and standards, including with respect to IFRS 9 regarding the business models and criteria for classification of financial assets in the Bank portfolios, and their measurement, as well as for the financial reporting in terms of hedging.

Based on the purpose for managing the financial assets, the business models applied by the Bank effective from 1 January 2018 include: 1) a business model, whose purpose is the assets to be held to collect contractual cash flows (hold to collect); 2) a business model, whose purpose is both to collect contractual cash flows as well as sale of financial assets (hold to collect and sell); 3) another business model, when the purpose is different from the previous two business models, and which includes assets held for trading.

Liquid assets



LCR and NSFR



During the reporting year, Fibank continued to maintain an adequate amount of liquid assets, as at 31 December 2017 the ratio of liquid assets to total borrowings was 24.78% (2016: 28.12%), while compared to customer deposits it was 25.91%, which was significantly above the BNB recommended level of 20%. According to the regulatory requirements the Bank should maintain a buffer of liquid assets to ensure liquidity coverage of net liquidity outflows over a 30-calendar day stress period, with a view to its full introduction as of 1 January 2018 and a minimum amount of 100%. At the end of the period, the liquidity coverage ratio (LCR) amounted to 334.85% on a consolidated basis (2016: 327.37%).

First Investment Bank also calculates a net stable funding ratio (NSFR), which is an instrument introduced to ensure that long-term liabilities are adequately covered by stable financing tools both under normal circumstances and in stress conditions. At year-end, the net stable funding ratio amounted to 136.43% on a consolidated basis (2016: 137.61%) and was above the reference value of 100% before its introduction as a binding requirement.

Internal liquidity adequacy assessment process

First Investment Bank prepares a regular report on the internal liquidity adequacy assessment process (ILAAP), aimed at performing a comprehensive internal assessment of the liquidity management and funding framework of the Bank in the context of its strategy and risk appetite in terms of liquidity.

In 2017, as part of annual review process, the Bank updated the ILAAP report by complementing the liquidity indicators in line with the set thresholds in the Recovery plan, as well as refining the assumptions and the applied stress scenarios and stress tests.

The assessment takes into consideration the systems and processes existing in the Bank for management of risks related to liquidity and funding, including information on the daily management of liquidity risk and on the allocation of costs and benefits related to liquidity, which are determined based on a methodology for internal transfer prices (ITP) introduced in the Bank. The ILAAP also takes into account the funding strategy of the Bank, including the funding plans within a three-year horizon, as well as the strategy on maintaining liquidity buffers and monitoring of encumbered assets.

The quantitative measurements of the readiness of the Bank to deal with a sudden and significant outflow of borrowings (liquidity crisis) are established through stress tests and scenario analyses. For the purposes of ILAAP, First Investment Bank applies a combination of three stress scenarios: of idiosyncratic, market and combined shock, with a horizon of one week and one month, which take into account the stability of the deposit base and the sensitivity of the customers.

To ensure adequate capacity of the Bank to meet all its obligations and commitments, even in the context of a liquidity crisis, First Investment Bank has developed an action plan in case of a liquidity crisis which is an integral part of the overall system for liquidity management.

For further information regarding liquidity risk see note 3 "Risk management" of the Consolidated Financial Statements as at 31 December 2017.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed processes, people or systems, or from external events. In order to mitigate the risks arising from operational events, First Investment Bank applies written policies, rules and procedures that are based on the requirements laid down in Bulgarian and EU legislation and good banking practices.

First Investment Bank maintains a system for registration, tracking and control of operational incidents and near-misses that complies with the effective regulatory requirements. Operational risk management at Fibank is based on the principles of not assuming unsound risk, strict compliance with the authority levels and applicable laws, and active management of operational risk. The Bank applies reliable methods for avoiding, transferring, and limiting the impact of operational risks, including through separation of functions and responsibilities, double control, approval levels, internal control, insurance contracts, information security.

With the aim for developing and enhancing its processes for operational risk management key risk indicators are defined within the Bank, which are applied both at Bank level, and specifically for each business unit and process in the Bank. They are used for the purpose of effective signaling of changes that may be relevant to the active management of operational risk, as well as for implementing better monitoring and control of the risk tolerance and of the thresholds and limits on individual types of risk.

The Risk Analysis and Control department defines and categorizes operational events across event types and business lines inherent in banking, as well as the obligations and responsibilities of the Bank's employees in connection with their registration and reporting. The Operational Risk Committee regularly reviews and analyzes operating events and suggests to the Managing Board measures for prompt correction of their causes, as well as for strengthening the controls in the management of processes, activities, products and services at all levels of the Bank's system.

In order to assess the exposure and reduce operational risk, as well as to enhance and improve the control procedures, First Investment Bank conducts regular Risk Control Self-Assessment (RCSA) in the form of questionnaires and analyzing of processes. In 2017 were enhanced the methods for performing the RCSA, which is used as an additional tool for evaluating the exposure of the Bank to operational risk and analyzing the effectiveness of existing controls for its mitigation.

Information security

The Bank has internal rules and policies for information security and access to information systems that include the organizational framework, management and responsibilities of employees to guarantee data security, systems and the respective infrastructure.

A specialized "Information security" unit functions within the Bank under the supervision of the Chief Risk Officer, which coordinates the activities related to information security, defines the requirements towards controls and security of data, as well as organizes the execution of the Management Board's decisions in this respect.

During the year First Investment Bank worked in preparation of its activity, incl. systems and processes in compliance with the new requirements coming from the General Data Protection Regulation (GDPR), which are effective from May 2018.

Business continuity management

In order to ensure effective management of the business continuity, First Investment Bank has established contingency and business continuity plans, as well as plans for the recovery of all its critical functions and resources, which are regularly tested.

Business continuity management ensures sustainability at all organizational levels within the Bank, as well as opportunity for effective actions and reactions in crisis situations. The organization of processes ensured within the Bank aims at protecting the interests of all stakeholders, its reputation, brand and the value-adding activities.

In 2017, the Bank updated and further developed the internal regulatory framework regarding business continuity aiming at better integrity of the information into a single document with basic content and separate plans for action in specific crisis situations and incidents. The amendments aim at achieving fast and effective actions for managing crisis situations, ongoing removal of the negative consequences and building an adequate corporate culture in respect of business continuity management.

Risk exposures

As at 31 December 2017 First Investment Bank applied the standardized approach for the calculation of risk exposures for credit risk, in accordance with Regulation (EU) No 575/2013. Due to the limited volume of financial instruments in the trading book (bonds and other securities) capital requirements are calculated in accordance with the requirements of Regulation (EU) No 575/2013 as applied to the banking portfolio. The Bank applies the basic indicator approach for calculation of the capital requirement to cover the risk of operational losses.

In BGN thousand/ % of total	2017	%	2016	%	2015	%
For credit risk	5,787,197	89.6	5,594,622	90.5	5,836,275	91.8
For market risk	6,000	0.1	5,625	0.1	6,300	0.1
For operational risk	665,625	10.3	578,388	9.4	513,413	8.1
Total risk exposures	**6,458,822**	**100**	**6,178,635**	**100**	**6,355,988**	**100**

In 2017 the structure of risk-weighted assets comprised predominantly of those to credit risk at 89.6% of total exposures (2016: 90.5%), following by those for operational risk at 10.3% (2016: 9.4%) and to market risk at 0.1% (2016: 0.1%), as the Bank continued to maintain a conservative approach in the risk assessment and risk management.

Apart from Supervisory purposes, Fibank also calculates the economic capital that will ensure its solvency and business continuity in adverse market conditions. For that purpose, an internal capital adequacy analysis (ICAAP) is made.

Internal capital adequacy analysis

First Investment Bank AD performs regular internal capital adequacy analysis (ICAAP), aiming at full and precise identification and assessment of the internal capital needs of the Bank in the content of its business strategy, risk profile and risk appetite. The assessment of the required economic capital of the Bank reflects the risk profile of its activity, as well as its risk appetite, as the main indicators of the quantitative evaluation methods used take into account unfavorable economic environment scenarios.

In 2017 the ICAAP report was updated in line with the risk strategy and the set business goals for development, as well as with the operating environment, incl. the measures applied by the Bank for managing the credit risk and exposures. The business model, as well as the internal governance system, incl. the internal audit, risk management and compliance functions are also taken into account and assessed in the analysis.

The internal system for assessing the required internal capital is based on VaR forecasting models for credit and market risk, stress tests for credit, liquidity, reputational, and interest rate risk in the banking book, using the Basic Indicator Approach and stress tests regarding operational risk, the Earnings-at-Risk approach for strategic risk, and on analytical tools and techniques that allow more detailed assessment of capital adequacy in accordance with the risk profile of the Bank and the current operating environment. For aggregating the various types of risks the Bank uses a correlation matrix, which takes into account the connection between the separate risk categories, aiming at more realistic and more enhanced approach for measuring the risk the Bank is exposed to, at the same time in sufficiently conservative estimates.

Credit risk

For calculation of capital adequacy regarding the exposure to credit risk, First Investment Bank uses internal valuation models, except in particular cases, e.g. in exposure classes with negligible impact on the risk profile. For exposure classes of substantial importance, which constitute the main credit activity of Fibank, the economic capital is determined based on a single-factor portfolio credit-VaR model which determines the probable distribution of losses that may be incurred within a one-year horizon, at 98% confidence interval. To quantify the risk of occurrence of extraordinary, unlikely but possible events, stress scenarios are applied. The stress scenario results are compared with the capital requirements for credit risk, calculated according to the portfolio VaR model.

As part of the overall assessment of the exposure to credit risk, for the purposes of ICAAP, First Investment Bank assesses the concentration risk, which is due to the uneven distribution of credit exposures by client, or by a group of related persons, from the perspective of its financial stability and ability to carry out its core business. For the quantitative evaluation of the needed economic capital for this risk, the Bank matches the results of the portfolio VaR model between the real and a hypothetical portfolio, in which the amount of exposures is one and the same at all customers at equally all other conditions.

Market and interest rate risk

The Bank's exposure to market risk is limited and involves the assessment of capital adequacy in relation to position risk, foreign exchange risk, and commodity risk. For calculation of the economic capital for market risk, internal value-at-risk (VaR) models are used, with a time horizon of 1 year and a confidence level of 98%.

For the purposes of the internal analysis of capital adequacy, Fibank manages the interest rate risk in its banking book by managing the structure of investments, controlling the costs and terms of financial liabilities, as well as controlling the interest rate structure of the loan portfolio and the other interest-bearing assets. The approaches of evaluating the effect of interest rates on the net interest income at a one-year horizon, and the effect on the economic value of the Bank are used. For calculating the sufficiency of the economic capital with respect to interest rate risk in the banking book the largest decrease in the economic value of the Bank is defined resulting in a parallel shift of the yield curves by up to ±200 bps.

Operational risk

With regard to operational risk, First Investment Bank applies the Basic Indicator Approach; for the purposes of ICAAP it is assumed that the economic capital is comparable to that for supervisory purposes. Furthermore, the Bank uses stress tests for extraordinary but probable events, including different scenarios based on their financial impact and probability of occurrence. The results from these are correlated with the regulatory capital for operational risk.

Liquidity risk

To assess liquidity risk, the Bank differentiates the analysis in two directions regarding the risk of insolvency and the risk of providing liquidity. The risk of insolvency is managed and covered by maintaining an appropriate buffer of unencumbered, highly liquid assets, while the risk of providing liquidity is covered and mitigated by the economic capital. The Bank calculates economic capital for liquidity risk by assessing the amount of loss that would be incurred as a result of a liquidity crisis, taking into account the cost of repo transactions or liquidating assets to meet the cash outflow, as well as the expected increase in interest expense on borrowings.

Other risks

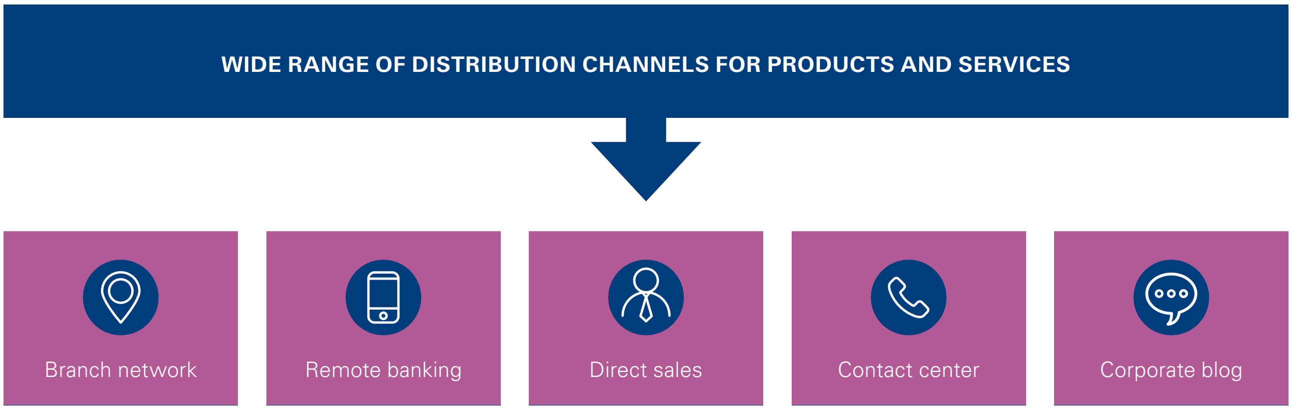
For the purpose of ICAAP, the Bank assesses and other risks, including strategic risk and reputational risk. For quantification of the strategic risk, the Earnings-at-Risk approach is used, measuring the historical deviations between the budgeted and generated net profit of the Bank. The capital allocated for strategic risk is determined by applying a percentage of deviation corresponding to the accepted confidence level of 98% to the budgeted net profit for the next year.

The reputational risk reflects the risk that the Bank's reputation may differ negatively from the expected standard in terms of its expertise, integrity and reliability. Reputational risk may materialize mainly in loss of business, increased cost of funding, or liquidity crisis the effects of which are measured in the assessment of strategic risk and liquidity risk.

Industry co-operation creates the conditions for managing the customer business cycle from start to finish and opens up opportunities for the full automation of services: "robo service".

Distribution channels

Distribution channels for products and services



First Investment Bank maintains a wide range of channels for distribution of the products and services offered, incl. a well-developed branch network, e-banking, direct sales, contact center, and a corporate blog, which all constantly updates in line with modern tendencies in the banking business, the market conditions, the technological development and the customer needs.

Branch network

The branch network is the main channel for distribution of the banking products and services of First Investment Bank. The Bank aims at maintaining an adequate balance between a well-developed network of physical locations and provision of modern ways of remote banking, incl. in the context of the increasing role of the digital transformation for the banking business.

During the year, the Bank continued to optimize its branch network, taking into account the market environment, the workload of the locations and the volumes of activity. During the year, six offices were closed (one in Sofia and five in the rest of the country) and four new offices were opened in the cities of Sofia, Plovdiv, Levski and Kaspichan.

As at 31 December 2017, the branch network of First Investment Bank comprised a total of 166 branches and offices on a consolidated basis (2016: 168), located in more than 60 cities in Bulgaria: 53 locations in Sofia, 102 branches and offices in the remaining part of the country, one foreign branch in Nicosia, Cyprus, as well as the subsidiary bank in Albania, which operates with a Headquarters and 9 branches in Albania.

For further information about First Investment Bank – Albania Sh.a. see section "Business overview of subsidiary companies".

In execution of the strategic goals for development in the retail banking sector, during the year, the first part of the project for reorganization of the bank offices in Sofia was realised, structured under the model of branches and offices in the country, proven as successful throughout the years. As a result, 5 functional branches were created – Central, East, West, North and South with distributed offices to each one of these based on territory location and business indicators.

The new structure aims at introducing a unified and single organizational model in the branch network of the Bank, more effective allocation of budget targets in line with market potential and geographic location of point of sales, as well as focusing on attracting new customers and cross sales.

In parallel, First Investment Bank is actively working on optimizing the work processes and operations performed in the locations of the Bank, in order to reduce the time for servicing customers and performing transactions, which in term to contribute to an even better quality of service and development of lasting partnerships with customers.

The branches and offices of the Bank in the country offer a full range of banking products and services for both individuals and business customers. In an effort to more fully satisfy customer demand, much of the branch network operates with extended working hours, and there are also offices that provide customer service at weekends.

Full scope of products and services

	Retail Clients	Business clients
Deposit and savings products	•	•
Payment services	•	•
Package programs	•	•
Debit and credit cards	•	•
Diners club cards	•	•
Mortgage loans	•	
Consumer loans	•	
Loans to business customers		•
Trade financing		•
Project financing		•
Factoring		•
Europrograms financing		•
E-banking	•	•
Investment services	•	•
Investment gold and products of precious metals	•	•

The branch of First Investment Bank in the city of Nicosia, Cyprus has operated in the Cyprus banking market since 1997, initially mainly in the area of corporate lending. Over the years, it has systematically and consistently worked in the direction of expanding its products and services. Currently, the branch offers standard credit and savings products, payment services and electronic banking, with a strategic focus on SME customers and retail banking.

In addition to its well-developed branch network, Fibank also uses other distribution channels for its products and services: a wide network of ATM and POS terminals, remote access to information and services through its own contact center, direct sales, and e-banking.

Contact centre – *bank (*2265), 0800 11 011

In 2017, Fibank's contact center continued to function as an effective channel for communication and active selling of target products and services, as well as further contributing to attracting new and retaining current customers by using remote communication by phone, email and online chat, according to well - established standards and in implementation of the business objectives of the Bank.

In pursuance of its strategic focus on high standards of customer service, the Bank continued to work towards further development and diversification of the services offered through the contact center, in line with customer needs and new technologies. As a result, customers could turn to the contact center in order to apply for a credit or debit card, for a debit card overdraft, to apply for a consumer loan, to receive accurate and timely information on products and services, on the tariff and interest rate terms of the Bank, on the location of branches and their working hours, as well as to obtain adequate and professional assistance in case of a question or a problem. Clients are also provided with the opportunity for real-time communication through the corporate website of the Bank.

During the year, over 30 different outbound campaigns were carried out through the contact center, including information campaigns and those associated with direct marketing of banking products and services, or supporting the collection of receivables from customers (soft collection). Over 120 thousand outgoing calls were made, with a high percentage of respondents reached.

For the reporting period, more than 72 thousand incoming calls were received at the contact center, above 3 thousand emails and more than 800 chat conversations in connection with various inquiries and requests from clients or potential customers.

Corporate blog

The corporate blog of First Investment Bank has functioned for nine years now as an alternative channel of communication. It presents a diverse range of social and corporate initiatives of the institution, financial analyses and research related to the market of banking products and services in the country, news on various topics, and useful customer information. It assesses the use of products and services through open discussion and interactive inquiries, thereby allowing for testing customer satisfaction.

In 2017, the Bank developed the information provided through the corporate blog in line with the modern trends of online communication and continued to carry out initiatives aimed at encouraging good business ideas and successful practices. Through it the Bank also presents analyses and studies for tracking the tendencies in the various market segments.

In line with the growing importance of digitalisation in the banking sector, First Investment Bank maintains real-time communication with customers and stakeholders through all leading social networks – Facebook, Instagram, Twitter, LinkedIn, Google+, YouTube, and Foursquare.

Sales

First Investment Bank uses direct sales (on-site, at the client's premises) as an additional opportunity for distribution of products and services, including for comprehensive bank servicing of institutional and corporate clients.

In 2017, First Investment Bank continued to attract new corporate customers from different market segments using direct sales. This approach helps to attract new customers, build long-term relationships with existing ones, as well as receiving direct feedback about the products and services of the Bank.

The Bank has considerable experience in the servicing of budget spending units, state and municipal enterprises.

Remote banking

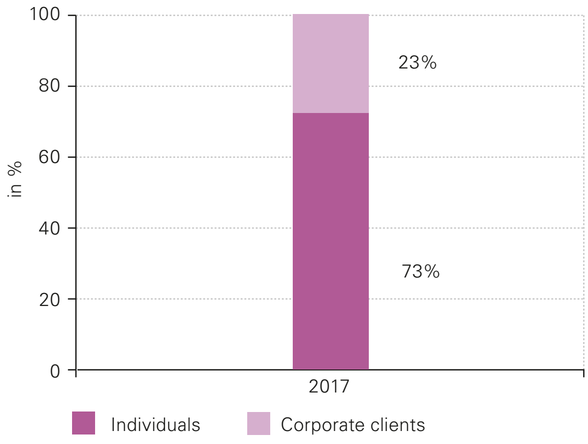
E-banking "My Fibank"

A main event in electronic banking during 2017 was the successfully realized project for the creation of the integrated platform for electronic banking "My Fibank" which unified the existing services for remote banking offered by the Bank, aiming to upgrade and add new functionalities through a unified channel for client servicing. In order to achieve better organization and safe work specific step and individual processes were developed for the migration of the clients to the new unified platform, and at the same time an increase in the number of the active clients was achieved through adding new functionalities, e.g. performing a limited number of non-risk operations where using of token device/electronic signature is not needed. In September 2017, the unified platform was integrated into the new system environment Oracle Flexcube 12, which was implemented this year aiming to increase the system security level, to optimize the work processes and to increase productivity.

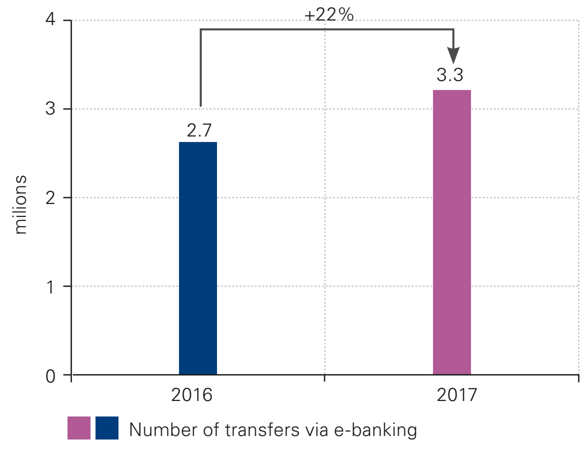
Through the electronic banking "My Fibank" the clients are able to use active as well as passive banking operations depending on their needs and access rights in the system. Part of the active banking is the option for the clients to open and close current and deposit accounts, to execute orders in national and foreign currency, e.g. mass payments, to perform utility payments, as well as purchase of currency. The new platform offers registration for the 3D Card Security, which allows participation in the programs for additional security when the payment is performed through the internet (Verified by Visa and MasterCard SecureCode). Clients of passive banking are provided with information for balances and operations under bank accounts and/or payment cards (bank account report, excerpts and other reporting information). Information for branches, ATM devices, exchange rates as well as news and actual promotions are also included.

In 2017 as part of the project for systems integration, the clients of Cyprus Branch were also migrated to the unified platform "My Fibank". At the same time some functionalities were developed while new ones were added, e.g. e-mail notifications, 3D Card Security, as well as an enlarged range of the reference information.

Customers of e-banking



Transfers through e-banking



For the period, the Bank recorded an increase of more than 20% compared to a year earlier in the number of electronic banking clients. An increase was also recorded in the clients using active operations. An increase of 22% was registered in transfers through the integrated platform for electronic banking, which increased their relative share as a percentage of the Bank's total transfers.

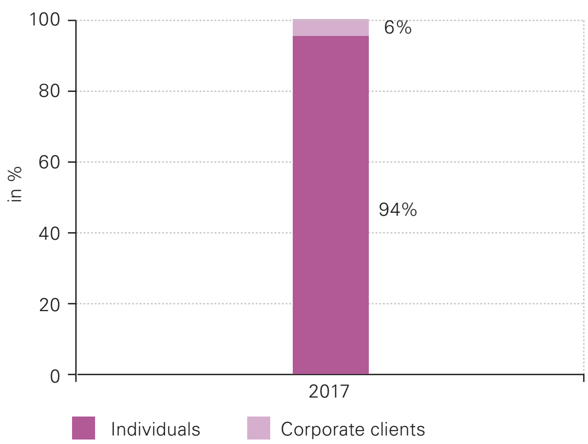
Mobile banking "My Fibank"

In 2017 the Bank's mobile application was also integrated into the electronic banking "My Fibank", providing remote access to the integrated platform through mobile devices. The application is accessible for clients after installation from online stores (AppStore, Google Play).

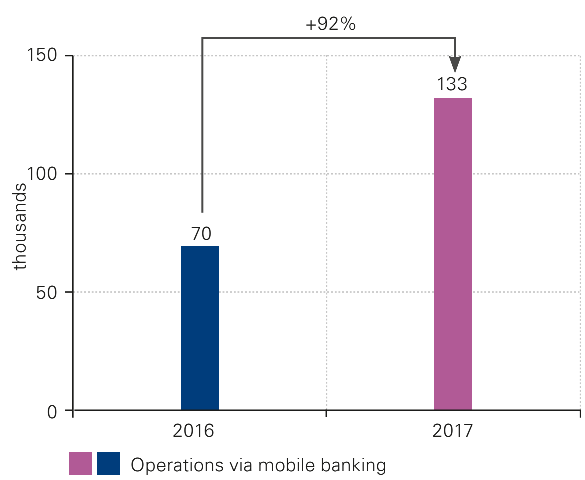
Through the mobile application individuals are able to use the same active and passive operations of the electronic platform under limits predetermined by the Bank or by the client. Corporate clients are also able to use passive banking operations. In addition, through the innovative service Digital Payments, developed by Fibank, through the mobile application, clients can manage digital bank card transactions, supported by NFC technology for contactless payment on terminals.

A number of updates to the mobile application "My Fibank" were carried out during the year, including the option for the online request of a credit card, as well as for a credit card limit change. The option for use of the mobile application with passive access was given to the Cyprus Branch's clients.

Customers of mobile banking



Operations through mobile banking



For the reporting period, a 59% growth in the clients through the mobile application was reported. Operations through it almost doubled as a result of innovative projects and campaigns for promoting mobile payments.

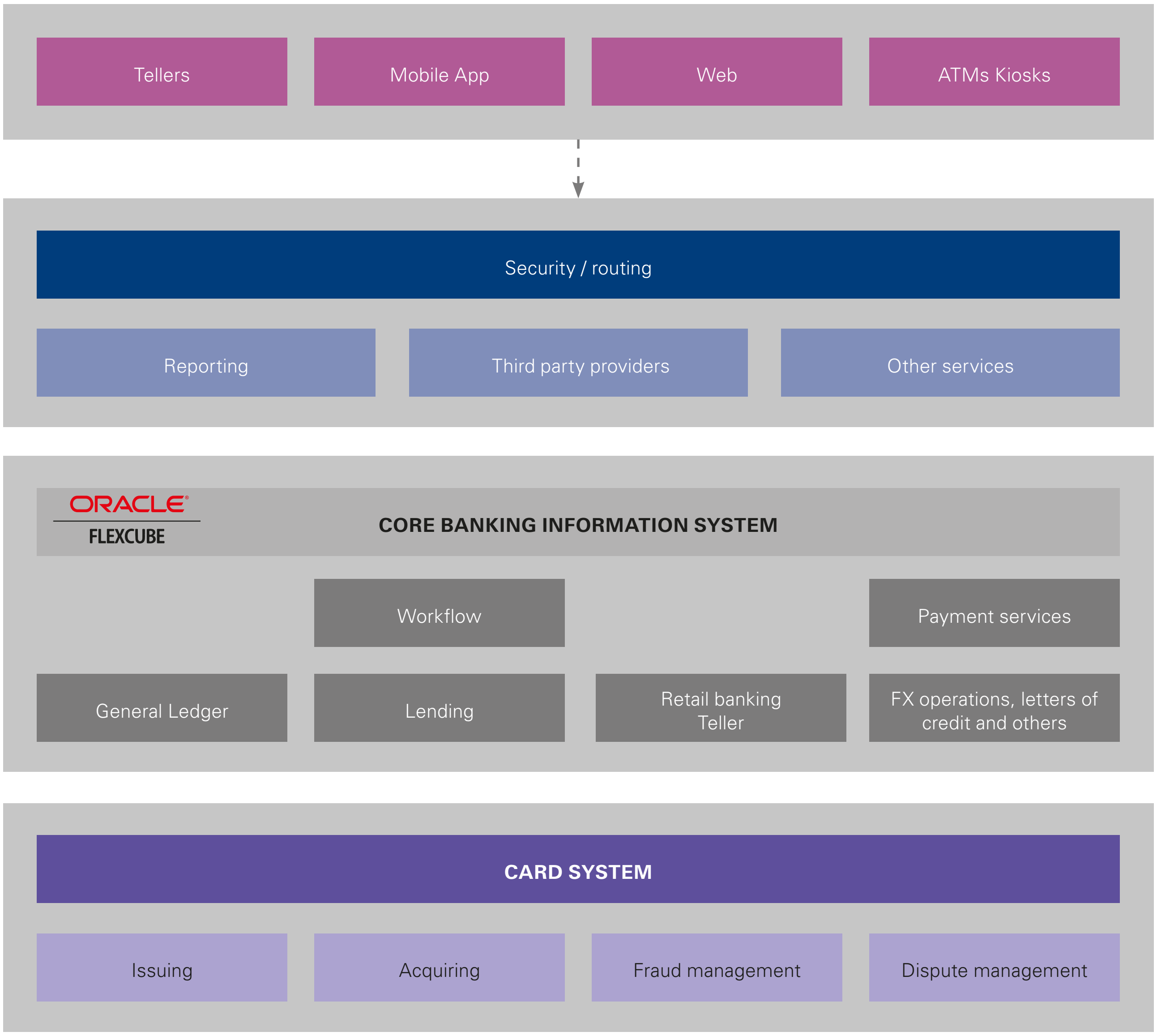
As recognition of the development of the Bank in this area Fibank received a number of awards during the year, e.g. the prizes in the following categories: "Mobile innovation" and "Technological Innovation of the Year" in the annual awards "b2b Media Awards 2017". The Bank also won awards for digital payment solutions at the technological festival for innovations Webit 2017.

Information technology

In 2017, First Investment Bank continued to be among the most technologically advanced and innovative institutions in the Bulgarian banking market. For Fibank, IT development and maintaining a modern infrastructural, information and technological environment has always been among the strategic priorities and over the years, the Bank has made systematic and targeted investments in technology, consistent with the latest trends in banking, in order to be able to offer innovative added value products and new multifunctional solutions to customers.

Pursuant to the above, during the year the Bank has successfully upgraded its core banking IT system, migrating to the highest version of Oracle Flexcube 12. The process lasted 18 months and is a part of the strategic priorities for constant upgrading of banking systems and adding new flexible B2B channels. The upgraded system aims to enhance the level of system security, optimizing working processes and increasing productivity. It allows faster and easier parameterization of new and more flexible and customized bank products and services, as well as increasing the speed of client service via physical and digital distribution channels.

Systems map



The core banking IT system has universal modules for bank services for individuals, corporate and investment banking as well as a documentary information system Workflow, which serves for forwarding and approval of loan requests, acceptance and registration of FX transfers and authorization of other payment operations. The main principles for taking risks are implemented in the banking system, including the principal for double control, which is applied in the daily bank activity.

Fibank strives by its centralized and integrated IT infrastructure to provide first class service and high level of security when performing bank operations, as well as maintaining a reliable database in order to ensure the continuity of service and key bank processes.

During the year technical support was provided for the realization of projects for upgrade and implementation of innovative services and new functionalities – integrated platform for electronic banking "My Fibank", which includes all the main digital channels for offering of products and services, incl. e-banking, mobile banking, utility payments, electronic statements and reporting services; new micro cards and accessories for contactless payment, based on NFC technology; as well as technical implementation of the new credit and saving products started during the year, and bank programs and packages and other projects, related to the introduction of new regulations, incl. IFRS 9.

In connection to the development of the payment systems and the requirements in that field during the period a technical realization was provided regarding the inclusion of the Bank as a direct participant via the system STEP2 SCT for execution of SEPA, compatible credit transfers through EBA Clearing.

In the context of the increasing significance of digitalization in the sphere of banking activity, in May 2017, the Bank traditionally participated in the Webit festival in Sofia Tech Park, presenting its current technological solutions and developments in financial products and services. A recognition for the efforts and the development of the Bank in the field of IT was the prize received at the forum for "Best solution for digital payment" for the Fibank platform for electronic payments by mobile devices using digital bank cards introduced in 2016.

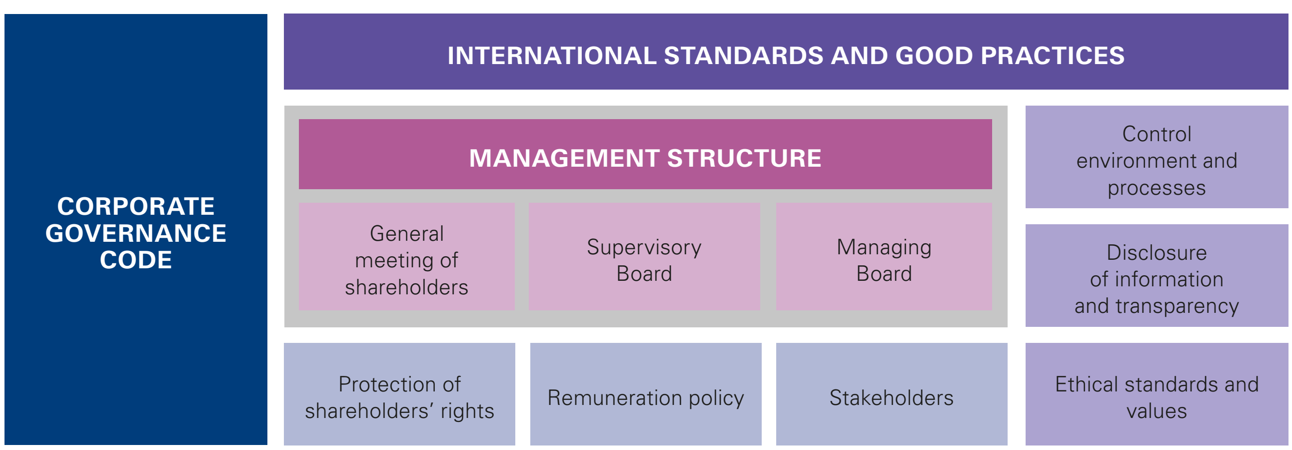
In fulfillment of its mission, First Investment Bank plans to develop its systems and infrastructure, and to implement high-tech solutions enabling customers to bank from anywhere in the world and at any time, as well as to continue its efforts to be among the most innovative and customer-oriented institutions in the Bulgarian market.

Corporate governance

Corporate governance framework

For First Investment Bank AD good corporate governance is a key element for ensuring long-term and sustainable development, and a successful business model. The corporate policy of the Bank is based on professional and transparent governance in accordance with the internationally recognized standards and principles of good corporate governance, taking into account the changes in the regulatory and economic environment as well as the financial market of the country.

Key elements of the corporate governance frame



The corporate governance of First Investment Bank is a system of policies, rules, procedures and practices by which the Bank is managed and controlled, with clearly defined functions, rights and responsibilities at all levels: General Meeting of Shareholders, Supervisory Board and committees to it, Managing Board and committees and councils to it, Internal Audit, and structures at the headquarters, branches and offices. First Investment Bank has a two-tier governance system consisting of a Supervisory Board and Managing Board.

First Investment Bank applies written policies for corporate governance at group level, which define the key principles for internal governance and control over subsidiary companies, as well as procedures and mechanisms allowing for consistent and integrated development of the companies in line with Group strategy and with the supervisory and regulatory requirements.

Corporate governance code

First Investment Bank AD functions in accordance with the Corporate Governance Code adopted by the Managing Board and approved by the Supervisory Board. It outlines and structures the main components, functions and responsibilities constituting the system of corporate governance of First Investment Bank. In addition to the requirements of applicable laws in the Republic of Bulgaria, the Code is structured by applying the principles of the Basel Committee on Banking supervision, the guidelines of the European Banking Authority (EBA), as well as the applicable standards of the Organization for Economic Cooperation and Development (OECD) in this field, and the recommendations of the National Corporate Governance Code, approved by the Financial Supervision Commission.

The Code sets out the basic principles and requirements for maintaining and improving the organization and methods of governance at the Bank, aimed at

- honest and responsible governance based on adding value;
- effective practices of management oversight and control;
- executive management and senior staff acting in the best interest of the Bank and towards increasing the value of shareholders' equity;
- timely information disclosure and transparency;
- effective system of risk management and control based on the principle of three lines of defense.

In compliance with the requirements of Art. 40 of the Accountancy Act and Art. 100m of the Law on Public Offering of Securities, First Investment Bank annually discloses information on the corporate governance practices and meeting the requirements set in the Corporate Governance Code of First Investment Bank applying the "comply or explain" principle. Along with its annual report and financial statements, the Bank discloses to the public also a corporate governance assessment scorecard in compliance with the National Corporate Governance Code.

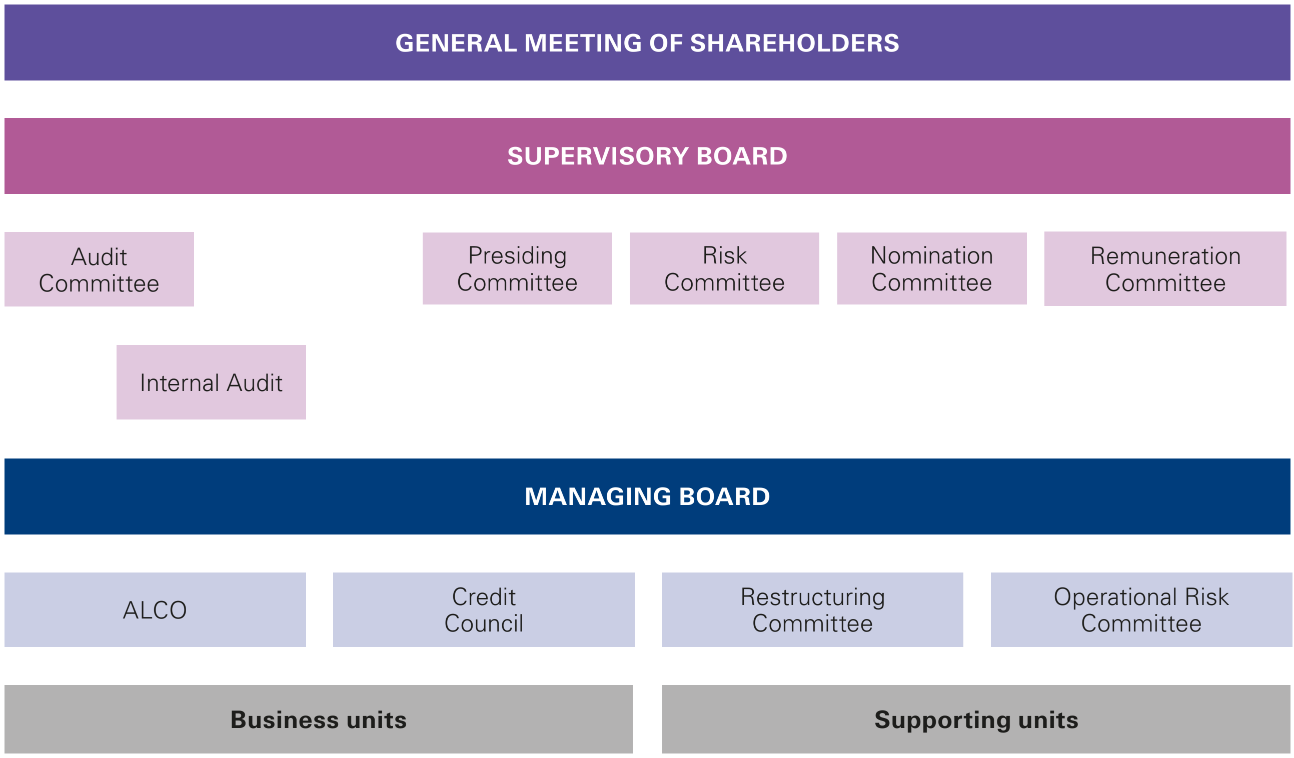
In addition to the Corporate Governance Code, First Investment Bank applies a Disclosure Policy. Both documents are publicly available at the corporate website of the Bank (http://www.fibank.bg/bg/korporativno-upravlenie/page/3589). In 2017, the requirements specified in these were met, including the requirements for disclosure of regulated information and information under the financial calendar of the Bank for 2017.

Code of conduct and whistleblowing policy

For the purpose of establishing the professional and ethical standards required and applicable to the Bank as a business company, work environment and a credit institution, Fibank has a Code of Conduct that determines the basic principles, ethical norms and corporate values which underlie the policies and business plans, rules, procedures and daily operational activities of the Bank.

During the year the Bank has adopted a Whistleblowing policy, led by the understanding that following lawful and ethical conduct in relations between managerial staff, employees, customers and partners of the Bank is an important aspect underlying its overall activity. The Policy aims to systematize the means and procedures for internal sharing of information where there are suspicions of unlawful actions, or problems related to the work process, whereby to ensure their transparent and fair consideration and resolution. Creating conditions for reporting in an environment of trust and respect, as well as carrying out consistent and impartial actions to verify the received reports, is a key element in preserving the Bank's high corporate spirit and reputation.

Management structure



Supervisory board

Structure and competences

In 2017 there were no changes in the composition of the Supervisory Board of First Investment Bank.

Evgeni Krastev Lukanov	Chairman of the Supervisory Board
Maya Lubenova Georgieva	Deputy Chair of the Supervisory Board
Georgi Dimitrov Mutafchiev	Member of the Supervisory Board
Radka Vesselinova Mineva	Member of the Supervisory Board
Jordan Velichkov Skortchev	Member of the Supervisory Board
Jyrki Ilmari Koskelo	Member of the Supervisory Board

The business address of all Supervisory Board members is 37, Dragan Tsankov Blvd., 1797 Sofia.

The Supervisory Board consists of six individuals elected by the General Meeting of Shareholders with a mandate of up to 5 years, who have adequate knowledge and professional experience, including high financial competencies, in accordance with the current fit and proper requirements, as well as with the activities carried out by the Bank and the main risks to which it is, or might be exposed. Each member of the Supervisory Board has the experience, knowledge, qualifications, and teamwork skills necessary for the effective discharge of his or her obligations, and for guaranteeing the ability of the Supervisory Board as a collective body to ensure the implementation of the long-term objectives of the Bank.

Diversity policy and independence

First Investment Bank aims at implementing a policy for ensuring diversity in the composition of its governing bodies, including various aspects such as work experience, educational qualifications, gender, and age.

First Investment Bank maintains a matrix with data on the professional knowledge and skills (Composition Matrix) of the Supervisory Board members for the purpose of support and better identification of the needs for further improvement and development of their professional competencies, and ensuring an effective process of succession in the SB composition. As at 31 December 2017, 33% of the Supervisory Board members were women, which exceeded the recommended levels according to good corporate governance standards.

For further information regarding the professional experience and competences of the Supervisory Board members see section "Other information".

The composition of the Supervisory Board is structured so as to ensure conscientious, professional and independent fulfillment of the obligations of its members. One half of the Supervisory Board members are independent which exceeds the requirements of national legislation. In addition, they meet independence requirements which are more stringent than those specified by law. The Bank has developed Terms of reference (ToR) for SB members, consistent with the applicable regulations and international standards, including the recommendations of the International Finance Corporation (IFC), as well as ToR for an independent (from SB) member participating in the Audit Committee, which contain additional criteria for independence pursuant to the regulatory requirements in Bulgaria.

Equity share

As at 31 December 2017 the members of the Supervisory Board held a total of 377,106 shares of Fibank and none of them owned more than 1% of the issued share capital.

Number of shares / % of issued share capital	**2017**	**%**
Evgeni Krastev Lukanov	337,139	0.31
Maya Lubenova Georgieva	11,388	0.01
Georgi Dimitrov Mutafchiev	9,454	0.01
Radka Vesselinova Mineva	0	0
Jordan Velichkov Skortchev	19,125	0.02
Jyrki Ilmari Koskelo	0	0
Total	**377,106**	**0.34**

Functions and responsibilities

The Supervisory Board of First Investment Bank supervises and, where necessary, advises the Managing Board and monitors the overall activities of the Bank. It adopts and oversees the implementation of the strategic objectives, the corporate governance framework, and the corporate culture of the Bank. When exercising supervision over the Managing Board, the Supervisory Board takes into account the achievement of objectives, the strategy and risks in the activity of the Bank, as well as the structure and operation of the internal systems for risk management and control.

The Supervisory Board ensures supervision on the risk management framework, including risk appetite, internal governance and the control system of all types of risks by requiring high risk culture among employees. It carries out its activity effectively exchanging information with the Managing Board subject to specifics, and by implementation of high ethical standards and the corporate values of business conduct sets the tone for high corporate culture and business ethics: "Tone of the Top".

The meetings of the Supervisory Board are scheduled in advance based on an annual activity plan. In 2017 the Supervisory Board addressed issues of its competence at 18 presence meetings. Focus in the activity throughout the year, except for the approved changes in the senior management of the Bank, were also the actions for developing and adopting a new strategy for development for the period 2018-2021, which highlights on expanding the business in the retail and SME segments through additional focus on the development of the consumer financing and transaction business, as well as affirming the position of the Bank as an innovative and technological leader, offering a wide range of digital solutions and first class of customer service.

The activity of the Supervisory Board is supported organizationally by a Secretary. In addition to organizing the meetings of the Supervisory Board and the minutes, the secretary has the responsibility to follow the application of the procedures, as well as to ensure the information to be provided and exchanged between the members of the Supervisory Board, members of the committees and the Managing Board.

Assessment of the activity

Once a year, the Supervisory Board performs an assessment of the effectiveness of its own activities as a collective body and individually, assessment of the governance practices and procedures, as well as of the functioning of the Managing Board and the committees to the Supervisory Board.

Committees

The Supervisory Board is supported in its activity by a Presiding Committee, a Risk Committee, a Remuneration Committee, and a Nomination Committee which function according to written competencies, rights and responsibilities.

The Presiding Committee is responsible for overseeing the activities of the Managing Board on important strategic decisions, including the issue of new shares, bonds, hybrid instruments, the adoption of programs and budgets relating to the activity of the Bank, as well as the line responsibilities of the members of the Managing Board. Chair of the Presiding Committee is Ms. Maya Georgieva.

In 2017, the Presiding Committee addressed issues of its competence at 10 meetings, including with regards to the line sub-ordination of the newly created during the year departments for "Strategic planning and development" and "Intensive loan management", as well as to organizational changes related to the functions and structures of the branch network and SME banking. The committee also coordinated decisions on the adoption of the budget of the Bank for 2018, as well as on the strategy for future development for the period 2018-2021.

The Risk Committee advises the Supervisory Board and the Managing Board in relation to the overall current and future strategy on ensuring compliance of the risk policy and risk limits, risk-taking propensity and control on its execution by the senior management. Chairman of the Committee is Mr. Evgeni Lukanov.

During the reporting period, the Risk Committee held 10 meetings. In relation to its competences, it coordinated decisions incl. on further developing the internal bank limits, as well as the market risk management, aiming at enhancing the risk-based framework of limits within the Bank. The Risk Committee also reviewed the updated ICAAP and ILAAP reports, the Recovery plan, as well as amendments in the approval levels in loan transactions and the overall risk management framework in connection to IFRS 9 application. During the year the committee performed a regular review of the strategy and business risks inherent to the activity, as well as assessment of the internal risk management and control systems within the Bank.

The Remuneration Committee assists the Supervisory Board in the implementation of the Remuneration policy of the Bank and its subsequent amendments, as well as in any other matters concerning remuneration, in accordance with the regulatory requirements and best practices in the area. Chair of the Remuneration Committee is Mr. Jordan Skortchev.

In 2017, the Remuneration Committee has addressed issues of its competences with regards to remunerations and held 4 meetings for the reporting period.

The Nomination Committee assists the Supervisory Board in assessing the suitability of candidates, or active members of the Managing Board and other senior management staff of the Bank, as well as regarding compliance with applicable regulations in the selection of candidates for senior management. Chair of the Selection Committee is Mr. Georgi Mutafchiev.

During the year, the Nomination Committee addressed issues of its competence at 14 meetings, including given recommendations in relation to the election and suitability of the new members of the Managing Board and executive directors of the Bank appointed throughout the year, as well as with regards to changes in the composition and structure of the Credit Council and in the managing bodies of the subsidiary companies of the Bank.

As a company of public interest and according with the Law on the Independent Financial Audit (LIFA), the Bank has a functioning **Audit Committee** which is responsible for supervising the financial reporting and the independent financial audit, as well as for the effectiveness of the systems for internal control and risk management in the Bank. The Committee also makes a recommendation in the selection and remuneration of the registered auditors to perform the independent financial audit of the

Bank and monitors their independence in accordance with the applicable European and national regulations, as well as with the Code of Ethics for Professional Accountants.

In 2017, the activity of the Audit Committee was further developed, incl. amending its rules of procedure (stature under the meaning of Art. 107 of LIFA) in compliance with the requirements of the Law on the Independent Financial Audit and Regulation 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities (Regulation 537/2014). At the Annual General Meeting of Shareholders held in May 2017 changes were made in the composition of the Audit Committee, as on the position of the former member Ms. Maya Georgieva, a new member was elected – Ms. Rositsa Asova in her capacity of a second independent from the Supervisory Board and the Bank member of the committee with a mandate of 3 years. Ms. Asova has high financial competences, as well as knowledge, professional experience and qualifications in the sphere of accountancy and financial audit, needed for the effective performance of her duties. In compliance with the internationally recognized corporate governance standards and the applicable regulatory requirements the chair of the Audit Committee – Ms. Radina Beneva - is also independent from the SB and the Bank member of the committee. During the year, 6 meetings of the Audit Committee were held and addressed issues of its competences, including regular meetings with the Chief Financial Officer (CFO), the Director of Internal Audit, as well as with representatives of the registered auditor companies of the Bank.

Managing board

In 2017, the following changes were made to the Managing Board of First Investment Bank AD:

In May 2017, Mr. Nedelcho Nedelchev was elected as Chief Executive Officer (CEO) and Chairman of the Managing Board of First Investment Bank, to contribute to executing the key goals for future growth and focus on the strategic opportunities for development of the Bank.

As Chief Risk Officer (CRO), Member of the Managing Board and Executive Director, replacing Mr. Dimitar Kostov, was appointed Mr. Svetozar Popov, to continue to enhance the risk function within the Bank in line with the applicable regulations and best international practices in this sphere.

In September 2017, Ms. Sevdalina Vassileva was elected as Chief Retail Banking Officer (CRBO), Member of the Managing Board and Executive Director, replacing Mr. Vassil Christov, to complement achievements so far in executing the strategic focus of the Bank towards growth and development in the retail banking segment.

The management of Fibank expressed its gratitude to Mr. Vassil Christov and Mr. Dimitar Kostov, who chose new professional challenges, and assessed their high contribution to the development of the institution.

In October 2017, we had our last farewell to Ms. Maya Ivanova Oyfalosh (1961 – 2017) – former Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director. Besides her position in the Bank, Ms. Oyfalosh was deputy Chair of the Supervisory Board of Unibank, Macedonia. Ms. Oyfalosh dedicated more than 24 years of her life to the development and affirming of First Investment Bank among the leaders in the financial market in the country.

Structure and competences

At the end of 2017 the Managing Board of First Investment Bank AD consisted of six members elected by the Supervisory Board on the recommendation of the Nomination Committee, in accordance with the requirements of applicable law, the Statute of the Bank, and the Policy of First Investment Bank for the selection of senior management personnel.

Nedelcho Vasilev Nedelchev	Chief Executive Officer (CEO), Chairman of the Managing Board
Sevdalina Ivanova Vassileva	Chief Retail Banking Officer (CRBO), Member of the Managing Board and Executive Director
Svetozar Alexandrov Popov	Chief Risk Officer (CRO), Member of the Managing Board and Executive Director
Svetoslav Stoyanov Moldovansky	Chief Operating Officer (COO), Member of the Managing Board and Executive Director
Jivko Ivanov Todorov	Chief Financial Officer (CFO) and Member of the Managing Board
Nadia Vasileva Koshinska	Member of the Managing Board and Director of SME Banking Department

The business address of all Managing Board members is 37, Dragan Tsankov Blvd., 1797 Sofia.

The Management Board members are elected for a period of up to 5 years and can be re-elected for further mandates without limitation.

The members of the Managing Board are established professionals with proven leadership qualities and capacity to translate their knowledge and experience into well-argumented solutions that can be applied to the practices in the Bank, aiming to achieve the objectives and the development strategy.

As at 31 December 2017 in accordance with the policy for ensuring diversity in the structure of the management bodies, 33% of the members of the Managing Board were women. For further information regarding the professional experience and competences of the members of the Managing Board see section "Other information".

The composition of the Managing Board is structured so as to ensure effective management of operations, subject to the generally accepted principles of managerial and professional competence and clear separation of duties and responsibilities. The Bank is represented together with each two of the executive members of the Board (executive directors).

The Managing Board of First Investment Bank holds meetings every week. The meeting agenda is prepared in advance. For the meetings of the Managing Board minutes are prepared which are signed by all members that were present at the meeting.

The activity of the Managing Board is supported organizationally by a Secretary, who is employed on a full-time basis and possesses the necessary qualifications and skills to ensure that the governing bodies follow internal rules and external regulations, as well as facilitates the communication between them.

Equity share

As at 31 December 2017 the members of the Managing Board held a total of 584 shares of Fibank and none of them owned more than 1% of the issued share capital.

Number of shares / % of issued share capital	**2017**	**%**
Nedelcho Vasilev Nedelchev	350	0.00
Sevdalina Ivanova Vassileva	0	0
Svetozar Alexandrov Popov	0	0
Svetoslav Stoyanov Moldovansky	0	0
Jivko Ivanov Todorov	0	0
Nadia Vasileva Koshinska	234	0.00
Total	**584**	**0.00**

Functions and responsibilities

The Managing Board of First Investment Bank is the body which manages the Bank independently and responsibly, in accordance with the established mission, objectives and strategies. The Managing Board operates under rules of procedure approved by the Supervisory Board. Its main functions are to manage and represent the Bank by resolving all matters affecting the Bank within its scope of activities, except those of the exclusive competence of the General Meeting of Shareholders or the Supervisory Board according to the law and the Statute of the Bank. The Managing Board organizes the implementation of decisions of the General Meeting of Shareholders and the Supervisory Board, and performs any other functions assigned to it by those bodies or the law. According to the statutes and internal regulations, certain decisions of the Managing Board are subject to approval by the Supervisory Board, while others require coordination with a committee to the SB.

In accordance with the principles of good corporate governance, an open dialogue is maintained between the Supervisory Board and the Managing Board of First Investment Bank. Besides regular reports on the implementation of objectives and activities, joint meetings are also conducted. The Managing Board immediately notifies the Chairman of the Supervisory Board or his deputy of any circumstances that are of material importance to the Bank and provides timely information regarding implementation of the business strategy, risk appetite, achievement of objectives, risk limits or rules relating to regulatory compliance, the system of internal control, or the compliance of the Bank's activity with the regulatory requirements and the external environment.

Committees and councils to the managing board

The activity of the Managing Board is supported by a Credit Council, Assets, Liabilities and Liquidity management Council (ALCO), Restructuring Committee, Operational risk Committee, which function according to written structure, scope of activities and functions – *for more information see section "Risk Management".*

General meeting of shareholders

The General Meeting of Shareholders of First Investment Bank is the most senior management body, allowing shareholders to decide on fundamental issues concerning the existence and activities of the Bank. In particular, the General Meeting of Shareholders decides on amendments and supplements to the Statute of the Bank, on increasing or reducing the capital, as well as on transformation or dissolution of the Bank. The General Meeting of Shareholders has powers to appoint or dismiss members of the Supervisory Board and the Head of the Internal Audit of the Bank, decide on the distribution of profit, on the issuance of bonds, as well as on any other matters under the Statute of the Bank and the applicable law.

In May 2017, an Annual General Meeting of Shareholders was held, which represented 86.62% of the share capital and voting rights, at which a decision was taken that the entire net profit of the Bank for 2016 shall be capitalized, and no dividends shall be paid or other deductions made from the profit for 2017, with the aim for its inclusion in the common equity tier 1 capital of the Bank. BDO Bulgaria OOD was selected as a registered auditor to perform an independent financial audit of the annual financial statements of the Bank for 2017. The company was selected after preliminary approval by the Bulgarian National Bank and recommendation by the Audit Committee of the Bank. Changes were also made to the composition of the Audit Committee, as well as amendments made in its rules of procedure/statute – *for more information see section "Supervisory Board".*

The General Meeting also adopted changes in the Statute of First Investment Bank, refining certain texts on the selection of registered auditors, as well as on the competences of the control and management bodies of the Bank with regards to certain transactions for acquisition and disposal of real estates and the real rights on them. With the amendments also, within 5 years as from 23.06.2017, the Managing Board, with the prior approval by the Supervisory Board, was empowered to take resolutions to increase, through issuance of new shares, the Bank's capital until it reaches an aggregate amount of BGN 210,000,000.

Aiming at greater effectiveness and facilitating the realisation of such decisions, the General Meeting of Shareholders with its previous decisions dated 16.05.2016 and 21.05.2013 had empowered the Managing Board, subject to approval by the Supervisory Board, to adopt resolutions for the issuance of debt instruments, including subordinated term debt and debt/equity (hybrid) instruments, up to the aggregate amount of BGN 2 billion or its equivalence in another currency (within 5 years as from 16.06.2016), as well as for the issuance of mortgage-backed bonds in compliance with the Law on Mortgage-Backed Bonds, with a total nominal value of up to BGN 100 million (within 5 years as from 21.06.2013).

In December 2017, an Extraordinary General Meeting of Shareholders was held, which represented 86.75% of the share capital and voting rights, at which Mazars OOD was elected as a second registered auditor to perform an independent financial audit of the annual financial statements of the Bank for 2017 in compliance with the requirements of the Law on Independent Financial Audit. The company was selected after preliminary approval by the Bulgarian National Bank and recommendation by the Audit Committee of the Bank based on criteria for coordination of the selection, approved by the BNB together with the Commission for Public Oversight of Statutory Auditors.

Control environment and processes

The Bank has established and constantly improves a reliable and comprehensive internal control framework which includes control functions with the necessary powers and rights of access, enabling independent performance of duties by the structural and auxiliary units exercising monitoring and control.

The risk management processes, procedures and requirements are structured according to the "three lines of defense" principle, which include the business units, risk management and compliance functions, as well as internal audit. The control functions are independent of the operational business units which they monitor and control, and are also organizationally independent of one another as they perform different functions. *For more information on risk management and compliance functions see section "Risk Management"*.

First Investment Bank applies written policies and rules regarding the disclosure of conflicts of interest, and organization of the processes in the Bank is established in such a way as to avoid the possibility of conflict of interest.

Internal audit

The internal audit function established in First Investment Bank has broad powers, independence, resource availability and access to the competent management and supervisory bodies. It contributes to the effective management of the Bank, giving reasonable assurance that legal regulations, rules and procedures are strictly adhered to, and appropriate and timely corrective actions are taken, thereby helping to reduce the risk of losses and to achieve the business objectives of the Bank.

The internal audit carries out periodic inspections to ensure the achievement of goals and objectives, the economic and efficient use of resources, adequate control of various risks, protection of assets, reliability and integrity of financial and management information, and compliance of activity with current legislation and the existing policies, plans, internal rules and procedures.

The 2017 General Meeting of Shareholders of First Investment Bank approved the 2016 annual report of the Internal Audit which informs shareholders about the main results of the control activities of internal auditors, the measures taken, and their implementation.

Registered auditors

The annual financial statements of First Investment Bank are subject to independent financial audit jointly by two audit companies, which are registered auditors pursuant to the Law on Independent Financial Audit and in compliance with the applicable legislation. In order to ensure transparency and to disclose the results of the Bank to all stakeholders, the audited financial statements are published in Bulgarian and English on its corporate website at www.fibank.bg.

The registered auditors are elected by the General Meeting of Shareholders on a proposal by the Supervisory Board and following a recommendation by the Audit Committee of the Bank. The registered auditors are audit companies independent from the Bank, and their selection is also agreed in advance with the Bulgarian National Bank based on criteria for coordination of the selection, approved by the BNB together with the Commission for Public Oversight of Statutory Auditors.

In 2017, in accordance with the requirements of the Law on Independent Financial Audit and of Regulation 537/2014, the Bank has developed an internal procedure specifying the way for selecting an audit company to perform an independent financial audit of the Bank's financial statements, ensuring compliance with the regulatory requirements, transparency and non-discrimination.

The registered auditors selected to perform independent financial audit of the annual financial statements of the Bank for 2017 are:

- BDO Bulgaria OOD, UIC: 831255576, entered in the register of registered auditors, maintained by the Institute of Certified Public Accountants under registration № 016; and
- Mazars OOD, UIC: 204638408, entered in the register of registered auditors, maintained by the Institute of Certified Public Accountants under registration № 169.

In its capacity of a company of public interest in accordance with the Law on the Independent Financial Audit, an Audit Committee functions within the Bank. *For further information on its functions and responsibilities see section "Supervisory Board".*

Protection of shareholders' rights

The corporate governance of First Investment Bank protects the rights of shareholders, depositors and other customers of the Bank, treating all shareholders of the Bank equally, including minority and foreign shareholders. The governing bodies of First Investment Bank provide shareholders and investors with regular and timely disclosure of information about major corporate events related to the operation and condition of the Bank, ensuring informed exercising of shareholders' rights, and informed investment decision-making by investors.

Convening of gms and information

The convening of the General Meeting of Shareholders is made by written notice to shareholders in accordance with the Statute of the Bank in order to encourage their participation in the General Meeting, and in such a way as not to impede the voting or make it unnecessarily expensive. The Bank provides shareholders with timely and adequate information for decision-making, taking into account the scope of competence of the General Meeting. The invitation, together with the written materials related to the agenda of the General Meeting, are announced in the Commercial Register to the Registry Agency, submitted to the Financial Supervision Commission, and made available to the public through www.x3news.com at least 30 days before holding the General Meeting. They are also published on the website of the Bank in Bulgarian and English from the time of the announcement until the conclusion of the General Meeting. Upon request, the materials are provided to each shareholder free of charge.

In cases where the Bank employees are also its shareholders, the same requirements regarding voting rights that are currently applicable to the other shareholders are applied.

Main transfer rights and restrictions

All shares issued by First Investment Bank AD are ordinary, dematerialized, registered, and each share entitles its holder to one vote at the General Meeting of shareholders, and to a dividend and liquidation share in proportion with its nominal value. The Bank may not issue shares with different nominal values.

The Bank's shares are freely transferable, subject to the requirements of applicable law. Under the regulatory framework, natural or legal persons, or persons acting in concert, may not, without prior approval of the BNB, acquire directly or indirectly shares or voting rights in the Bank if, as a result of such acquisition, their holding becomes qualifying, or if such holding reaches or exceeds the thresholds of 20, 33 or 50 percent of the shares or voting rights, or when the Bank becomes a subsidiary.

No restriction on the rights of individual shareholders holding shares of the same class is allowed, and there are no shareholders of First Investment Bank with special voting rights. Also, the Bank has no knowledge of agreements between shareholders that could lead to restrictions on the transfer of shares, or voting rights.

First Investment Bank maintains a special section on the rights of shareholders on its corporate website at http://www.fibank.bg/bg/prava-na-aktsionerite/page/ 3598.

Minority shareholders and institutional investors

In accordance with good corporate governance practices, the Bank develops initiatives to engage minority shareholders and institutional investors.

In an effort to maintain an open line of communication with shareholders and investors, First Investment Bank maintains an Investors Club, by registering in which all stakeholders can receive e-mail notifications of any investor information disclosed by the Bank to the public.

In 2017 the Bank continued to organize and hold regular meetings with minority shareholders, with a view to furthering transparency and creating an opportunity for open dialogue and feedback between them and the senior management of the Bank, as well as their opportunity to contribute and work actively for the successful development of First Investment Bank AD.

During the year 2 meetings with minority shareholders of the Bank were held, respectively on 24.03.2017 and 14.09.2017. At all meetings on behalf of Fibank's senior management were present the Chief Executive Officer (CEO), the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO), who presented the minority shareholders with the current financial results and business development of the Bank, as well as discussions on important topics and questions. In accordance with good corporate governance practices, aiming at equal treatment of respondents, the notice for the regular meetings with minority shareholders, as well as the results from their holding, are publicly disclosed through www.x3news.com, as well as on the Bank's website

Information disclosure

Transparency and timely disclosure of information is a key principle in corporate governance. First Investment Bank maintains a system of disclosure in accordance with current regulations, which is aimed at providing timely, accurate and understandable information about significant events, allows for objective and informed decisions, ensures equal access to information and prevents abuse of insider information.

First Investment Bank has a Disclosure policy adopted by the Managing Board and approved by the Supervisory Board that outlines the framework for provision of information to stakeholders, shareholders and investors in accordance with modern practices of good corporate governance and provides an opportunity for making objective and informed decisions and assessments. In disclosing information, the Bank is guided by the principles of accuracy, accessibility, equality, timeliness, integrity and regularity.

In its capacity as a public company and issuer, Fibank discloses to the public (through www.x3news.com) periodic information, including annual financial reports audited jointly by two registered auditors, as well as interim financial and activity reports. The scope of periodic information disclosed by First Investment Bank exceeds the requirements of national legislation, as the Bank has decided to publicly disclose quarterly financial activity reports in compliance with Art. 100n1, par.7 of LPOS and Art.33a2, par.2 of Ordinance №2 of the FSC., that are with more detailed content as the one in its half-year reports, instead of the more concise public notifications for financial condition for the first, third and fourth quarter.

First Investment Bank prepares this Annual Report in Bulgarian and English, which contains detailed information on the development and competitive position of the Bank and its financial results, implementation of objectives and review of business by type of activity, as well as information on the management structure, corporate governance framework and risk management. With respect to the report the registered auditors shall gave their opinion whether it corresponds to the financial statements and is prepared in compliance with the applicable regulatory requirements.

The Bank also immediately discloses ad hoc information on important events related to its activity. Information is also published on the website of Fibank: www.fibank.bg, Investors section.

First Investment Bank maintains a corporate website, including an English-language version, with established content and scope of the information disclosed therein. It provides information about the products and services of the Bank, as well as essential trading and corporate information about the Bank, including on shareholder structure, management and supervisory bodies and their committees, financial reporting and activity reports, as well as the other information required under the regulatory requirements and the National Corporate Governance Code. A special, easily accessible Investors section is maintained on the website, featuring detailed and updated corporate governance information, stock information, financial information, news for investors, general meetings of shareholders, etc.

In addition, Fibank publishes information on the Bank in the form of presentations and interviews with senior management, press releases, journals (e.g. Fibank News), discloses detailed information on products and services of the Bank, the applicable terms and conditions and the Tariff and any amendments thereto, as well as non-financial information on events and initiatives conducted as part of its corporate social responsibility policy.

Investor relations director

With a view to establishing an effective relationship between First Investment Bank and its shareholders and persons that have interest in investing in financial instruments issued by the Bank, an Investor Relations Director is appointed within First Investment Bank.

Vassilka Momchilova Stamatova Investor Relations Director

The Investor Relations Director of First Investment Bank has the necessary qualifications and professional experience for performing her obligations and responsibilities. The director is responsible for the timely disclosure of all needed reports, notifications and information the Bank is required to disclose to the Financial Supervision Commission, the Bulgarian Stock Exchange, the Central Depositary and the public, as well as to keep a register of all sent materials.

In execution of the applicable regulatory requirements, in May 2017 the Investor Relations director of the Bank reported her activity during 2016 at the Annual General Shareholders' Meeting and her report was adopted by the shareholders unanimously.

The business address of the Investor Relations Director is 37, Dragan Tsankov Blvd., 1797 Sofia, tel. +359 2 / 81 71 430, email: vasilka.stamatova@fibank.bg.

Stakeholders

First Investment Bank applies a policy of providing information to stakeholders about its activity. Those include persons who are not shareholders but are interested in the economic development of the company, such as creditors, bondholders, customers, employees, the general public, and others.

Periodically, in accordance with the legal requirements and best practices, First Investment Bank discloses information of a non-financial nature, including on the social responsibility of the Bank and its participation in the social life of the country. The Bank supports socially significant projects and initiatives, provides sponsorship and develops donation programs directed primarily towards disadvantaged people, talented children, supporting Bulgarian sport, culture and education.

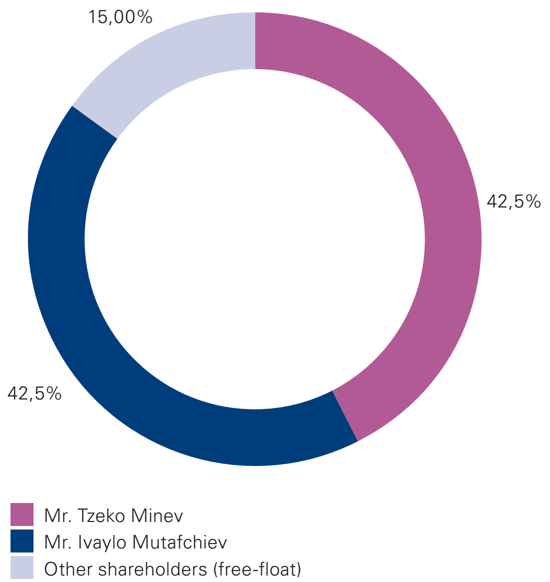
For more information, see section "Social Responsibility".

For nine years now, First Investment Bank has maintained and developed a corporate blog which functions as a channel of communication aimed at open dialogue in accessible language with customers, partners and other stakeholders.

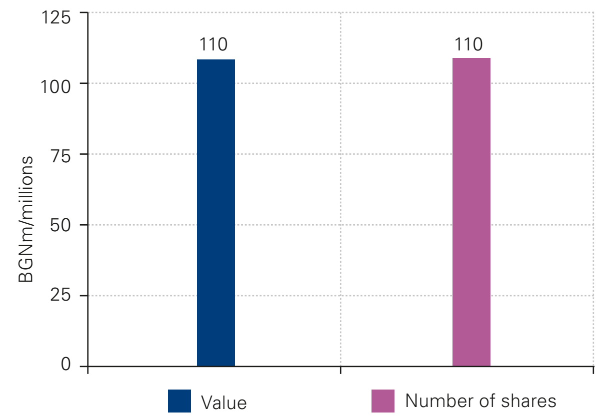
Shareholders' structure

As at 31 December 2017 the major shareholders of First Investment Bank were Mr. Tzeko Minev (42.5%) and Mr. Ivailo Mutafchiev (42.5%). The remaining 15% of the Bank's issued share capital (BGN 16.5 million) was owned by other shareholders, holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia (free-float). The total number of shareholders exceeded 2,000 which include both individuals and legal entities, incl. institutional investors.

Shareholders' structure at end - 2017



Issued share capital at end - 2017



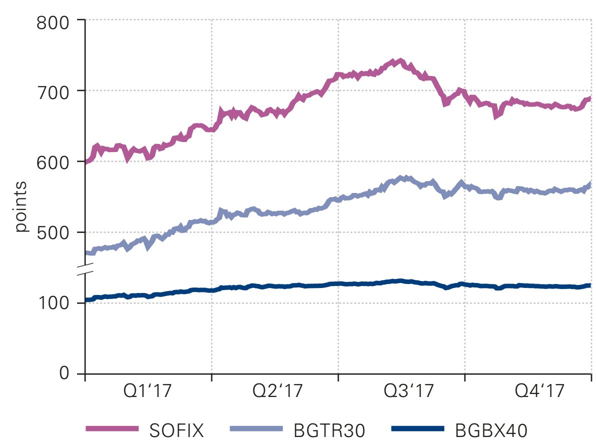
During the reporting period First Investment Bank did not acquire or transfer own shares, and at the end of the reporting period the Bank did not have own shares.

Share price and market capitalisation

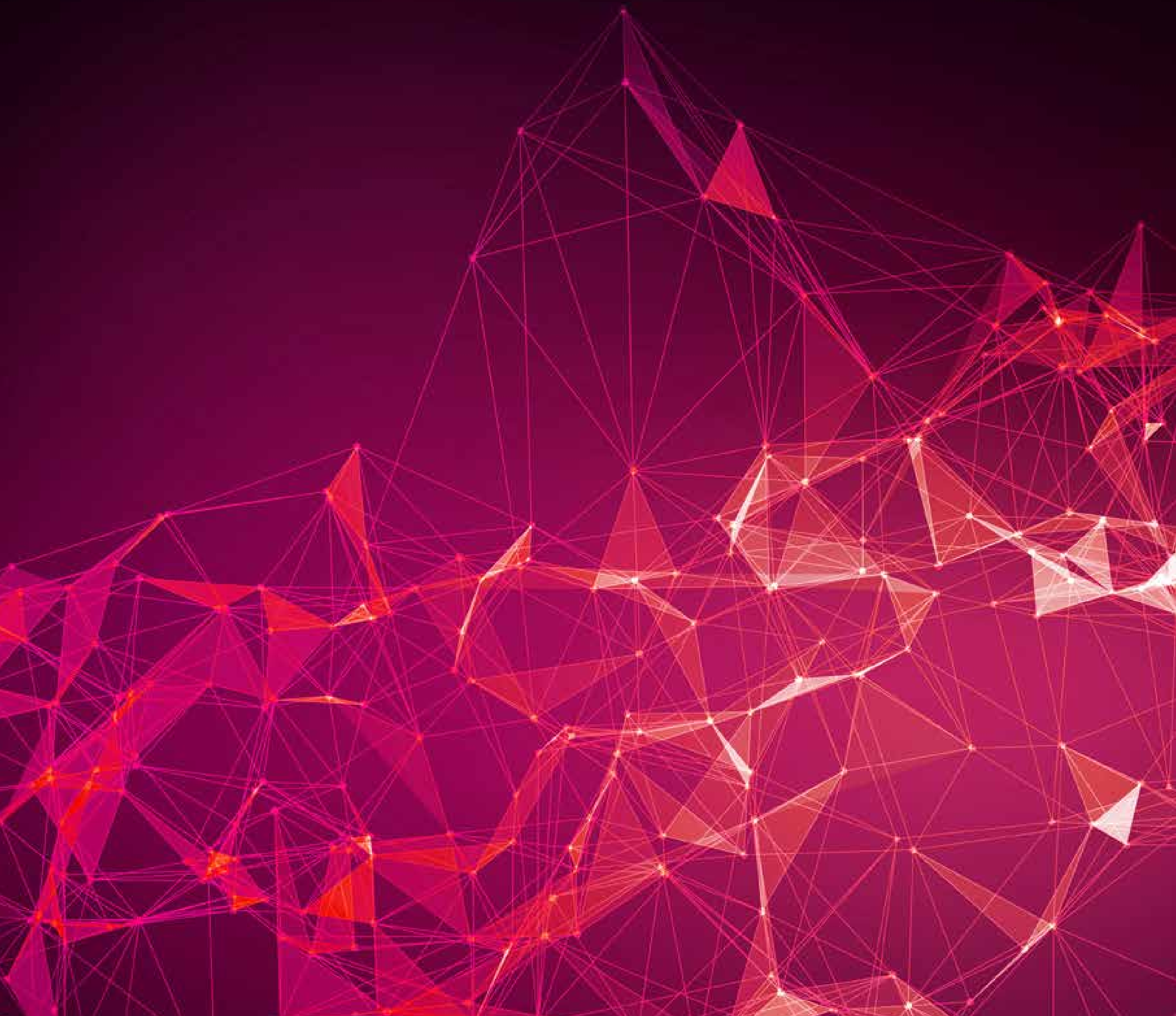
In 2017, the share price of the Bank fluctuated in the range between BGN 3.44 to BGN 6.10. The last price of the shares of First Investment Bank for the reporting period was BGN 5,656 (2016: BGN 3,350) and the market capitalization of the Bank, calculated on this basis amounted to BGN 622,160 thousand. (2016: BGN 268,500 thousand). A total of 3,022 transactions were concluded with the shares of the Bank on the regulated market BSE, amounting to a turnover of BGN 10,607 thousand, compared to 2118 transactions and BGN 7,570 thousand turnover a year earlier.

Share price of the Bank during 2017

Main stock-exchange indices on BSE-Sofia



As at 31 December 2017, the shares of the Bank were traded on the Main Market BSE, Premium Equities Segment of the Bulgarian Stock Exchange and were included in three stock exchange indices – SOFIX, BGBX40 and BGTR30, which bring together the largest, most traded and most liquid companies on the stock exchange in Bulgaria.



Innovation is not just about technology. That is why we invest in innovative programs for our employees, upgrading their skills and knowledge, and in establishing loyal and long-term relationships with our customers, without forgetting the human values.

Human capital

The HR activities carried out in 2017 were aimed at implementing the policy and vision to actively support the corporate governance in pursuing Fibank's strategic priorities and business objectives.

The realization of the following long-term projects continued throughout the year:

- The first 11 employees graduated in the Master's program in Bank Management and Investment Activity, developed jointly with the Higher School of Insurance and Finance (HSIF). HSIF students with high potential for development and sound academic background were also recruited.
- At the end of 2017, over 50 employees were distinguished in the different categories of the "Together We Can Do More" program. It has become a successful practice to distinguish people with a key contribution in delivering high performance, customer service development, team interaction, having the attitude and skills for change management. Employee feedback clearly showed that the main goal of the program: to inspire, motivate, and encourage employees to excel was successfully achieved during the year.
- At the end of 2017, the project for creation and deployment of a new intranet portal entered its final phase. The technical development was completed, and functional testing was performed prior to staged user training and implementation.

During the year, the Bank developed a project proposal and applied for external funding for training of 450 employees in digital competence and language skills. Fibank's project "Development of knowledge for management of the future" was approved for funding under the Human Resources Development Operational Program, this being the third project that Fibank will implement under the HRD OP.

At the end of 2017, the first stage of the project was completed, involving reorganization of the Bank's offices in Sofia through the formation of 5 functional branches, with offices allocated under each branch based on territorial location and business indicators. One of the main goals of the project is to contribute to higher employee satisfaction through management focused on employees' needs, more active and positive two-way communication, and provision of support by direct supervisors. A key priority is the formation and development of strong and cohesive teams that are motivated, synchronized and united in their efforts at the workplace, and in building and maintaining partnerships with clients. For more information, see the "Branch network".

During the reporting period, the active and dynamic training process continued. Trainings were delivered on more than 100 topics. 21 programs encompassing over 3400 participants (including people attending more than 1 training) were carried out with in-house training resource. The e-learning platform was actively used by more than 2600 participants, having completed courses in topics such as information processing, client handling, transactions in financial instruments, operational risk.

Several major training initiatives were also carried out:

- training on "New trends in business lending" for nearly 150 employees involved in lending to business customers;
- training on "Accepting orders and concluding transactions in financial instruments" for over 130 front office employees;
- motivational and training seminars under the "We Are" project for more than 850 employees of different customer service positions.

The "We Are" project is an innovative project (Employer branding) placing a main emphasis on strengthening and developing attitudes and working behaviors aimed at proactivity and efficiency in sales, empathy and emotional intelligence in customer service and interaction, striving to maximize efforts and results, taking initiative and responsibility for suggestions, decisions and actions, loyalty and dedication, and effective leadership.

The program of motivational and training seminars was developed jointly with partners from an external consulting firm, a leader in the field of HR consultancy services.

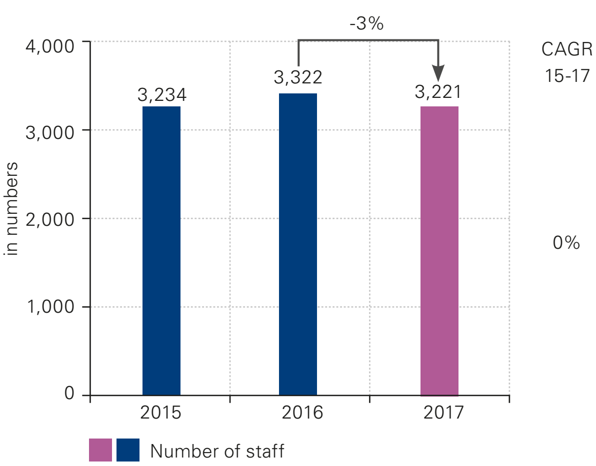
The design of the program relies heavily on interactivity and diversity of approaches to develop attitudes and work behaviors, actively involving employees in discussions and role simulations and using video methodology.

The "We Are" project once again demonstrates Fibank's readiness and commitment to support and motivate its employees through initiatives aimed at promoting affiliation and long-term development in the Bank, relying on innovative training and development models and methods.

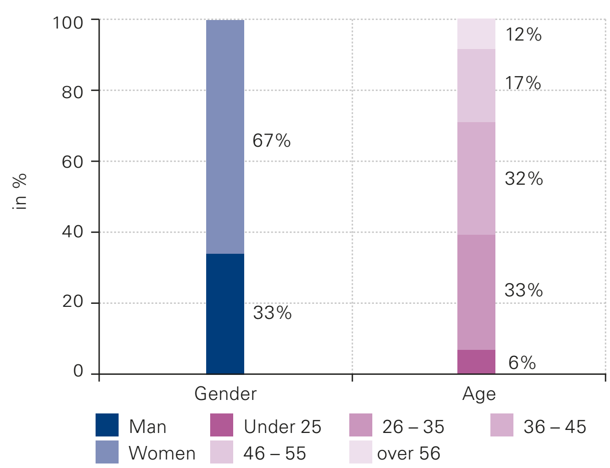
In 2017, a total of 4,812 employees participated in different forms of training (including persons attending more than 1 training), or 157% of the total number of staff.

As at 31.12.2017, the personnel of First Investment Bank on a consolidated basis totaled 3,221 employees, compared to 3,322 a year earlier. 39% of the staff were under 35, and 71% under 45 years of age. In line with general trends, 67% of the staff were women.

Number of staff



Structure of staff



Remuneration policy

The remuneration principles in the Bank are structured so as to contribute to prudent corporate governance and risk management. First Investment Bank applies a Remuneration policy pursuant to the regulatory requirements, which is consistent with the business strategy, objectives and long-term interests of the Bank, promotes sound and effective risk management, and does not encourage risk-taking in excess of the risk tolerance of the Bank.

The main objective of the policy is attracting and retaining qualified personnel, motivating them to achieve high performance at a moderate level of risk and in accordance with the long-term interests of the Bank and its shareholders. It is based on principles of transparency, prevention of conflicts of interest and equal treatment of all employees, accountability, objectivity, and sound risk management.

The policy sets out the general principles in forming remunerations. There are fixed and variable remunerations, the purpose of the Bank being to adhere to an optimal ratio between both, with a sufficiently high proportion of fixed remuneration so that, depending on the category of staff, greater flexibility of the variable part can be ensured, including the possibility of non-payment thereof. In determining the remuneration, not only the financial results are taken into account, but also the ethical norms and corporate values underlying the Code of Conduct of the Bank, as well as sound and effective risk management.

With regard to some categories of staff (identified staff), including senior management, employees with control functions and those whose activities are related to risk-taking, it is the policy of the Bank to limit the amount of variable remuneration to that of the fixed one, except for cases where the General Meeting of Shareholders has taken a decision on a higher amount, but in any case, not greater than double the amount of the fixed remuneration. The policy includes specific requirements with regard to the structure of the variable remuneration, as well as a mechanism for deferment in line with the effective legislation and specifics of the environment.

A Remuneration Committee functions at First Investment Bank, its role being to assist the Supervisory Board in its work on monitoring the implementation of the Remuneration policy, taking into account the risk impact and the long-term interests of shareholders, investors and other stakeholders. For more information regarding its functions and responsibilities see section "Supervisory Board".

The remuneration of key management staff for 2017 amounted to BGN 8,149 thousand.

Policy for nomination of senior management

First Investment Bank applies a Policy for the selection of senior management staff which complies with the regulatory requirements arising from the implementation of the CRR/CDR IV package in Bulgarian legislation, and in particular the requirements of the Law on Credit Institutions and Ordinance No. 20 of the BNB.

The Policy sets out the basic requirements, principles, guidelines and criteria for selection and assessing the suitability of members of the bodies of First Investment Bank who have management and supervisory functions, including the senior management staff of the Bank. The Policy structures the activity of selection and assessment of senior management, as well as identifies the essential requirements and criteria, so that they to a maximum extent meet the high standards applied by the Bank with a view to making an adequate contribution to the realization of its objectives and strategy.

Social responsibility

In 2017 First Investment Bank maintained its image as a socially responsible institution, implementing various projects in the sphere of education, culture and sport as part of its corporate social responsibility program.

First Investment Bank continued its joint initiative with the National Center for Transfusion Hematology (NCTH), conducting a campaign for free and voluntary blood donation in which a number of celebrities and employees of the Bank took part. The main goal of the campaign was to promote voluntary blood donation in Bulgaria which is vital to saving thousands of lives. Computer equipment was also donated to the National Center to support its activity and facilitate the work of NCTH staff.

Within the long-term program of Fibank to support and stimulate the development of Bulgarian education, outstanding students from the Yane Sandanski Natural-Mathematical High School in Gotse Delchev were awarded for their achievements in various contests and competitions during the school year 2016/2017, as well as students with excellent results from other major cities in the country.

First Investment Bank hosted the university financial analysis competition CFA Institute Research Challenge, thereby supporting the participation of competing Bulgarian students at the regional and world competitions in Prague, the Czech Republic, as well as assisting their future professional development.

As the largest bank with Bulgarian capital, Fibank continued its efforts to preserve and develop Bulgarian traditions and culture. During the period, First Investment Bank supported the 13th International Congress of Thracology "Ancient Thrace: Myth and Reality", which took place in the town of Kazanlak. The Bank also supported a number of music initiatives, including the 14th International Song Festival "Golden Key" in the town of Plovdiv, and the International Jazz Festival in Bansko.

For the fourth consecutive year, First Investment Bank partnered with the traveling "Summer Cinema with BNT 1" which provides viewers with the opportunity to enjoy the best Bulgarian film productions of recent years.

Development of Bulgarian sport and providing support to young talents are among the important causes that First Investment Bank seeks to maintain in pursuance of its social responsibility program. In this connection, Fibank supported the children's sports day "Children's Park, freedom to play sports", as part of the initiative "Sofia, European capital of sport 2018", in which over 2000 children participated.

In June 2017, Fibank took part in the joint initiative in support of young talents of the charitable foundations of Dimitar Berbatov and Luis Figo, which was conducted as a charity football match at the Vassil Levski national stadium. The Bank also sponsored other sports initiatives and activities of the Association of Tennis Professionals (ATP), the Bulgarian Ski Federation (BSF), the Bulgarian Rhythmic Gymnastics Federation (BRGF), and others.

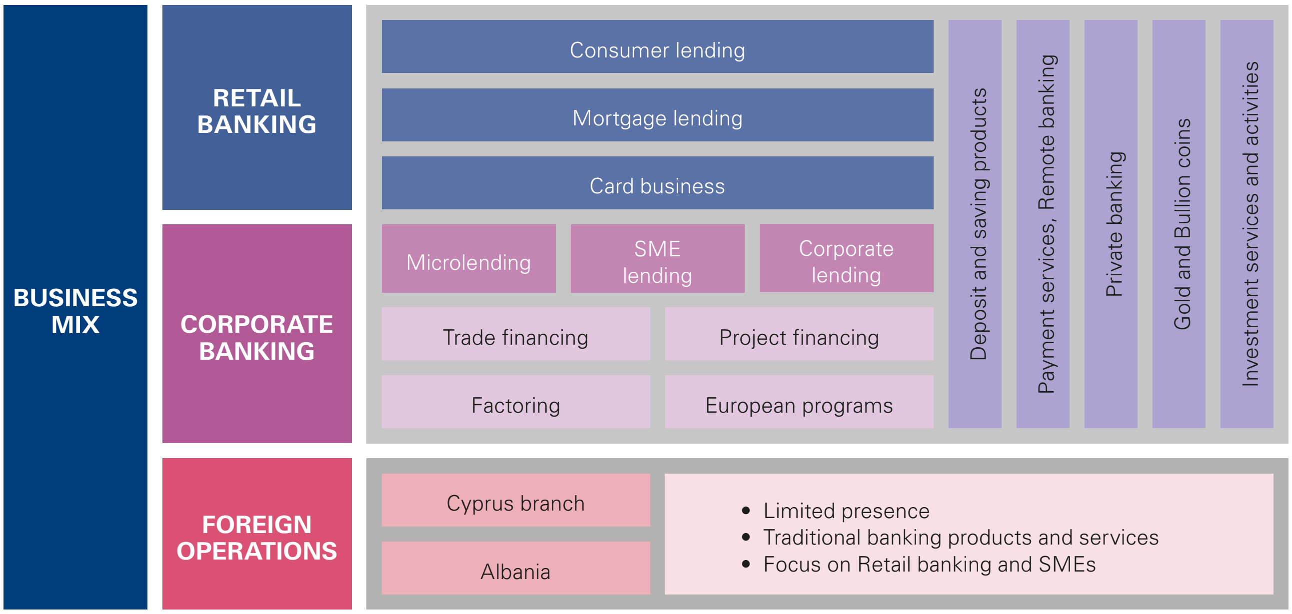
In December 2017, First Investment Bank presented its charity calendar for 2018, which is part of a social project in support of the birth promotion campaign "Do it for Bulgaria" organized by the National Cause Movement. The charity calendar is distributed through the branch network of the Bank across the country, and Fibank has committed to double the donations collected for the charity cause.

Fibank also joined the initiative of the Bulgarian volunteer organization Animal Rescue Sofia, supporting its "happy zone" project for homeless animals under which until now shelter has been found for over 5,000 dogs.

For another year, Fibank organized the competition Best Bulgarian Firm of the Year, aimed at supporting Bulgarian companies and creating increased confidence among them, as well as at drawing attention to positive and successful business examples in the country. The Bank also took part in the initiative "Made in Bulgaria - Union of the Small and Medium Business", awarding some outstanding and innovative Bulgarian companies with the Golden Martenitsa Award.

Business review

Universal business mix of products and services



First Investment Bank offers a universal mix of products and services to individuals, as well as to business clients, incl. strategic focus for development in the spheres of retail banking, micro, small and medium enterprises.

Retail banking

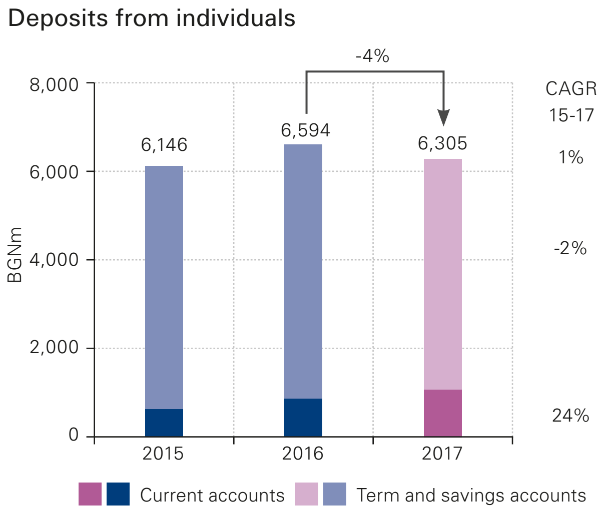
Deposits

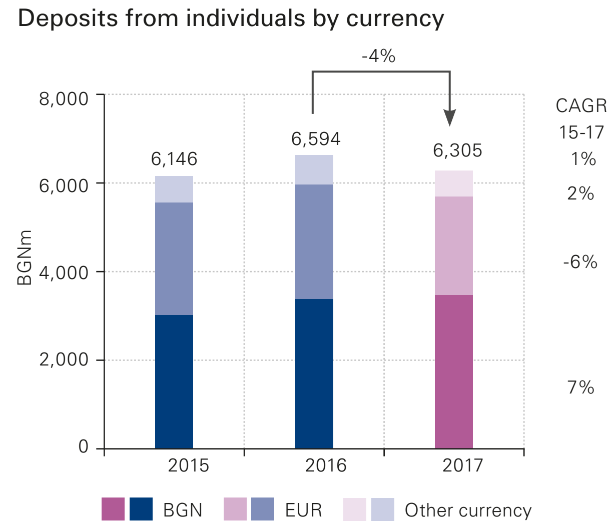
In 2017, attracted funds from individuals amounted to BGN 6,305,463 thousand compared to BGN 6,593,972 thousand a year earlier, resulting mainly from the dynamics in term and savings accounts, which reached BGN 5,234,573 thousand at end-period (2016: BGN 5,723,396 thousand), in accordance with market environment and the continuing trend of decrease in interest rates. They retained their structure-determining share in attracted funds from individuals at 83.0% (2016: 86.8%).

The policy of the Bank is directed towards building a stable deposit base by offering various and flexible deposit products, adapted to the market conditions and clients' needs, while maintaining high standards of customer service.

In 2017, Fibank continued to optimize the conditions on its deposits products, as well as making efforts for the development of cross sales and transaction business aiming at building and maintenance partnership in favour of customers.

Recognition for the trust of customers and the successful development came with the awards received during the year for strongest brand among financial institutions in Bulgaria by the global organization Superbrands, as well as for "Favorite brand of the Bulgarian consumer" in the category "Financial institutions" in the My Love Marks 2017 contest. First Investment Bank was announced Bank of the client for the seventh time in its history for maintaining high quality of customer service in the contest, organized by Association Bank of the Year.





In 2017 current accounts increased and reached BGN 1,070,890 thousand compared to BGN 870,576 thousand for the previous year, reflecting the targeted actions for strengthening customer relationships. During the year the services offered by the Bank in the bank packages for individuals "My Choice" and "My Choice Online " were expanded.

Fibank offers a wide range of current accounts, including IQ current account, as well as specialized accounts, in conformity with the specific needs of certain clients such as condominium accounts, notary accounts, insurance brokers and agents.

In terms of attracted funds from individuals First Investment Bank was placed third among banks in the country (2016: third). As at the end of 2017 the market share of the Bank amounted to 12.28% on an unconsolidated basis (2016: 13.51%).

Loans

The loan portfolio of individuals increased to BGN 1,507,337 thousand compared to BGN 1,453,502 thousand for the previous year, as a result of an increase in all major product lines, including increased focus on consumer loans.

In BGN thousand/ % of total	2017	%	2016	%	2015	%
Consumer loans	622,681	41.3	497,524	34.2	478,485	32.0
Mortgage loans	622,171	41.3	570,543	39.3	615,117	41.1
Credit cards	259,303	17.2	254,867	17.5	262,435	17.5
Other programs and secured financing	3,182	0.2	130,568	9.0	141,144	9.4
Total retail loans	**1,507,337**	**100**	**1,453,502**	**100**	**1,497,181**	**100**

Consumer loans

Consumer loans increased by 25.2% to BGN 622,681 thousand (2016: 497,524 thousand), contributors being the competitive terms offered by the Bank, the easy loan application procedure and the development of new products and programs, including seasonal offerings, in line with customer needs and market necessities. Their share increased up to 41.3% of the Group loan portfolio to individuals as at the end of the period (2016: 34.2%).

During the year, the product range was supplemented by a new loan for purchasing goods (commodity credit) – with a maximum amount of up to BGN 5,000 and a term of up to 36 months from a store chain. A new, flexible credit product was also offered without a repayment plan, with a maximum amount up to 10 times the monthly proceeds on the account, but not more than BGN 25,000.

First Investment Bank continued to promote the opportunity for full online application for consumer loans on its website at www.credit.fibank.bg. The process is integrated into the automated Workflow system of the Bank and, upon approval, applicants can choose a banking office of their convenience to sign the required documents. During the period facilitated conditions were introduced when applying for a consumer loan through Fibank's contact center.

First Investment Bank's market share in this segment increased to 9.72% (2016: 8.78%) at the end of the year, and Fibank increased its market position to fourth place (2016: sixth) in terms of consumer loans among banks in the country on an unconsolidated basis.

An acknowledgment of the development in this area was the award for Best Consumer Banking Brand for 2017 given by the international magazine Global Brands Magazine, as well as the Innovation Award for the consumer sector of the "Product of the Year" international prizes for online consumer credit.

Credit cards

The utilized limits on credit cards were in the amount of BGN 259,303 thousand at the end of the period (2016: BGN 254,867 thousand). Fibank develops various and innovative card products and services, including thematic campaigns to promote and attract new customers, which were organized in implementation of the Bank's consistent and long-term policy for stimulating these non-cash payments. The relative share of loans utilized through credit cards in the total loan portfolio to individuals amounted to 17.2% (2016: 17.5%).

For further information see section "Card payments".

Mortgage loans

As at the end of December 2017 mortgage loans increased to BGN 622,171 thousand compared to BGN 570,543 thousand a year earlier, forming a 41.3% share in the Group portfolio of loans to individuals (2016: 39.3%). As at 31 December 2017, the market share of the Bank in this segment increased to 6.39% (2016: 6.28%), as Fibank was placed seventh among banks in the country on an unconsolidated basis (2016: sixth).

Throughout the year in implementation of its strategy for development of the retail banking segment, Fibank continued to offer mortgage loans under competitive conditions as well as to organize promotional campaigns, aiming to stimulate sales. During the period Fibank proposed new and better conditions on the product mortgage loan "Right of choice" with fixed interest for the first three years and no commission for disbursement and management.

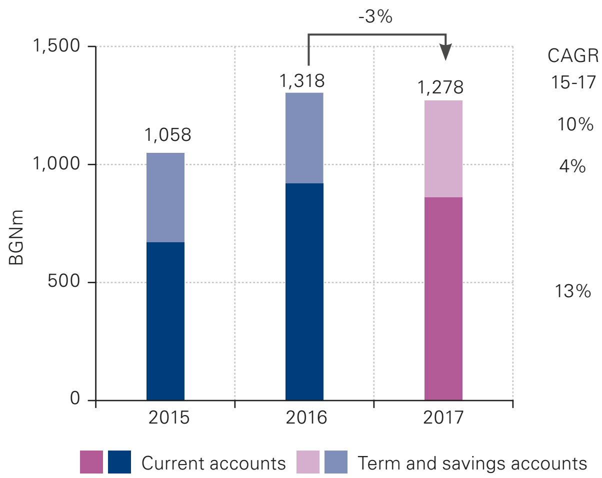
In 2018, the Bank will continue to develop and offer flexible credit products for individuals with the aim of attracting new clients and cross sales, as well as the development of longlasting partnerships with clients.

Corporate banking

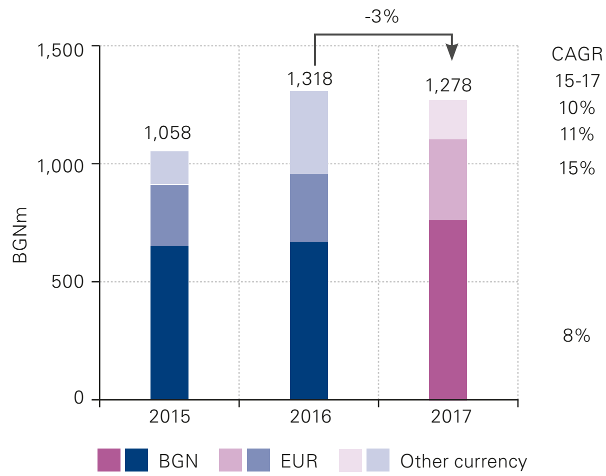
Deposits

Attracted funds from corporates and institutions in 2017 remained at levels close to the previous year, amounting to BGN 1,278,356 thousand (2016: 1,317,939 thousand). The decrease in volume reflected a decrease in current accounts against a growth in fixed-term accounts.

Deposits from business customers



Deposits from business customers by currency



Term accounts reached BGN 407,460 thousand (2016: 391,260 thousand) at the end of the period, forming 31.9% of the attracted funds from corporates and institutions (2016: 29.7%). First Investment Bank offers a variety of deposit and savings accounts, and package programs for business customers which constantly adapt to market conditions and specific company requirements.

Current accounts amounted to BGN 870,896 thousand at the end of 2017 compared to BGN 926,679 thousand a year earlier, forming 68.1% of the attracted funds from corporates and institutions (2016: 70.3%).

In 2017, Fibank updated the terms on the combined packages of bank products and services for business clients - “Fibank Business Class“, “Fibank Business Class +“, aiming to be in line with the market environment and to secure maximum satisfaction of customer needs. These give the opportunity for optimizing the expenses and the procedures for using different types of bank services.

By 31 December 2017, funds attracted by the thirty biggest non-banking clients represented 4.06% of the total amount due to other customers (2016: 5.88%).

Loans

Corporate lending

The portfolio of loans to corporates amounted to BGN 4,257,431 thousand at the end of 2017, compared to BGN 4,425,687 thousand a year earlier. The segment of corporate customers decreased its share in the corporate portfolio to 79.4% at the end of the year (2016: 83.7%). The loans of the other business lines - to small and medium enterprises and microlending, grew. They increased their share in the structure of loans to companies of the Group to 17.7%, (2016: 13.8%) and up to 2.9% (2016: 2.5%) respectively, as part of the policy for portfolio diversification and priority development in these segments.

In BGN thousand/ % of total	2017	%	2016	%	2015	%
Corproate customers	3 382 460	79,4	3 705 033	83,7	3 784 966	84,9
Small and medium customers	753 438	17,7	612 093	13,8	570 490	12,8
Microlending	121 533	2,9	108 561	2,5	102 218	2,3
Total loans to corporates	**4 257 431**	**100**	**4 425 687**	**100**	**4 457 674**	**100**

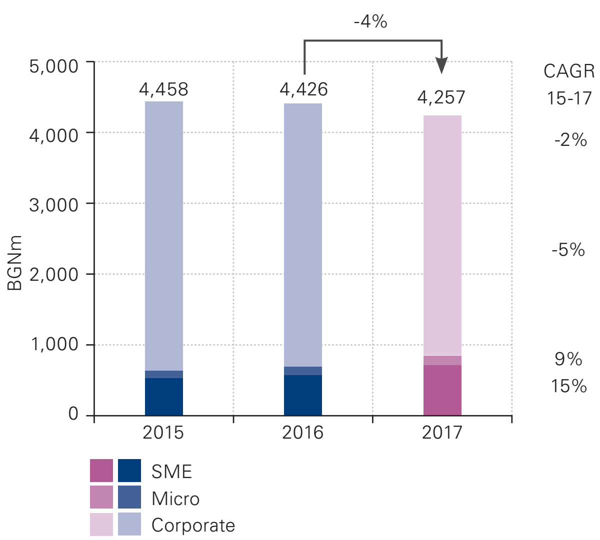
* Business lines based on internal Bank criteria for segmentation of customers

First Investment Bank provides various financing for business clients, including under the form of working capital loans, investment loans, guarantees, financing under the programs and funds of the EU, under the National Guaranteed Fund, factoring services and others.

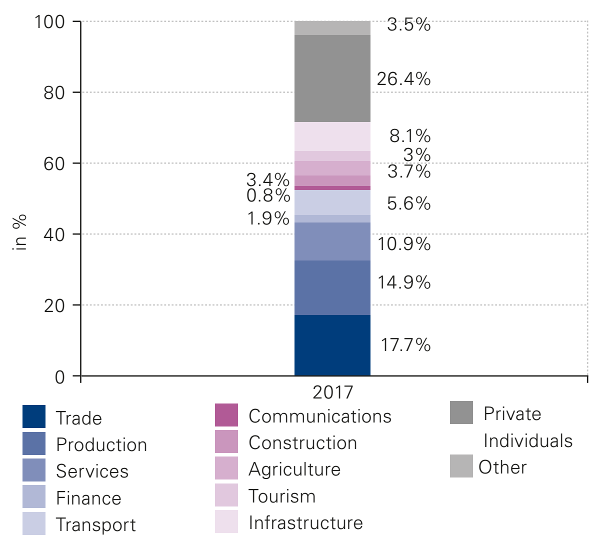
The market share of Fibank at the end of the year amounted to 12.10% of loans to corporates in the banking system (2016, 12.23%), Fibank retained its second place (2016: second) among banks in the country on an unconsolidated basis.

As at 31.12.2017 loans to the trade sector had a leading share in the portfolio structure (2017: BGN 1,017,879 thousand; 2016: BGN 1,186,684 thousand) followed by the industry sector (2017: BGN 861,778 thousand; 2016: BGN 987,724) which decreased their share (2017: 17.7% and 14.9%; 2016: 20.2% and 16.8%), at the expense of loans in the sector of services which increased to BGN 630,706 thousand or 10.9% of the portfolio (2016: 558,738 thousand or 9.5%), in line with the development of the economic activity in the country and incl. higher private consumption and domestic demand. In pursuance of the policy for supporting farmers, loans in the agricultural sector increased to BGN 212,391 thousand compared to BGN 189,228 thousand a year earlier. An increase was reported in construction - to BGN 203,901 thousand (2016: BGN 186,541 thousand) and in infrastructure to BGN 467,483 thousand (2016: BGN 466,536 thousand), reflecting the recovery and contribution of these sectors to value added in the economy during the period.

Business loan portfolio



Portfolio breakdown by sector



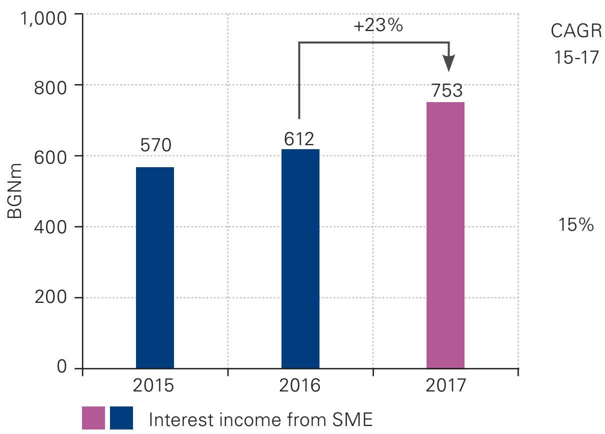
A decrease was registered in loans in the sphere of finance (2017: BGN 109,298 thousand, 2016: BGN 113,932 thousand), in the transport sector (2017: BGN 323,367 thousand; 2016: BGN 352,858 thousand), communications (2017: BGN 46,863 thousand; 2016: BGN 115,489 thousand) and tourism (2017: BGN 173,813 thousand, 2016: BGN 195,539 thousand), which was also influenced by the continuing portfolio diversification measures (focusing on retail banking), as well as the active management of credit risk.

During the period, the Bank affirmed its cooperation with the Bulgarian Export Insurance Agency (BAEZ), by continuing its activity on the agreement for portfolio insurance with the agency, used as part of the techniques for mitigating credit risk.

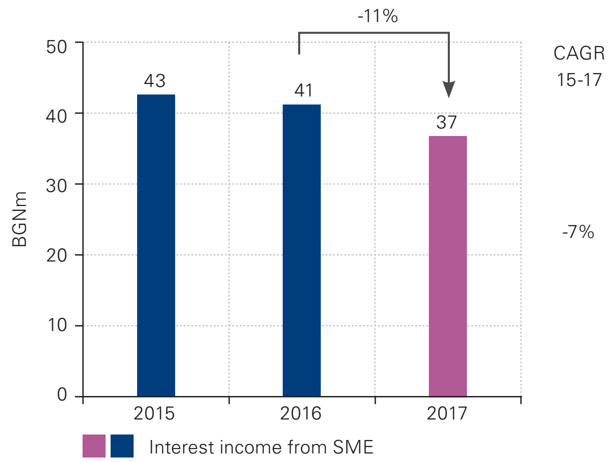
SME banking

In 2017 loans to small and medium enterprises increased to 23.1% to BGN 753,438 thousand compared to BGN 612,093 thousand a year earlier in implementation of the Bank's plans for development of this business segment. The increase was also influenced by the competitive terms offered in the products for SME clients, as well as the various solutions related to the programs and funds of the EU and other guarantee schemes and financing.

SME lending



Interest income from SME lending



During the year new credit solutions were offered in connection with the implementation of investment projects funded through the programs under the structural funds of EU – a new loan "European Development"), as well as for the payment of expenses for VAT for such projects – a new VAT overdraft.

New credit products were also developed for the purchase / repair of an office or for working capital, specially designed for companies operating in the field of information technology, as well as new credit facilities for purchase and building hotels.

During the period the Bank continued to maintain joint cooperation with the National Guarantee Fund by signing a new agreement for implementation of a guarantee scheme for the funding of small and medium enterprises in Bulgaria through a risk-sharing mechanism. In addition, Fibank continued to support farmers through other existing agreements with NGF, incl. under the Rural development Program, in the farming and agricultural sectors, as well as for implementation of projects in the fishery sector. For more information see section "Europrograms".

For SME financing, the Bank maintains cooperation with other institutions, including the National Agricultural Fund, Bulgarian Development Bank AD and the Bulgarian Export Insurance Agency. Through various financing schemes, Fibank also actively supports beneficiary companies under programs for the utilization of funds from European structural and cohesion funds, including in relation to the programming period 2014-2020.

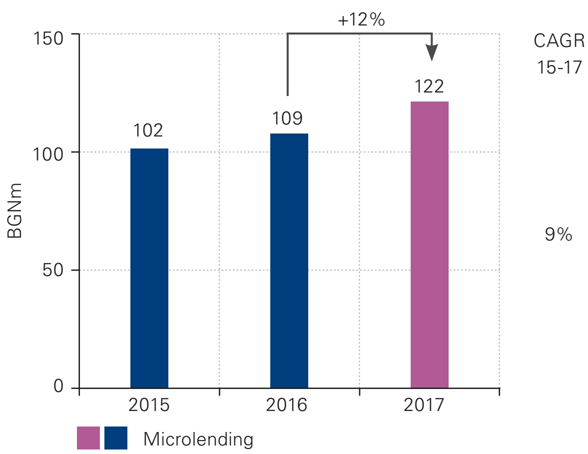
A recognition for the development in this area was the award for Best SME Banking Brand for 2017 given by the international magazine Global Brands Magazine.

Microlending

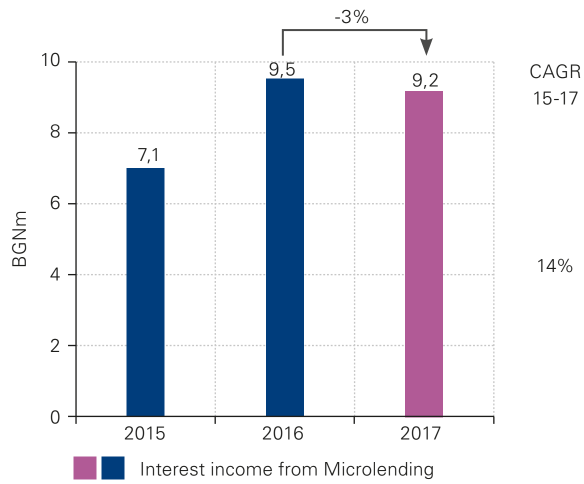
In 2017, the microlending portfolio grew by 11.9% to BGN 121,533 thousand compared to BGN 108,561 thousand a year earlier.

The Microlending Program of First Investment Bank covers a wide range of retailers, manufacturers, farmers, freelancers, including start-ups and companies with less market experience. The Bank offers specialized products for microenterprises including investment loans, working capital loans, and overdraft facilities at competitive terms.

Microlending



Interest income from Microlending



During the reporting period, new credit solutions were offered for microenterprises, in connection with the implementation of investment projects, as well as for the payment of VAT expenses on such projects co-financed by programs under the EU Structural Funds. New, more competitive conditions were offered for farmers under the Lending Program against pledge of receivables under schemes and measures of the Common Agricultural Policy of the EU, through which funding is provided for up to 100% of the expected subsidies.

New credit products were developed for the purchase / repair of an office or for working capital, specially designed for IT companies, as well as new credit facilities, incl. overdraft account and investment loan, specially designed for doctors and dentists.

During the year the parameters of other products were updated, incl. "Mortgage Business loan","Super Micro Loan" and "Overdraft account" in accordance with market conditions and the external environment, as well as facilitations being implemented concerning the approval process.

Europrograms

Fibank offers a wide range of services related to the utilization of funds under EU operational programs, as well as other products, including investment loans for overall project implementation, bridge financing up to the amount of the approved financial assistance, issuance of bank guarantees to secure advance payments of approved financial assistance, and other banking products specifically tailored to the needs of customers.

In order to provide integrated customer assistance in the absorption of EU funds, the Bank offers the "Full Support" service through which support is provided in the preliminary study of the administrative and financial eligibility of the project idea, expert advice in project development, as well as comprehensive servicing of the implementation phase following approval.

In 2017, First Investment Bank signed a new agreement with the National Guarantee Fund (NGF) for application of a guarantee scheme for the financing of micro, small and medium-sized enterprises in Bulgaria through a risk share mechanism. In accordance with the mechanism, investment and working capital loans as well as limits to bank guarantees and letter of credits are granted under a secured guarantee by the fund which supplements the credits collateral. The guarantee scheme is also applicable towards credits granted for the realization of projects under the operative programmes of the European Union. In addition, Fibank supports small and medium-sized enterprises through other agreements with the NGF, e.g. under the Rural Development Programme in the livestock and agricultural sectors, as well as realizing of projects in the fishery sector.

In 2017 Fibank mainly supported beneficiaries of programs aimed at the private sector, including the Operational Program "Innovation and Competitiveness" 2014-2020 and the Program for Rural Development 2014-2020. Assistance and comprehensive support was also offered to institutional beneficiaries from the public sector through the applicable procedures and measures, part of the 2014-2020 programming period.

Fibank has extensive experience working with local and international financial institutions, as well as successful participation in various guarantee schemes and funding programs, including those organized by the European Investment Fund such as the JEREMIE initiative and other risk sharing instruments.

First Investment Bank is a member of the Bulgarian Association of Consultants in European Programs (BACEP) which aims to contribute to increasing the efficiency of implementation and management of projects financed by European funds, bringing together the competencies of its members and partnering with the authorities in order to achieve optimization of the development and implementation of European programs.

Payment services

In 2017 First Investment Bank was a member and participant in payment systems and agent of other payment service providers, as follows:

- Bank Integrated System for Electronic Transactions (BISERA);
- Real-Time Gross Settlement System (RINGS);
- System for Servicing of Clients Transfers in Euro (BISERA7-EUR);
- Trans-European Automated Real-Time Gross Settlement Express Transfer system (TARGET2);
- Pan-European system for payments in Euro (STEP2 SEPA Credit Transfer), as a direct participant through EBA Clearing;
- Bank Organisation for Payments Initiated by Cards (BORICA);
- Agent of Western Union;
- Agent of Easypay.

In April 2017, First Investment Bank joined as a direct participant in the Pan-European system for payments in Euro STEP2 SCT (SEPA Credit Transfer), operated by EBA Clearing. First Investment Bank is the only bank in Bulgaria registered as a direct participant in the EBA Clearing system for executing SEPA compatible credit transfers.

Throughout the year the Bank was actively preparing its internal regulations, processes and systems in compliance with the new regulatory requirements deriving from Payments Services Directive 2 and the technical standards and guidelines of the European Banking Authority concerning its application.

Card payments

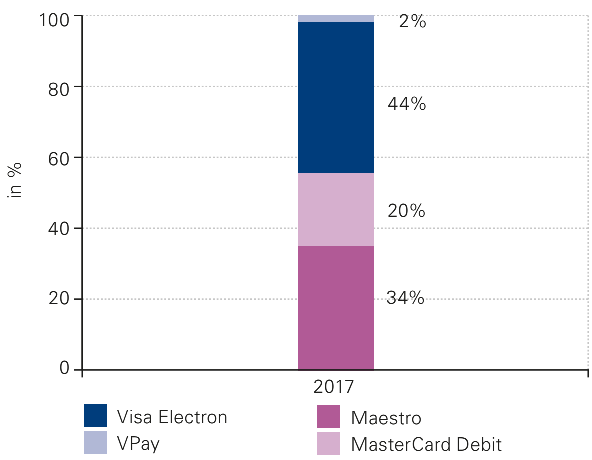
In 2017, First Investment Bank continued to develop its card business in line with customer needs and modern technologies, including through offering innovative card products and services on the Bulgarian market, relevant to the context of the increasing digitization in banking.

Fibank continued to promote the service Digital Payments, which allows customers to manage digital bank cards through the mobile application "My Fibank" on their smart phones supporting NFC technology for contactless payments.

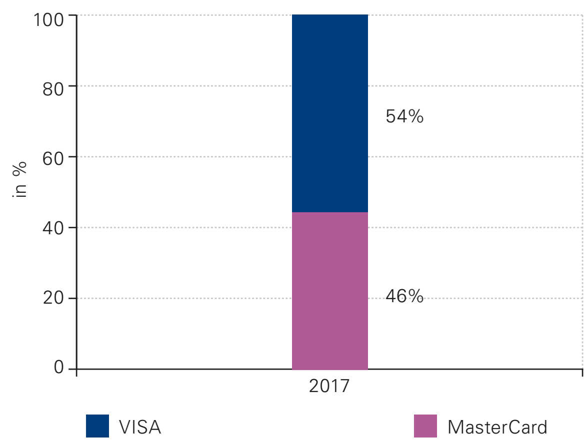
During the year the Bank started to offer an innovative microcard, issued as an additional debit card to the kids and teen cards Debit MasterCard Pay Pass kids/teen, integrated in a special accessory (bracelet or key holder) with a function supporting contactless payment. Through issuing those types of cards the Bank aims to increase the financial culture among the young people, and at the same time aims to do this under the lowest possible risk and strong control by the parents – every card has a limit, pursuant to the personal needs of the youngsters and the family budget. With a promoting purpose, during April 2017 a new programme for saving was started. According to this, within a year 10% of the sum spent within a month when paying with kids/teen card on POS terminal in the shopping points in the country is reimbursed to the cardholders.

As of 31 December 2017, the total number of the cards issued by Fibank increased by 1.1% compared to the previous year. The biggest increase was reported concerning the contactless Debit MasterCard cards, which have the availability for payments through internet and are also part of the "Yes" loyalty program of Fibank.

Structure of debit cards



Structure of credit cards



Aiming to stimulate card payments, e.g. contactless payments during the period, Fibank organized various promotional and products campaigns, e.g. joint initiatives with MasterCard and VISA, as well as cooperation with the internet portal for reservations Booking.com. Fibank was the first bank in Bulgaria to start issuing and servicing the contactless cards MasterCard PayPass (since 2010) and Visa payWave (since 2012).

First Investment Bank was also among the first banks in the country to introduce the chip technology (EMV standard). Currently all cards issued by Fibank, and all ATM and POS terminals serviced by the Bank, are compliant with the EMV standard which is essential for the SEPA card payments framework and aims to further increase the security of card payments.

During 2017 the terminal network of ATM devices serviced by the Bank reached 641 compared to 624 a year earlier, reflecting the development of the terminal network counting at the same time the maintenance of optimal efficiency in accordance with the concrete locations, the workload and the volume of the operations. During the year the Bank invested resources for the development and implementation of a new service – deposit of cash through ATM device through issued by Fibank bank card, as well as technical development of the ATMs with contactless function. Separately, Fibank's subsidiary bank in Albania has its own network of ATM terminals. For further information about the card business of First Investment Bank – Albania Sh.a. see section "Business overview of subsidiary companies".

As of 31 December 2017, the POS terminals network of First Investment Bank totaled 9,887, compared to 10,212 a year earlier. Fibank strives to develop and offer competitive conditions to merchants, as well as to card services users, aiming in this way to stimulate this kind of payment.

International payments

First Investment Bank is among the leading banks in Bulgaria in the sphere of international payments and trade financing. Fibank is a popular, reliable and fair business partner which has built a good reputation over the years among international financial institutions and has gained valuable experience and know-how from its numerous international business partners, investors, customers, and counterparties.

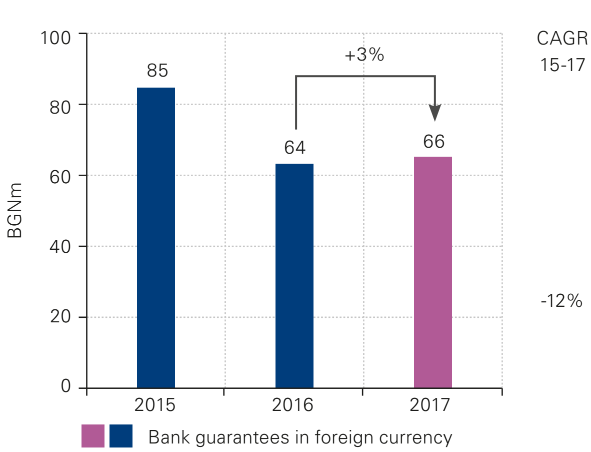
In 2017, the Bank reported an increase in incoming and outgoing foreign currency transfers in terms of both number and account. This was due to the increased customer base, the competitive conditions offered by the Bank and the high quality of customer service. First Investment Bank has a wide network of correspondent banks through it which carries out international payments and trade finance operations in almost all parts of the world. The Bank executes cross-border currency transfers through SWIFT, as well as the TARGET2 and BISERA7-EUR payment systems and since April 2017 the Bank has also executed SEPA compatible credit transfers as a direct participant in the system STEP2 SCT (SEPA Credit Transfer), operated by EBA Clearing. Fibank also operates in issuing checks and performing various documentary transactions.

During the period, as recognition for the development of Fibank in this particular area, the Bank received two awards – STP Awards from Commerzbank and KBC for the excellent quality of executed foreign currency and financial transfers.

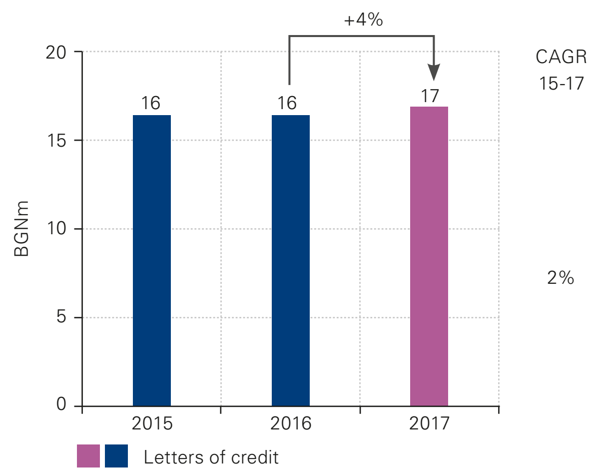
At the end of the year, in accordance with the renewal option, an extension was signed to the framework agreement with the Taiwan export insurance agency Eximbank Taiwan for financing deliveries of goods from Taiwanese suppliers to clients of First Investment Bank in Bulgaria or other countries where the Bank has branches or subsidiaries. Under the agreement, Fibank can provide financing under increased amount of every individual credit - up to 100% of the value of the contract but not exceeding USD 2 million, with a period of utilization up to 6 months after the first shipment and a repayment term of 6 to 5 years irrespective of the type of goods (consumer or non-consumer).

During the reporting period, the letters of credit and bank guarantees in foreign currency issued by the Group to guarantee the performance of its customers to third parties amounted to BGN 82,965 thousand (2016: BGN 80,111 thousand), forming 9.8% of the off-balance sheet commitments of the Bank (2016: 11.1%).

Bank guarantees in foreign currency



Letters of credit



Gold and commemorative coins

In 2017 First Investment Bank successfully offered investment gold and precious metal products, retaining its leading position among banks in the country in this type of activity. As an additional distribution channel, Fibank continued to develop its Gold & Silver platform for online sales, constantly updating the individual sections and adding new products.

For the reporting period, the revenues from transactions with gold and precious metals amounted to BGN 726 thousand compared to BGN 1,007 thousand a year earlier, driven by the development of the business and the dynamics in the demand and pricing of precious metals over the period.

Fibank has offered its customers products of investment gold and other precious metals since 2001, and over the years has built successful cooperation with a number of leading financial institutions from around the world: the renowned Swiss refinery PAMP (Produits Artistiques de Métaux Précieux), the banks UBS and Credit Suisse, the New Zealand Mint, the National Bank of Mexico, the Austrian Mint, the British Royal Mint, and others.

In 2017, together with the New Zealand Mint, a new collection of "Panagyurishte Treasure" series of silver coins with partial gold plate were released, which were exclusively offered in the Fibank office network. The collection comes as a result of a unique collaboration between three diverse institutions: financial, cultural and international numismatic. It was created from an idea of First Investment Bank and the Regional Archaeological Museum of Plovdiv. The design and the production of the coins were done by the New Zealand Mint.

During the year with the partnership of the Swiss refinery, PAMP started distributing a new with a Child" made of silver with the highest sample of 999/1000.

As is traditional, at the end of the year the distribution of a new silver coin of the New Zealand Mint was started, as well as new gold and silver bullions of the Swiss refinery PAMP, all dedicated to the Year of the Dog 2018.

In carrying out transactions in gold and precious metals, First Investment Bank invariably complies with all the quality criteria of the London Metal Exchange and international ethical trading standards.

Private banking

In 2017 the main directions concerning the activity of private banking were connected with increasing the number of the clients in this segment which contributed to the increase of the amount of attracted funds and the operating income.

On an annual basis, the generated private banking charges income increased by 32%, which was accompanied by an increase in the number of clients by 14%. During the period the process of extending the selection of banking products and services continued aiming to service specific clients' needs and requirements.

During the year customers were offered lending programs as well as segments with preapproved credit limits with included life insurance consistent with clients' needs and the market conditions.

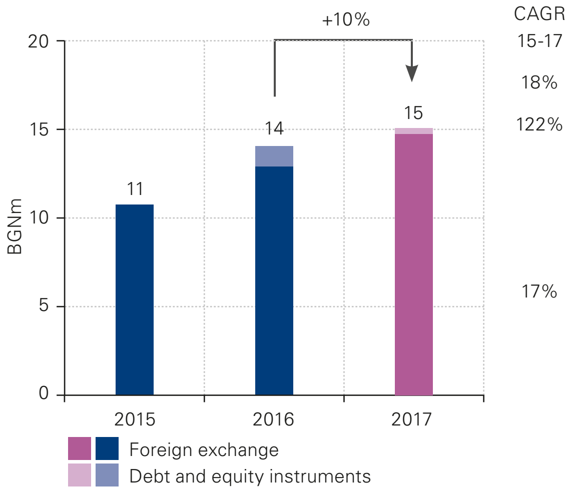
The main activity focus in 2018 is directed towards the implementation and active proposing of new investment products, which in a low interest rate environment afford the opportunity to clients to diversify their investments under different risk levels.

First Investment Bank has offered private banking for individuals since 2003, and for corporate clients since 2005. Private banking allows for individual servicing by a personal officer, who is responsible for the overall banking solutions provided to a client.

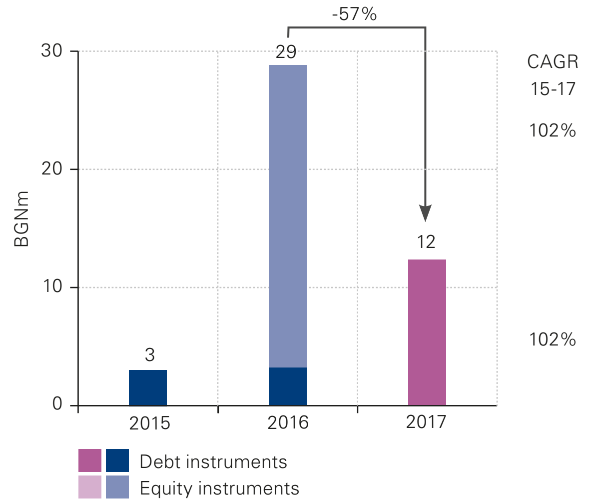
Capital markets

In 2017 net trading income increased to BGN 15,326 thousand (2016: BGN 13,937 thousand), mainly as a result of the higher income from trade operations related to exchange rates and debt and equity instruments. Other net operating incomes, arising from debt and capital instruments, amounted to BGN 12,384 thousand compared to BGN 28,792 thousand a year earlier, which was influenced by a realized income with regards to a deal of the acquisition of VISA Europe by VISA Inc. in the amount of BGN 24,930 thousand.

Net trading income



Other operating income from debt and equity instruments



The portfolio of financial instruments at year-end amounted to BGN 803,999 thousand compared to BGN 891,835 thousand a year earlier, of which BGN 742,306 thousand were investments available for sale (2016: BGN 619,836 thousand), BGN 53,714 thousand were financial assets held to maturity (2016: BGN 262,437 thousand) and BGN 7,979 thousand were financial assets held for trading (2016: BGN 9,562 thousand).

Implementing the new regulation requirements, deriving from the European legislation in the financial markets field – Directive 2014/65/EU of the European Parliament and of the Council and Regulation 600/2014 of the European Parliament and of the Council about financial instruments markets ("package MiFID2/MiFIR"), in 2017 the process of implementing additional modules, functionalities and settings to the current information system was started, servicing the Bank's activity as an investment intermediary. Technological solutions are expected in connection with the accounting of financial instruments and the maintenance of own and client portfolios, extending the possibility for managing and maintenance of integrated electronic client record, automatic generation of reports, as well as availability for access to a full range of legally required samples and documents, needed for the organization of the activity.

In its capacity as an investment intermediary and a primary dealer of government securities, First Investment Bank carries out transactions with financial instruments in the country and abroad including transactions in government securities, shares, corporate and municipal bonds, compensatory instruments as well as money market instruments. The Bank also offers trust portfolio management, investment consultation, as well as depositary and custodian services to private individuals and corporates, including maintaining registers of investment intermediaries, of accounts of securities, income payments and servicing payments under transactions in financial instruments. As part of the Compliance function, the Bank has a specialized unit for control of investment services and activities which ensures observance of the requirements related to Fibank's activity as an investment intermediary.

Orders for the subscription/redemption of units in four mutual funds (FIB Garant Mutual Fund, FIB Classic Mutual Fund, FIB Avangard Mutual Fund and FFBH Vostok Mutual Fund, managed by the Management company FFBH Asset Management AD) can be accepted in Fibank's offices which are registered with the Financial Supervision Commission.

Business review of subsidiary companies

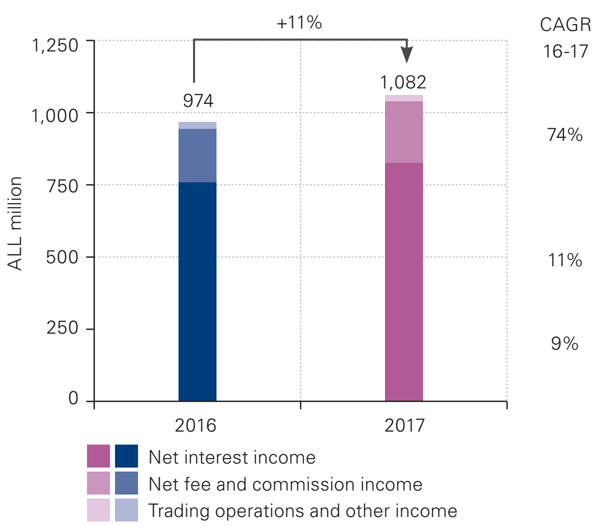
First Investment Bank – Albania Sh.a.

First Investment Bank – Albania Sh.a. (Fibank Albania) was granted a full banking license by the Bank of Albania in June 2007, and in September 2007 effectively took over the activities of the former Tirana branch of Fibank which had operated in the Albanian market since 1999, by assuming all its rights and obligations, assets and liabilities. Fibank Albania has also been licensed by the Albanian Financial Supervisory Authority for carrying out investment services and activities, incl. depository and custodian services.

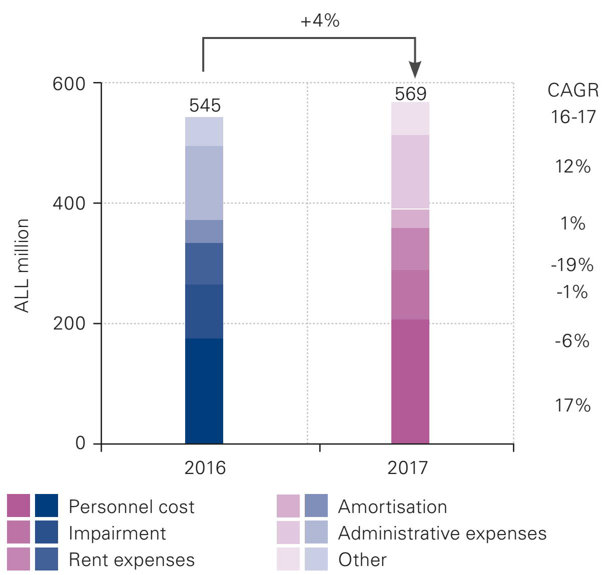
In line with its mission, First Investment Bank – Albania Sh.a. aims to be among the fastest growing small banks in Albania, recognized as an innovative credit institution which offers first class service and exceptional products and services, provides excellent career opportunities to employees, and is socially responsible.

In 2017, First Investment Bank – Albania Sh.a. reported positive financial results and sustainable development while maintaining high standards of risk management and customer-oriented approach. The Bank maintained strong liquidity and capital positions, its capital adequacy ratio at year-end amounting to 17.36% against a minimum required level of 12% according to the applicable regulatory requirements in the country.

Total income from banking operations



Operating expense



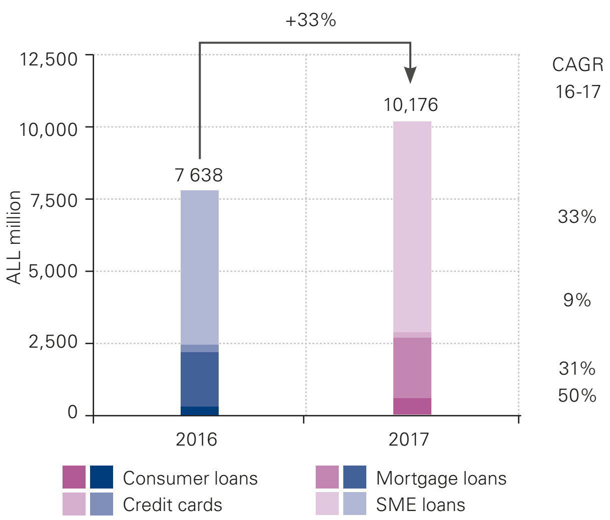
First Investment Bank – Albania Sh.a. reported net profit amounting to ALL 435,676 thousand1 or 20.0% more compared to a year earlier (2016: ALL 363,088 thousand). This was driven by the increase in operating income, including net interest income by 9.3% to ALL 834,931 thousand (2016: ALL 763,608 thousand), and net fee and commission income by 11.1% to ALL 209,406 thousand compared to ALL 188,422 thousand a year earlier.

During the year personnel costs amounted to ALL 207,032 thousand against ALL 176,582 thousand for the previous year. The number of staff of the bank at year-end were 143 people. General administrative expenses remained at levels close to the previous period at ALL 124,449 thousand (2016: ALL 123,058 thousand), while those for rents and depreciation decreased to ALL 99,272 thousand (2016: ALL 107,357 thousand). Impairment costs continued to decrease in line with the economic environment and reached ALL 84,430 thousand (2016: ALL 89,608 thousand).

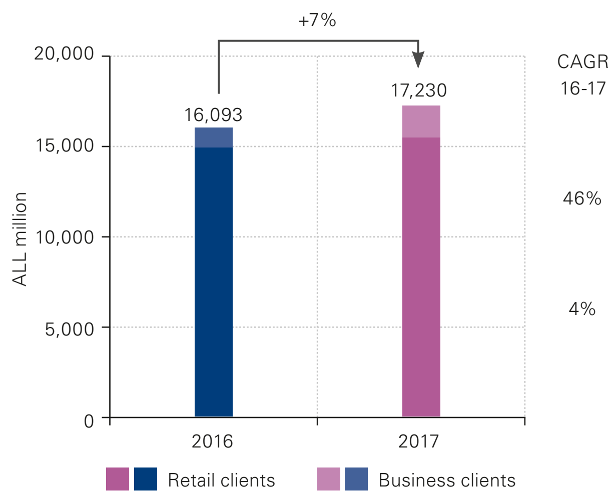
1 The official rate of the Albanian lek (ALL) against the euro at the end of 2017 was 132.95, and the average for the year was ALL 134.09 for one euro.

During the period, the assets of Fibank Albania increased by 11.7% reaching ALL 20,994,963 thousand (2016: ALL 18,795,225 thousand), mainly due to the growth in receivables from customers and banks. Loans to customers increased by 35.0% to ALL 9,518,779 thousand (2016: 7,049,429 thousand) mainly attributable to the growth in SME and retail loans, incl. mortgage loans.

Loan portfolio



Deposits



Loans and advances to banks and financial institutions increased to ALL 1,859,013 thousand as at 31 December 2017 (2016: ALL 1,791,915 thousand), which were claims on foreign institutions. Financial assets held to maturity amounted to ALL 2,317,944 thousand (2016: ALL 1,311,855 thousand) at the expense of available for sale investments, which declined to ALL 4,708,543 thousand, compared to ALL 6,082,403 thousand a year earlier.

Amounts due to customers increased by 7.1% to ALL 17,229,570 thousand at period-end (2016: ALL 16,093,343 thousand), with growth being reported in retail customers as well as in business customers, driven mainly by the flexible savings products and current accounts offered by the bank, as well as by the increased customer base. During the year Fibank Albania offered a promotional two-year deposit product in ALL and in EUR at competitive rates, as well as signing an agreement with the Albanian Insurance Agency giving pensioners the opportunity to access their pensions from any of the bank's branches in the country.

The equity of First Investment Bank – Albania increased and reached ALL 2,656,013 thousand compared to ALL 2,304,110 thousand at the end of 2016 due to an increase in retained earnings, which amounted to ALL 991,726 thousand (2016: ALL 574,204 thousand).

During the year Fibank Albania developed its card business by organizing a number of promotional campaigns, incl. joint initiatives with VISA and the Internet portal for reservations Booking.com, as well as registered a 8.8% growth in the utilized limits on credit cards, which reached ALL 171,441 thousand at period-end (2016: ALL 157,576 thousand). The Bank is certified by Visa to offer debit and credit chip cards to individual and corporate clients.

At the end of 2017, the branch network of First Investment Bank – Albania Sh.a. comprised the headquarters in Tirana and nine branches in the country, including in the larger cities of Durres, Vlora, Elbasan, Fier, Shkoder, Korca and Berat. Through its branch network, the Bank was the first one in the Albanian market to offer products of investment gold and other precious metals.

First Investment Bank – Albania Sh.a. continued to develop its corporate social responsibility and commitment to society by supporting a number of social initiatives in Albania. During the year, on the occasion of the Kid's Day, the bank took part in an initiative for gathering funds for the purchase of modern technological equipment for the state pediatrics hospital in the country. At the end of the year Fibank Albania donated computer equipment to schools in the Kukes region in the north part of the country, aiming to support the educational development of children of school age. In order to develop financial literacy among youngsters, the bank also took part in the initiative "Global Money Week" organized by the Albanian Central Bank together with the Albanian Association of Banks, by sponsoring a painting contest among 1-3rd school graders on the topic "How to Save Money". For further increasing the awareness of Albanian Society towards certain fragile social classes, during the year, Fibank Albania together with the Mother and Child Hospital Foundation (FSNF) organized a campaign on violence against women in their pregnancy period.

First Investment Bank – Albania Sh.a. has a corporate governance structure consisting of Executive Management (Directorate), Managing Board, and an Audit Committee. The Chief Executive Officer of First Investment Bank – Albania Sh.a. is Mr. Bozhidar Todorov who has extensive experience in banking, having held senior positions at First Investment Bank AD related to the management of corporate assets.

The financial statements of the bank are prepared in accordance with International Financial Reporting Standards, and audited by a registered auditor. For 2017, the registered auditor of the bank was BDO Albania.

Diners Club Bulgaria AD

Diners Club Bulgaria AD is a joint stock company incorporated in November 1996, its main business activity being the issuance of Diners Club credit cards and processing of payments with them. In 2005, First Investment Bank acquired 80% of the company's capital. In 2010, Diners Club Bulgaria was licensed by the Bulgarian National Bank as a payment institution to perform payment transactions using payment cards, as well as to issue and accept payments with payment instruments.

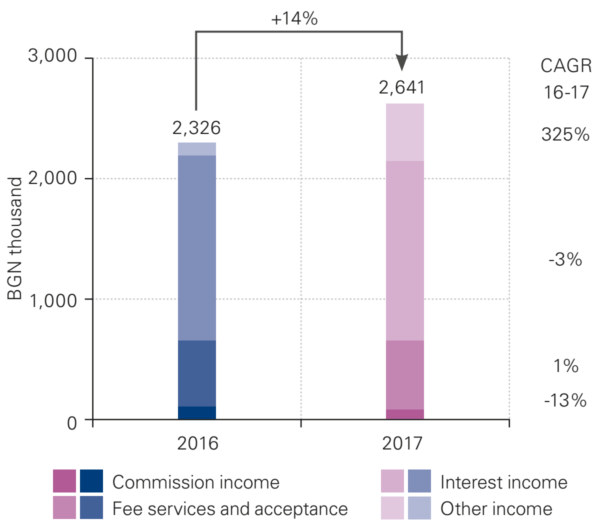
Over the years, Diners Club Bulgaria AD has consistently worked towards increasing the penetration of the Diners Club brand in the local market by offering new services for cardholders, and expanding the network of POS terminals accepting payments with Diners Club cards. The company has partnerships signed with a number of financial institutions in Bulgaria, thus creating an opportunity for constant increase in the locations for carrying out payments with Diners Club cards. In 2017, an application was developed for contactless payment with Diners Club International cards on POS terminals Ingenico and Verifone, as well as tests made for the integration of a system for secure payments in internet "ProtectBuy" (3D secure internet payments) for cardholders and merchants.

For the purpose of stimulating payments and the issuance of new Diners Club cards, a number of promotional campaigns were carried out in 2017, incl. a campaign for revolving credit cards Diners Club Classic and Diners Club International First Lady – with fixed interest at competitive terms and without monthly membership fee for the first year, as well as with no ATM withdrawal fee in Bulgaria and abroad for the first three reporting periods. The company also offers a "cash back" program, whereby if cardholders accumulate BGN 2,000 in payments made over a period of six months, they may receive 1% of the amount spent back to their card account.

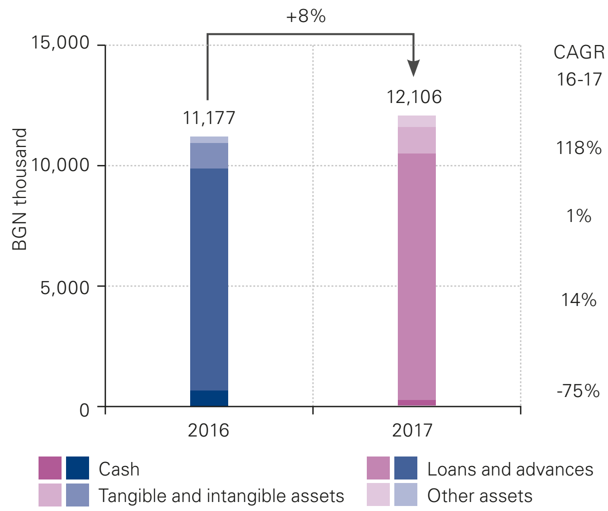
With a view to further convenience of the customers and providing them with additional services, the company offers the MyDinersClub service (https://my.diners.bg/). The service features electronic card statements, reports for authorizations and transactions made, and also allows payment of utility bills, municipal taxes and fees, and repayment of obligations on Diners Club cards. The DinersClubBG mobile application is designed to be used by customers via their smart phones. It allows cardholders to obtain information on the latest news and promotions, the ATM devices accepting Diners Club cards, as well as the commercial outlets and VIP lounges offering discounts for payments made with cards issued by Diners Club Bulgaria.

For 2017 the company reported a net profit of BGN 264 thousand, compared to BGN 179 thousand a year earlier. This increase was influenced by the higher net operating income (2017: BGN 2,557 thousand; 2016: BGN 2,252 thousand), including interest income and service charges. Operating expenses of Diners Club Bulgaria increased to BGN 1,623 thousand, compared to BGN 1,174 thousand for the previous year as a result of an increase in general and administrative expenses, including those for advertising and for sales and development of functionalities, as well as in impairment costs. Financial expenses decreased, amounting to BGN 670 thousand for the period (2016: BGN 899 thousand), including interest expenses, in line with the general downward trend of interest rates in the market.

Operating income



Structure of assets



The company's assets increased by 8.3% to BGN 12,106 thousand (2016: BGN 11,177 thousand), mainly due to an increase in receivables from customers which amounted to BGN 10,357 thousand or 14.0% more than at the end of 2016 (BGN 9,086 thousand). Loans and advances to individuals formed 98.7% of all receivables from customers (2016: 98.7%).

Borrowings also increased, drawn bank overdraft amounts reaching BGN 9,029 thousand compared to BGN 8,345 thousand a year earlier. The equity of the company amounted to BGN 2,394 thousand at the end of the period (2016: BGN 2,130 thousand), as to the growth contributed the increase in the total reserves and the retained earnings. The average number of staff for 2017 was 14 employees.

Diners Club Bulgaria AD has a one-tier management system, comprising the Board of Directors and the Executive management (Executive Director). The Executive Director representing Diners Club Bulgaria_AD, Mr. Simeon Iliev, has extensive professional experience in the card business.

Fi Health Insurance AD

Fi Health Insurance AD is an insurance company licensed by the Financial Supervision Commission in June 2013, when it became the first voluntary health insurance fund in the country to obtain a license for insurance of the risks of accident and illness, covering financial costs related to outpatient medical care, hospital treatment, expenses for medical goods and dental services, as well as indemnity in case of insurance events arising as a result of accident or illness.

First Investment Bank acquired a majority stake in the company (formerly named Health Insurance Fund FI Health AD/Health Insurance Fund Prime Health AD) in 2010, and over the years has systematically and consistently worked towards developing the company's business, and expansion of the products and services provided.

Fi Health Insurance AD has a one-tier management system, comprising a Board of Directors and Executive management (Executive Director). Executive Director of Fi Health Insurance AD is Mr. Nikola Bakalov, who has extensive professional experience in the financial sector, including management positions in First Investment Bank AD related to card payments. Since July 2014, Mr. Nikola Bakalov has been a member of the Managing Board of the Association of Health Insurance Companies. Since 2016, the company has been represented jointly by its executive director and procurator, as Ms. Tsvetomira Karapchanska was appointed as procurator, being a sales manager of the company for many years beforehand. Since 2016, the functions of compliance, internal control, and risk management have been functioning within the company.

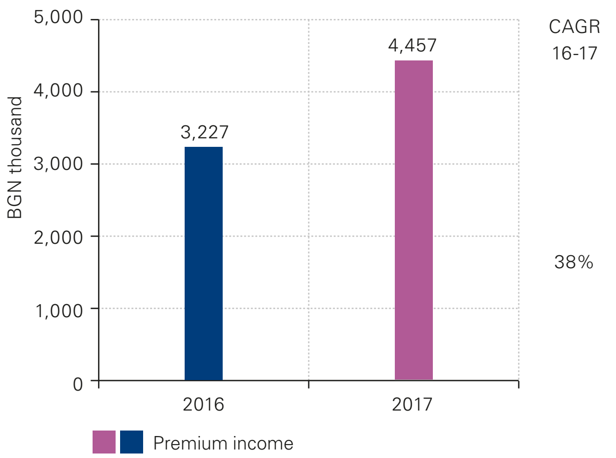
In 2017, Fi Health Insurance continued to develop its operations in accordance with its license and legal requirements, implementing successful campaigns to offer new insurance products and attract new customers. During the year, the company signed and prepared for execution two new agreements for health insurance with two of the electricity distribution companies in Bulgaria, which gave grounds for significant increase in the premium income, as well as in the customer base, serviced by the insurance company.

The product range of the company includes insurance coverage designed for both individuals and business customers, primarily from the micro and SME segments, including the "Peace of Mind with Fi Health" and "Occupational Accident" insurance products, the "FiHealth Protect" insurance offered with credit cards, the "FiHealth Partner" insurance designed for individuals, as well as group insurance policies suitable for employees of corporate clients.

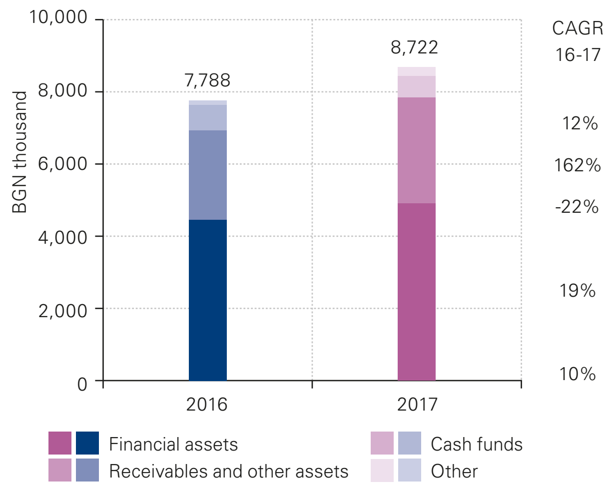
In 2017, Fi Health Insurance increased the amount of the premium income to BGN 4,457 thousand, compared to BGN 3,266 thousand in 2016. The net profit reported for the period amounted to BGN 138 thousand. The company manages insurance risk through established limits, procedures for approval of submitted claims, and various methods of assessment and control.

The company's assets grew by 12%, to BGN 8,722 thousand at year-end (2016: BGN 7,788 thousand), driven by the increase in financial assets (2017: BGN 4,945 thousand; 2016: BGN 4,476 thousand), which mainly comprise bank deposits and Bulgarian government securities. As at 31 December 2017, the equity of Fi Health Insurance AD amounted to BGN 5,824 thousand, compared to BGN 5,687 thousand a year earlier. The company allocates the relevant technical reserves according to the legal requirements and standards.

Premium income



Structure of assets



In order to continue safeguarding its financial stability while progressively increasing the portfolio of products, in 2017 Fi Health Insurance renewed its agreement with a reinsurance company having a credit rating of A- (S&P).

As at 31 December 2017 First Investment Bank AD also had other subsidiary companies, as follows: First Investment Finance B.V., Debita OOD, Realtor OOD, Balkan Financial Services EAD, Creative Investment EOOD, Turnaround Management EOOD, Lega Solutions EOOD and AMC Imoti EAD.

For further information on subsidiary companies see note 36 "Subsidiary undertakings" of the Consolidated financial statements for the year ended 31 December 2017.

Consolidated financial statement

for the year ended 31 december 2017
with independent auditors' report thereon

Independent auditors report

To the shareholders of First Investment Bank AD

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of First Investment Bank AD and its subsidiaries ("the Group") containing the consolidated statement of financial position as at 31 December 2017 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended on that date, as well as the notes to the consolidated financial statements that also contain a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of First Investment Bank AD and its subsidiaries as at 31 December 2017 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISA). Our responsibilities under these standards are further described in our section "Auditor's Responsibilities for the Auditing of the Financial Statements". We are independent of the Group in accordance with the Ethics Code of Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), along with the ethical requirements of the Independent Financial Audit Act (IFAA) applicable to our audit of the consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in line with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we received is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

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Impairment of customer receivables

Findings of substance	Matters discussed with audit committee
Impairment is a material judgment of management in respect of losses incurred within the First Investment Bank AD's loan portfolio. First Investment Bank AD assesses the need for impairment of loans on an individual and portfolio basis. Loans represent 58% of the assets of First Investment Bank AD. First Investment Bank AD categorizes its receivables from customers in 4 business segments: retail banking, small and medium enterprises, microcredit and corporate clients. The share of receivables from corporate customers is the largest - 58% of the total receivables from customers. Because of their materiality and uncertainty related to the process of identifying deteriorating loans, the assessment of objective evidence of impairment and the determination of recoverable value is defined as a key audit issue. The process includes various assumptions and factors, including the counterparty's financial condition, expected future cash flows, collateral value. As a result, the use of different modeling techniques and assumptions may lead to differences in the valuation of loan loss provisions. Exposures that give the greatest uncertainty to valuations are those where there is a risk of cash flow shortages or collateral insufficiency.	The issues discussed cover the positive results and good practices set out in the provisioning model. First Investment Bank AD has complied with IFRS requirements when developing policy and provisioning rules. Improvements have been discussed in the procedures that First Investment Bank AD should introduce in order to: • a clearer documenting of judgments about the future cash flows of borrowers and the expected development of future credit exposures, with particular attention being paid to lending for working capital by First Investment Bank AD. • systematically confirming the commitment of the borrowers' owners to provide ongoing support to the companies. A recommendation was also discussed with The Audit Committee that the risk management bodies of First Investment Bank AD monitor the changes in risk factors, the macroeconomic framework and other data used in the provisioning models, and the material changes to be timely reflected in the provisioning models.

Procedures carried out in support of our conclusions and discussions:

- The internal rules of First Investment Bank AD have been reviewed, we have gained understanding of key controls in key business processes, and tests of effectiveness of controls are performed according to the audit strategy.
- A sample of borrowers has been reviewed on a risk-based basis for which substantive procedures have been performed in relation to the assessment of the adequacy of the recognized impairment provision.
- For individually accrued provisions, we tested assumptions about the identification and quantification of impairments, including future cash flow projections and credit collateral estimates. We examined a sample of credit exposures that continue to be, have become, or have been, at risk of impairment.
- For collective impairment provisions, we reviewed the methodology used by First Investment Bank AD to determine them, the reasonableness of the underlying assumptions and the sufficiency of the data used by the management.
- For selected non-performing loans, we have evaluated the management forecasts for cash flow generation, collateral estimates and other repayment sources. In addition, we have tested a sample of performing loans for which we have assessed the financial performance indicators for weaknesses and other risks that could jeopardize the ability to repay exposures.

References in the Annual Financial Statements

- Note 20
- Note 2 (j)
- Note 3 C (iii)

MAZARS BDO

Assets acquired as collateral

Findings of substance	Matters discussed with audit committee
The position in the consolidated financial statements amounting to BGN 984,448 thousand is disclosed in the respective subgroups. The Buildings group contains assets of varying degrees of completeness and are in line with their condition at the acquisition date. For the largest object, which includes assets of all groups, First Investment Bank AD has outsourced the management, security and preparation activities for the realization to a subsidiary. As a result of these actions during the year a change from Group of Buildings to Group of Land was made and disclosed amounting to BGN 129,496 thousand. During the year there were sales of assets amounting to BGN 89,916 thousand, of which BGN 80,849 thousand - through leasing of assets under finance leases. First Investment Bank AD has recognized in the group Other expenses, net (Note 12) income of BGN 10,642 thousand. First Investment Bank AD, like any other banking institution, is exposed to a significant risk on the realization of assets acquired as collateral.	The actions and procedures that First Investment Bank AD should implement in order to enable First Investment Bank AD to track the changes in the portion of revenues and expenses by groups and subgroups by the time of realization of the respective assets were discussed. In addition, we have set out our recommendation to improve asset inventory processes that have been acquired as collateral in order to better and fully implement the national financial reporting framework.

Procedures carried out in support of our conclusions and discussions:

- The internal rules of First Investment Bank AD have been reviewed, we have gained understanding of key controls in key business processes, and tests of effectiveness of controls are performed according to the audit strategy.
- For a sample of newly acquired collateral assets amounting to BGN 28,018 thousand, the acquisition documents were reviewed and the fair value reports were reviewed for a sample of BGN 520,582 thousand.
- Supporting documents for our sample have been reviewed in connection with the largest object - a brokerage agreement, a rental agreement, a commission contract and the annexes to them. Substantive procedures have been carried out to confirm the completeness and accuracy of reclassification between the different groups.
- We examined the supporting documents for a sample of written off assets amounting to BGN 85,732 thousand, in order to obtain sufficient assurance about the transactions.

References in the Annual Consolidated Financial Statements

- Note 12
- Note 24

Litigation and provisions

<table>
<tr><th>Findings of substance</th><th>Matters discussed with audit committee</th></tr>
<tr><td>First Investment Bank AD, like any other banking institution, is exposed to a significant risk of litigation and regulatory scrutiny. The magnitude of the impact cannot always be predicted but may result in provisions for contingent and other liabilities depending on the relevant facts and circumstances. The level of provisions is subject to management and judgment based on legal advice.

First Investment Bank AD has recognized provisions of BGN 836 thousand for litigation.

In connection with issued bank guarantees, First Investment Bank AD has blocked funds amounting to BGN 43,094 thousand, which are disclosed in Note 25 as in the consolidated financial statements included in the Other Assets sub-group.

Due to the uncertainties arising from the occurrence and bringing of claims related to lawsuits against First Investment Bank AD, there is a risk of incomplete or untimely recording in the consolidated financial statements of legal claims that are relevant to the respective reporting period.</td><td>Recognition and measurement of provisions has been discussed with the Audit Committee to ensure that First Investment Bank AD has correctly applied its provisioning policies. Disputes have been discussed in which First Investment Bank AD has not recognized provisions to ensure that there is no need for additional provision, in particular:

the legal department of First Investment Bank AD reports to the Audit Committee on the current status of litigation. Considerable changes have been discussed, taking into account potential changes in provisions. The discussion is also done in order to identify all material litigation.</td></tr>
<tr><td colspan="2">Procedures carried out in support of our conclusions and discussions:
• The internal rules of First Investment Bank AD and its subsidiries have been reviewed, we have gained understanding of key controls in key business processes, and audits have been tested for the effectiveness of controls in accordance with the audit strategy.
• A letter was received from the legal department of First Investment Bank AD, as well as from external legal advisors, on information about cases brought in foreign jurisdictions and subsequent proceedings in Bulgaria. Listed are the pending litigation cases in Bulgarian and Romanian courts, where no final decisions are in force.</td></tr>
<tr><td colspan="2">References in the Annual Consolidated Financial Statements
• Note 25
• Note 30</td></tr>
</table>

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information, which we have obtained prior the date of our auditor's report, comprises the management report, including the corporate governance statement and non-financial declaration prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the "Information Other than the Consolidated Financial Statements and Auditor's Report Thereon" section, in relation to the management report, the corporate governance statement and the non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the "Guidelines for new and extended audit reports and communication from the auditor" of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the management report referring to the financial year for which the financial statements have been prepared is consistent with those consolidated financial statements.

b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.

c) The corporate governance statement referring to the financial year for which the financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

d) The non-financial declaration for the financial year for which the consolidated financial statements have been prepared has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100 m, paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained about entity's activities and the environment in which it operates, in our opinion, the description of the main characteristics of entity's internal control and risk management systems relevant to the financial reporting process, which is part of the management report (as a component of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, do not contain any material misrepresentations.

Additional Reporting on the Audit of the Consolidated Financial Statements in connection with Art. 100(m), paragraph 4(3) of the Public Offering of Securities Act

Statement in connection with Art. 100(m), paragraph 4(3)(b) of the Public Offering of Securities Act

The information about related party transactions is disclosed in Note 35 to the consolidated financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the consolidated financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related party transactions have not been disclosed in the accompanying consolidated financial statements for the year ended 31 December 2017, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures on related party transactions were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not for the purpose of expressing a separate opinion on related party transactions.

Statement in connection with Art. 100(m), paragraph 4(3)(c) of the Public Offering of Securities Act

Our responsibilities for the audit of the consolidated financial statements as a whole, described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report include an evaluation as to whether the financial statements present the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the consolidated financial statements for the year ended 31 December 2017, no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations and disclosures in accordance with the relevant requirements of IFRSs as adopted by the European Union. The results of our audit procedures on Group's transactions and events significant for the consolidated financial statements were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.

Reporting under Art. 10 of Regulation (EC) No 537/2014 in relation to the requirements of Art. 59 of the Independent Financial Audit Act

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

- Mazars OOD and BDO Bulgaria OOD have been appointed as statutory auditors of the consolidated financial statements for the year ended 31 December 2017 of First Investment Bank and its subsidiaries at the General Meeting of Shareholders held on 29 May 2017 - BDO Bulgaria OOD and the General Meeting of Shareholders held on 19 December 2017 - Mazars OOD for a period of one year.
- The audit of the consolidated financial statements for the year ending 31 December 2017 of First Investment Bank and its subsidiaries is the first full continuous engagement to a statutory audit of this enterprise by Mazars OOD and a third full continuous engagement to a statutory audit of this entity by BDO Bulgaria OOD.
- We confirm that our audit opinion is consistent with the additional report submitted to the Audit Committee of First Investment Bank, in accordance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We confirm that we have not provided the specified in Art. 64 of the Independent Financial Audit Act banned services outside the audit.
- We confirm that we have retained our independence in relation to First Investment Bank and its subsidiaries in conducting the audit.

Sofia, 27 April 2018

For BDO Bulgaria Ltd:

Nedyalko Apostolov

Manager

Stoyanka Apostolova

Registered auditor responsible for the audit

Bulgaria Boulevard, 51 b, fl. 4

For MAZAR Ltd.:

Atanasios Petropoulos

Procurator

Milena Mladenova

Registered auditor responsible for the audit

Tsar Osvoboditel № 2, Bul.

Consolidated statement of comprehensive income for the year ended 31 December 2017

in thousands of BGN

	Note	2017	2016
Interest income		356,173	441,225
Interest expense		(95,247)	(122,046)
Net interest income	**6**	**260,926**	**319,179**
Fee and commission income		120,787	111,729
Fee and commission expense		(18,641)	(19,566)
Net fee and commission income	**7**	**102,146**	**92,163**
Net trading income	8	15,326	13,937
Other net operating income	9	28,191	46,291
TOTAL INCOME FROM BANKING OPERATIONS		**406,589**	**471,570**
Administrative expenses	10	(204,698)	(192,307)
Allowance for impairment	11	(78,850)	(156,120)
Other expenses, net	12	(20,431)	(13,030)
PROFIT BEFORE TAX		**102,610**	**110,113**
Income tax expense	13	(10,365)	(11,302)
GROUP PROFIT AFTER TAX		**92,245**	**98,811**
Other comprehensive income			
Items which should or may be reclassified as profit or loss			
Exchange rate differences from translation of foreign operations		518	373
Revaluation reserve on available for sale investments		888	7,806
Total other comprehensive income		**1,406**	**8,179**
TOTAL COMPREHENSIVE INCOME		**93,651**	**106,990**
Net profit attributable to:			
Ordinary equity holders		92,175	98,708
Non-controlling interest		70	103
Total comprehensive income attributable to:			
Ordinary equity holders		93,581	106,887
Non-controlling interest		70	103
Basic and diluted earnings per share (BGN)	**14**	**0.84**	**0.90**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 120 to 173.

Nedelcho Nedelchev
Chief Executive Officer

Svetozar Popov
Chief Risk Officer

Jivko Todorov
Chief Financial Officer

ПЪРВА ИНВЕСТИЦИОННА БАНКА АД • СОФИЯ •

Audited as per the auditors' report dated 27/04/2018:

BDO Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №016 „БДО БЪЛГАРИЯ" ООД

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor responsible for the audit

Mazars OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 169 МАЗАРС ООД

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor responsible for the audit

Consolidated statement of the financial position as at 31 December 2017

in thousands of BGN

	Note	2017	2016
ASSETS			
Cash and balances with Central Banks	15	1,478,594	1,639,888
Financial assets held for trading	16	7,979	9,562
Investments available for sale	17	742,306	619,836
Financial assets held to maturity	18	53,714	262,437
Loans and advances to banks and other financial institutions	19	54,402	51,863
Loans and advances to customers	20	5,162,907	5 044,850
Property and equipment	21	91,539	97,239
Intangible assets	22	7,342	10,186
Derivatives held for risk management		1,596	1,818
Deferred tax assets	23	–	6
Current tax assets		63	320
Repossessed assets	24	984,448	1,034,501
Investment Property	24a	218,212	222,267
Other assets	25	118,096	95,082
TOTAL ASSETS		**8,921,198**	**9,089,855**
LIABILITIES AND CAPITAL			
Due to banks	26	8,136	3,348
Due to other customers	27	7,583 819	7,911,911
Liabilities evidenced by paper	28	127,493	70,367
Hybrid debt	29	208,786	208,740
Deferred tax liabilities	23	14,467	15,168
Current tax liabilities		2,213	595
Other liabilities	30	28,934	22,890
TOTAL LIABILITIES		**7,973,848**	**8,233,019**
Issued share capital	31	110,000	110,000
Share premium	31	97,000	97,000
Statutory reserve	31	39,865	39,865
Revaluation reserve on available for sale investments		21,431	20,543
Revaluation reserve on property		4,500	4,500
Reserve from translation of foreign operations		(1,525)	(2,043)
Other reserves and retained earnings	31	673,571	584,513
TOTAL SHAREHOLDERS' EQUITY		**944,842**	**854,378**
Non-controlling interest		2,508	2,458
TOTAL GROUP EQUITY		**947,350**	**856,836**
TOTAL LIABILITIES AND GROUP EQUITY		**8,921,198**	**9,089,855**

The statement of the financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 120 to 173.

Nedelcho Nedelchev
Chief Executive Officer

Svetozar Popov
Chief Risk Officer

Jivko Todorov
Chief Financial Officer

ПЪРВА ИНВЕСТИЦИОННА БАНКА АД • СОФИЯ •

Audited as per the auditors' report dated 27/04/2018:

BDO Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №016 "БДО БЪЛГАРИЯ" ООД

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor responsible for the audit

Mazars OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 169 МАЗАРС ООД

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor responsible for the audit

Consolidated statement of cash flows for the year ended 31 December 2017

in thousands of BGN

	2017	2016
Net cash flow from operating activities		
Net profit	92,245	98,811
Adjustment for non-cash items		
Allowance for impairment	78,850	156,120
Net interest income	(260,926)	(319,179)
Depreciation and amortization	16,206	17,553
Tax expense	10,365	11,302
Loss from sale and write-off of tangible and intangible fixed assets, net	220	1
(Profit) from sale of other assets, net	(10,612)	(3,812)
(Positive) revaluation of investment property	–	(9,213)
	(73,652)	**(48,417)**
Change in operating assets		
Decrease in financial instruments held for trading	1,545	1,307
(Increase) in available for sale investments	(127,721)	(28,089)
(Increase)/decrease in loans and advances to banks and financial institutions	(2,284)	9,547
(Increase) decrease in loans to customers	(311,476)	53,929
Net (increase) in other liabilities	(23,985)	(1,123)
	(463,921)	**35,571**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	4,794	(1,360)
Increase/(decrease) in amounts owed to other depositors	(295,119)	272,357
Net increase/(decrease) in other liabilities	6,462	(64,064)
	(283,863)	**206,933**
Interest received	423,690	327,195
Interest paid	(128,076)	(134,318)
Dividends received	4,478	629
Tax on profit, paid	(9,407)	(435)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(530,751)**	**387,158**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(9,388)	(7,813)
Sale of tangible and intangible fixed assets	281	21
Sale of other assets	113,039	45,065
(Increase)/decrease of investments	208,757	(248,565)
NET CASH FLOW FROM INVESTING ACTIVITIES	**312,689**	**(211,292)**
Financing activities		
Increase/(decrease) in borrowings	57,027	(65,337)
Repayment of subordinated instruments	–	(41,054)
NET CASH FLOW FROM FINANCING ACTIVITIES	**57,027**	**(106,391)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**(161,035)**	**69,475**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,681,732**	**1,612,257**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 33)	**1,520,697**	**1,681,732**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 120 to 173.

Nedelcho Nedelchev
Chief Executive Officer

Svetozar Popov
Chief Risk Officer

Jivko Todorov
Chief Financial Officer

ПЪРВА ИНВЕСТИЦИОННА БАНКА АД • СОФИЯ •

Audited as per the auditors' report dated 27/04/2018:

BDO Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №016 "БДО БЪЛГАРИЯ" ООД

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor responsible for the audit

Mazars OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 169 МАЗАРС ООД

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor responsible for the audit

Consolidated statement of shareholders' equity for the year ended 31 December 2017

in thousands of BGN

	Issued share capital	Share premium	Other reserves and retained earnings	Revaluation reserve on available for sale investments	Revaluation reserve on property	Reserve from translation of foreign operations	Statutory reserve	Non-controlling interest	Total
Balance as at 01 January 2016	**110,000**	**97,000**	**485,805**	**12,737**	**4,500**	**(2,416)**	**39,865**	**2,355**	**749,846**
Total comprehensive income for the period									
Net profit for the year ended 31 December 2016	–	–	98,708	–	–	–	–	103	98,811
Other comprehensive income for the period									
Revaluation reserve on available for sale investments	–	–	–	7,806	–	–	–	–	7,806
Reserve from translation of foreign operations	–	–	–	–	–	373	–	–	373
Balance as at 31 December 2016	110,000	97,000	584,513	20,543	4,500	(2,043)	39,865	2,458	856,836
Total comprehensive income for the period									
Net profit for the year ended 31 December 2017	**–**	**–**	**92,175**	**–**	**–**	**–**	**–**	**70**	**92,245**
Other comprehensive income for the period									
Revaluation reserve on available for sale investments	**–**	**–**	**–**	**888**	**–**	**–**	**–**	**–**	**888**
Reserve from translation of foreign operations	–	–	–	–	–	518	–	–	518
Effect from deconsolidation of subsidiaries	–	–	(3,117)	–	–	–	–	(20)	**(3,137)**
Balance as at 31 December 2017	**110,000**	**97,000**	**673,571**	**21,431**	**4,500**	**(1,525)**	**39,865**	**2,508**	**947,350**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 120 to 173.

The financial statements have been approved by the Managing Board on 27 April 2018 and signed on its behalf by:

Nedelcho Nedelchev
Chief Executive Officer

Svetozar Popov
Chief Risk Officer

Jivko Todorov
Chief Financial Officer

ПЪРВА ИНВЕСТИЦИОННА БАНКА АД • СОФИЯ •

Audited as per the auditors' report dated 27/04/2018:

BDO Bulgaria OOD

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ София Рег. №016 "БДО БЪЛГАРИЯ" ООД

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor responsible for the audit

Mazars OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 169 МАЗАРС ООД

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor responsible for the audit

1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) is incorporated in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by Bulgarian legislation.

Following the successful Initial Public Offering of new shares at the Bulgarian Stock Exchange – Sofia, on June 13th 2007 the Bank was registered as a public company in the Register of the Financial Supervision Commission pursuant to the provisions of the Law on the Public Offering of Securities.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2017 comprise the Bank and its subsidiaries (see note 36), together referred to as the "Group".

The Group has foreign operations in Cyprus (Cyprus Branch) and Albania (subsidiary).

(b) Statement of compliance

The financial statements were drawn up in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Commission.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2 (p).

(c) Presentation

The financial statements are presented in Bulgarian Leva (BGN) rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial assets and liabilities held for trading, and available-for-sale assets, except those for which a reliable measure of fair value is not available. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

(d) New standards, amendments and interpretations effective as of 01 January 2017

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016), endorsed by the EU on 6 November 2017, published in the Official Journal on 9 November 2017

Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016), endorsed by the EU on 6 November 2017 published in the Official Journal on 9 November 2017

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies.

2. Significant accounting policies

(a) Income recognition

(i) Interest income and expense

Interest income and expense is recognised in the profit or loss as it accrues, taking into account the effective yield of the asset (liability) or an applicable floating rate. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees paid or received as well as discount and premiums which are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

(ii) Fees and Commissions

Fee and commission income arises on financial services provided by the Group and is recognised in profit or loss when the corresponding service is provided.

(iii) Net trading income

Net gains (losses) on financial assets and liabilities held for trading includes those gains and losses arising from disposals and changes in the fair value of financial assets and liabilities held for trading as well as trading income in dealing with foreign currencies and exchange differences from daily revaluation of the net open foreign currency position of the Group.

(iv) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities.

(b) Basis of consolidation

(i) Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date – i.e. when control is transferred to the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

Negative goodwill arising on acquisition is re-assessed and any excess remaining after the reassessment is recognised in the income statement.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(ii) Non-controlling interest

Non-controlling interest is measured at its proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in profit or loss, they are recognised directly in equity.

(iii) Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iv) Loss of control

On the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

(v) Transactions eliminated on consolidation

Intra-group income, expenses, balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Bulgarian leva, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of the operations at the spot exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. Foreign currency differences arising on translation are difference between amortised cost in functional currency in the beginning of period, adjusted with effective interest and received payments during the period, and amortised cost in foreign currency at the spot exchange rate at the reporting date.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined.

(iii) Foreign operations

The assets and liabilities of foreign operations are translated to Bulgarian leva at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Bulgarian leva at exchange rates at the dates of the transactions. Foreign currency differences are recognised in other comprehensive income. The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. The functional currency of the foreign operations in Albania is determined by the management to be the Albanian Lek.

(d) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management because its performance is assessed and monitored on the basis of its fair value. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell or re-classify other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale.

(iv) Available-for-sale

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(v) Recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on the date of the actual delivery of the assets. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

(vi) Measurement

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are recognised in profit or loss. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time the cumulative gain or loss previously recognised in other comprehensive income is reclassified in profit or loss.

Interest calculated using the effective interest method is recognised in profit or loss. Dividends on equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

(vii) Fair value measurement principles

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is supported wholly by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The Group, when holding portfolios of financial assets and financial liabilities, is exposed to market risk and credit risk. If the Group manages these portfolios on the basis of its net exposure either to market risk or credit risk, the fair value is measured on the basis of a price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(viii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers these rights in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred to the buyer. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers financial assets recognised in its statement of financial position, but retains either all or substantially all risks and rewards of the transferred asset. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised in the statement of financial position (an example of such transactions are repo deals).

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which, control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand, cash deposited with central banks and short-term highly liquid accounts and advances to banks with original maturity of up to three months.

(f) Investments

Investments that the Group holds for the purpose of short-term profit taking are classified as financial assets for trading. Debt investments that the Group has the intent and ability to hold to maturity are classified as held-to-maturity assets. Other investments are classified as available-for-sale assets.

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

Investments lent under securities lending arrangements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for assets held for trading or available-for-sale as appropriate. Cash collateral received in respect of securities lent is recognised as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense.

(ii) Repurchase agreements

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as liabilities to either banks or customers.

The difference between the purchase (sale) and resell (repurchase) considerations is recognised on an accrual basis over the period of the transaction and is included in interest income (expenses).

(h) Borrowings

Borrowings are recognised initially at 'cost', being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognized in profit or loss over the period of the borrowings using the effective yield method.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other operating income.

(i) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Group has a legally enforceable right to set off the recognised amounts and the transactions are intended to be settled on a net basis.

(j) Impairment of assets

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

(i) Loans and advances

A financial asset is impaired or an impairment loss is recognised, provided that there is objective evidence of impairment ensuing from one or more events which occurred after the initial recognition of the asset and this event (or events) leading to loss has affected the estimated future cash flows from the financial asset.

Events leading to loss are traceable and provable facts and events which give grounds to believe that a given exposure may not be serviced as it is stipulated in the contract or that part of the debt may remain unrecoverable. The Bank assumes that such events are: significant financial difficulty of the borrower; a breach of contract, such as a default or delinquency in interest or principal payments; it becoming probable that the borrower will enter bankruptcy; where due to economic or legal reasons relating to the borrows financial standing the Bank makes concessions which it would not otherwise have made; expected negative impact on the borrower's cash flow due to financial difficulties of a related party.

Exposures for which events leading to loss have been registered, where such events are expected to have a significant impact on future cash flows, are categorized as non-performing and are subject to specific impairment (calculated on the basis of individual cash flow or using the portfolio principle).

The Bank applies the principles of individual and portfolio assessment of risk exposures depending on the exposure classification (performing/non-performing) and size. For all non-performing exposures specific impairment is calculated on the basis of the individual cash flow, for individually significant exposures, or – portfolio assessment for all other exposures. As regards performing exposures the Bank applies the portfolio principle of assessment (taking into account losses that have occurred but have not been recognised), grouping exposures with similar credit risk characteristics.

All exposures which are not impaired individually are subject to portfolio impairment based on common credit risk characteristics.

The characteristics (business segment, availability of resources, days overdue) have been chosen so, that they can be sufficient indicators of the borrowers' ability to pay all amounts due according to the contractual terms of the assessed assets. The combination of these credit characteristics determines the major risk parameters of an exposure (probability of default, exposure at default, maturity, etc.) and the impairment loss which has to be recognised.

Loans and advances are presented net of specific and general allowances for impairment. The carrying amount of the asset is reduced through use of an allowance account.

Fully impaired risk exposures are written off where there is reasonable grounds to believe that all financially sound means for limiting the loss have been exhausted.

Impairment losses are recognised in profit or loss. If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the allowance reversal is recognised in profit or loss.

(ii) Financial assets remeasured at fair value through differences in equity

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity and recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

If, in a subsequent period, the fair value of a financial instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. Any subsequent increase in the fair value of impaired equity security, available for sale, is recognized directly in the comprehensive income.

(k) Property and equipment

Land and buildings are presented in the statement of financial position at their revalued amount which is the fair value of the asset as at the date of revaluation less any subsequent amortisation and depreciation and accumulated impairment losses. All others classes of items of property, plant and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and allowance for impairment.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the cost or valuation of fixed assets over their expected useful lives. The annual rates of amortisation are as follows:

Assets	%
• Buildings	3 – 4
• Equipment	10 – 50
• Fixtures and fittings	10 – 15
• Motor vehicles	10 – 20
• Leasehold Improvements	2 – 50

Assets are not depreciated until they are brought into use and transferred from assets in the course of construction into the relevant asset category.

(l) Intangible assets

Intangible assets, which are acquired by the Group, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on a straight-line basis over the expected useful life of the asset. The annual rates of amortisation are as follows:

Assets	%
• Licences	10 – 20
• Software and licences	8 – 50

(m) Investment Property

Investment property is property (land or a building or part of a building or both) held to earn rentals or for capital appreciation or both. The Bank has chosen for its accounting policy to account for investment property using the fair value model and applies this to all its investment property. Investment properties are initially measured at cost and are subsequently measured using the fair value model, and the revaluation income and expense is recognised in the profit for period in which they occurred. The reclassification of repossessed assets reported as inventories into investment properties is possible only where a contract to rent out the respective property has been signed. The fair value of assets constituting investment property was determined by independent property assessors holding recognised professional qualification and recent experience in assessing property with similar location and category, using reliable techniques for determining fair values.

(n) Provisions

A provision is recognised in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and an reliable assessment of the amount due can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(o) Acceptances

An acceptance is created when the Group agrees to pay, at a stipulated future date, a draft drawn on it for a specified amount. The Group's acceptances primarily arise from documentary credits stipulating payment for the goods to be made a certain number of days after receipt of required documents. The Group negotiates most acceptances to be settled at a later date following the reimbursement from the customers. Acceptances are accounted for as liabilities evidenced by paper.

(p) Off-balance sheet commitments

In the ordinary course of its business, the Group enters into off-statement of financial position commitments such as guarantees and letters of credit. The Group recognizes provision for impairment on off-statement of financial position commitments when it has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and when a reliable estimate can be made of the obligation.

(q) Taxation

Tax on the profit for the year comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted by the statement of financial position date, and any adjustment of tax payable for previous years.

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The effect on deferred tax of any changes in tax rates is charged to profit or loss, except to the extent that it relates to items previously recognised either in other comprehensive income or directly in equity.

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

(r) Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Information on the valuations and the valuation uncertainty, for which there is a significant risk of change as of 31 December 2017 are stated below and are related to the impairment of financial instruments, income tax and the following notes related to other elements of the financial statements:

- Note 5 - determining of the fair value of the financial instruments through valuation techniques, in which the input data for the financial assets and liabilities are not based on the available market information.
- Note 21 - determining of the fair value of land and buildings through valuation techniques, in which the input data for the assets are not based on available market information.

(i) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Individual impairment on loans and advances of the Group is based on the best assessment of the Management for the present value of future cash flows. When evaluating these cash flows the Management makes an assessment of the financial position of every borrower and the net realizable value of the collateral of the loan. Each individually significant impaired asset is assessed individually while the strategy for reimbursement and the evaluation of the cash flows, considered as reimbursable, are approved independently by the Restructuring Committee.

Cash flows could be realized from loan repayments, sale of the collateral, operations with the collateral and others depending on the individual situation and the terms of the loan contract. The expected net realizable value of the collateral is regularly reviewed and it is based on a combination of internal appraisal of the fair value, conducted by internal appraisers, and external independent appraisal reports. The expected future cash flows are discounted at the initial effective interest rate of the financial asset.

Group impairment covers loan losses inherent to a loan portfolio with similar loan characteristics, when there is objective evidence, that it contains impaired loans, but specific impaired positions could still not be identified. In assessing the need for group impairment Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The accuracy of the impairment depends on the evaluation of the future cash flows when determining the individual impairment and on the assumptions made and the parameters used in the model when determining the group impairment.

(ii) Assessment of repossessed assets from collaterals

Assets accepted as collateral are recognized at the lower of the cost and the net realizable value. When evaluating the net realizable value of the assets the Management prepares several models for appraisal (e.g. discounted cash flows) and makes comparison to available market data (e.g. similar market transactions, offers from potential buyers).

(iii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. Many parts of Albanian and Cyprus tax legislation remain untested and there is uncertainty about the interpretation that the fiscal authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the tax authorities are available. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(s) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for the Bank's ordinary shares. Basic EPS is calculated by dividing the profit or loss for the period attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(t) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Bank's contributions to the defined contribution pension plan are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value.

The Bank has an obligation to pay certain amounts to each employee who retires with the Bank in accordance with Art. 222, § 3 of the Labour Code.

According to these regulations in the LC, when a labour contract of a bank's employee, who has acquired a pension right, is ended, the Bank is obliged to pay him compensations amounted to two gross monthly salaries. Where the employee has been with the same employer for the past 10 years, this employee is entitled to a compensation amounting to six gross monthly salaries. As at balance sheet date, the Management of the Bank estimates the approximate amount of the potential expenditures for every employee using the projected unit credit method.

For the last two years the Bank has prepared estimates for the due provisions for pensions and has not identified significant liabilities.

Termination benefits

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

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Group recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(u) Insurance Contracts

Classification of insurance contracts

Contracts in which the Group undertakes significant insurance risk of a third party (insured party) through compensation to the insured party or another beneficiary in case of a specific uncertain future event (insured event) which has a negative impact on the insured party or the beneficiary, are classified as insurance contracts.

Insurance risk is every risk, which is not financial risk. Financial risk is any risk related to probable future change in one or several of the following: interest, price of the security, market prices, currency prices, credit rating, credit index or other variable- if there are the non-financial variables, the variable is not specific for the counterparties. Insurance contracts may also transfer part of the financial risk.

Written premiums

Written premiums are recognized as income on the basis of the due premium from the insured individuals for the underwriting year, which begins during the financial year, or the due single premium instalment for the total period of insurance coverage of the insurance contracts signed within the financial year. Gross written premiums are not recognized when future cash flows related to them are not guaranteed. Written premiums are presented gross of the due agents' commissions.

Reversed premiums

Reversed insurance premiums are insurance premiums for which there has been an violation of the General terms of the insurance contract or a change in the terms of the contract. Reversed premiums within the current year, related to policies written within the current year, decrease the Gross Written Premiums of the Group. Reversed premiums within the current year, related to policies written within the previous year, increase the Gross Written Premiums of the Group.

Unearned-premium reserve

The unearned premium reserve is formed to cover the claims and administrative expenses, which are expected to arise on the respective type of insurance contract after the end of the reporting period. The basis for calculation of the unearned premium reserve corresponds to the base for recognition of the Group's written premiums. The amount of the reserve is calculated under the precise day method, under which the premium is multiplied with a coefficient for deferral. The coefficient for deferral is calculated as a ratio between the number of the days within the following reporting period during which the contract is valid to the total number of days during which the contract is valid.

Unexpired risk reserve

Unexpired risk reserve is formed to cover risks for the period between the end of reporting period and the date on which the insurance contract expires in order to cover the payments and expenses related to these risks which are expected to exceed the UPR formed.

Claims incurred

Claims incurred include claims paid and claims-handling expenses due within the financial year including the change in outstanding claims reserve.

Outstanding claims reserve

Outstanding claims reserve is calculated on the basis all claims from events incurred within the current and previous reporting periods, which have not been paid as of year-end. OCR also includes the total amount of incurred but not reported claims (IBNR), calculated as a percentage from the earned premiums for the financial year and the incurred claims.

Acquisition costs

Acquisition costs include accrued commission expense from agents and brokers.

(v) New standards and interpretations not yet effective

Standards, interpretations and amendments in standards that are issued by IASB and endorsed by EU but not yet effective

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016), effective 1 January 2018, endorsed by the EU on 3 November 2017, published in the Official Journal on 9 November 2017

These amendments are related to the application of IFRS 9 Financial Instruments and introduce two approaches:

– overlay approach - companies which issue insurance contracts have the right to recognise the changes occurring from application of IFRS 9 in other comprehensive income instead of in current profit or loss until the issue of a new standard on insurance contracts; and

– deferral - right to defer the application of IFRS 9 until 2021 for companies whose activities are mainly related to insurance. Entities which defer the application of IFRS 9 continue the apply the existing requirements to financial instruments under IAS 39.

- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016), effective 1 January 2018, endorsed by the EU on 31 October 2017, published in the Official Journal on 9 November 2017;

These amendments include instructions in identifying performance obligations, accounting for licences of intellectual property and on the distinction between principal and agent (gross or net presentation of revenues).

- IFRS 16 Leases (issued on 13 January 2016), effective 1 January 2019, endorsed by the EU on 31 October 2017, published in the Official Journal on 9 November 2017

- IFRS 9 Financial Instruments (issued on 24 July 2014), effective 1 January 2018, endorsed by the EU on 22 November 2016, published in the Official Journal on 29 November 2016.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement. The new standard introduces significant changes to the classification and assessment of financial assets and a new model for the expected credit loss from impairment of financial assets. IFRS 9 includes new guidelines on the accounting for hedging.

The Bank's Management has identified the following areas that are expected to be most impacted by the application of IFRS 9:

The classification and measurement of the Bank's financial assets will need to be reviewed based on the new criteria that considers the assets' contractual cash flows and the business model in which they are managed. Management holds most financial assets to hold and collect the associated cash flows and is currently assessing the underlying types of cash flows to classify financial assets correctly.

Management expects the majority of held-to-maturity investments to continue to be accounted for at amortised cost, while others amounting to BGN 9,785 thousand will be recognised at fair value in profit or loss, as the cash flows are not solely payments of principal and interest. Management does not expect a significant effect on profit or loss from this change in accounting.

A number of available-for-sale financial assets at total amount of BGN 18,286 thousand are likely to be measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest. The related fair value gains will be transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018. Management does not expect a significant effect on the equity components from this change in accounting.

The other financial assets held by the Bank include:

– equity instruments, amounting to BGN 15,820 thousand currently classified as available-for-sale financial assets for which a fair value through profit and loss valuation method will be applied. In relation to this the Bank plans to reclassify as of 01 January 2018 form its revaluation reserve, net of taxes, in other reserves and retained earnings the amount of BGN 4,904 thousand.

– equity investments, amounting to BGN 4,164 thousand available-for-sale, currently measured at fair value through profit or loss which will continue to be measured on the same basis under IFRS 9;

– debt instruments, amounting to BGN 9,830 thousand currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9.

IFRS 9 requires gains or losses realised on the sale of financial assets at fair value through other comprehensive income no longer to be transferred to profit or loss, but instead to be transferred from reserve to retained earnings. In 2017, no such gains or losses were recognised in relation to the disposal of available-for-sale financial assets.

An expected credit loss-based impairment should be recognised on the Bank's trade receivables and investments in debt-type assets currently classified as AFS and HTM unless classified as at fair value through profit or loss in accordance with the new criteria. Based on the assessments undertaken to date, the Bank expects a certain increase in the loss allowance for trade debtors by approximately 17.7%.

It will no longer be possible to measure equity investments at cost less impairment. Instead, all such investments will be measured at fair value. Changes in fair value will be presented in current profit or loss, except in case the Bank presents them in other comprehensive income without the right to reverse.

At present the Bank intends to present the changes in the fair value of investments in equity instruments in profit or loss, not in other comprehensive income.

If the bank continues to choose the measuring of certain financial liabilities at fair value, the changes in fair value will be recognised in other comprehensive income to the degree to which these changes refer to the bank's own credit risk.

- IFRS 9: Financial Instruments (amended) - Hedge accounting, effective 01 January 2018, not yet endorsed by the EU.

The amendments lead to significant changes in the accounting of hedging which allow companies to disclose their activities related to risk management better in the financial statements by increasing the possible hedged positions and hedging instruments and introduction of a principle method for measuring the efficiency of hedging.

The management considers that these changes will not affect significantly the preparation of the Bank's financial statements.

- IFRS 15 Revenue from Contracts with Customers (issued on 28 May 2014) including amendments to IFRS 15: Effective date of IFRS 15 (issued on 11 September 2015), effective 1 January 2018, endorsed by the EU on 22 September 2016, published in the Official Journal on 29 October 2016.

Documents issued by IASB/IFRICs not yet endorsed by the European Commission

These new or revised standards, new interpretations and amendments to existing standards that at the reporting date are already issued by the International Accounting Standards Board have not yet been endorsed by the EU and therefore are not taken into account by the Bank in preparing these financial statements.

- IFRS 17 Insurance Contracts (issued on 18 May 2017), effective 1 January 2021;

IFRS 17 was issued in May 2017 and replaces IFRS 4 — Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. Contracts are measured using:

– discounted probability-weighted cash flows

– an explicit risk adjustment, and

– a contractual service margin (“CSM”) representing the unearned profit of the contract which is recognised as revenue over the coverage period

The standard allows a choice between recognising changes in discount rates either in the income statement or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

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

- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016), effective 1 January 2018;

The interpretation clarifies the accounting for advance receipts or payments of non-monetary assets or not-monetary liabilities before the entity has recognised the related assets, expenses or income. The date of the transaction, for the purpose of determining the exchange rate, is the date of initial non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017), effective 1 January 2019;

The interpretation clarifies how to apply the requirements of IAS 12 regarding the recognition and assessment when there is uncertainty over income tax treatments.

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016), effective 1 January 2018;

The amendment clarifies the basis for assessment of share-based payment transactions or equity-settled transactions, as well as the accounting for changes in remuneration from provision if cash via equity instruments.

- Annual improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016), effective 1 January 2018/1 January 2017

– IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters for transition to IFRS 7, IAS 19 and IFRS 10 which are no longer applicable.

– IAS 28 Investments in Associates and Joint Ventures – Measuring an associate or joint venture at fair value. The amendment clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016), effective 1 January 2018;

The amendment clarifies that the transfer to and from investment property may be carried out only if there is a change in use of property due to whether these properties begin to and cease to meet the definition of investment property.

- Amendments to IFRS9: Prepayment Features with Negative Compensation (issued on 12 October 2017), effective 1 January 2019;

The amendments enable companies to assess certain financial assets which might be prepaid with negative compensation at fair value in other comprehensive income instead of in profit or loss.

- Amendments to IAS 28: Long-term interests in Associates and Joint Ventures (issued on 12 October 2017), effective 1 January 2019;

The amendment clarifies that entities should disclose long-term interests in associates and joint ventures for which the equity method of IFRS 9 is not applied.

- Annual improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017), effective 1 January 2019;
- IFRS 9: Financial Instruments (amended) - Prepayment features with negative compensation, effective 1 January 2019, not yet endorsed by the EU.

The amendments enable companies to assess certain financial assets which might be prepaid with negative compensation at fair value in other comprehensive income instead of in profit or loss.

- IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (amended), date effective not defined, not yet endorsed by the EU.

These amendments were proposed due to the conflict between the requirements of IAS 28 and IFRS 10 regarding the treatment of a sale or contribution of assets between the investor and the associate or joint venture. As a result of these amendments a full gain or loss should be recognised, whether the business is housed in a subsidiary or not. A partial gain or loss recognition is recognised if the transaction involves assets which do not constitute a business, even if such assets are owned by the subsidiary.

- IFRS 14 Regulatory Deferral Accounts, effective 1 January 2016, not yet endorsed by the EU.

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account for amounts related to regulated prices in accordance with the requirements of their previous accounting base when applying IFRS. With a view to improving comparability with the reports of entities already applying IFRS and not disclosing such amounts, the standard requires separate presentation of the regulatory deferral account balances.

3. Risk management disclosures

A. Trading activities

The Group maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Group's trading activities are customer driven. In anticipation of customer demand, the Group carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Group to provide customers with money market products at competitive prices.

The Group manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(i) Credit risk

The risk that counterparts to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

Settlement risk is the risk of loss due to counterpart failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Bank assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Bank's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits for buying or selling instruments set by senior management .

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain unchanged for the specified time interval.

Value at risk is calculated using one day horizon and 99 per cent confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of interest VaR for all positions carried at fair value that was experienced in 2017::

in thousands of BGN	31 December 2017	2017			31 December 2016
		average	**low**	**high**	
VaR	573	1,162	492	2,254	1,481

B. Non-trading activities

Below is a discussion of the various risks the Group is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, subordinated debt instruments and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

In compliance with the requirements of the Law on Credit Institutions, Ordinance No 7 of BNB for the organization and management of risks in banks and Directive 2014/59 / EU of the European Parliament and of the Council for establishing a framework for the recovery and resolution of credit institutions and investment firms, First Investment Bank AD prepared a recovery plan if financial difficulties occur. It includes qualitative and quantitative early warning signals and indicators of recovery such as capital and liquidity indicators, income indicators, market-oriented indicators upon the occurrence of which recovery measures are triggered. Liquidity indicators include Liquidity Coverage Ratio (LCR); net withdrawal of financing; liquid assets to deposits by non-financial customers ratio; Net Stable Funding Ratio (NSFR). Different stress test scenarios related to idiosyncratic shock, system shock and aggregate shock have been prepared.

In case of liquidity pressure, there are systems in place to ensure prompt and adequate reaction which include obtaining additional funds from local and international markets through issuance of appropriate financial instruments depending on the specific case as well as sale of non-liquid assets. The levels of decision making are clearly determined.

In order to reduce the liquidity risk, preventive measures have been taken aimed to extend the maturity of borrowings from customers, to encourage long-term relationships with clients and to increase customer satisfaction. In order to adequately manage liquidity risk, the Bank monitors cash flows on a daily basis.

The body managing liquidity is the Assets, Liability and Liquidity Management Council. One of the main ratios used by the Bank for managing liquidity risk is the ratio of total liquid assets to total borrowings.

(%)	31 December 2017	31 December 2016
Liquid assets ratio	**24.78%**	**28.12%**

The following table provides an analysis of the financial assets and liabilities of the Group into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 31 December 2017

in thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	1,478,594	–	–	–	–	**1,478,594**
Financial assets held for trading	7,979	–	–	–	–	**7,979**
Investments available for sale	658,218	4,070	10,733	53,465	15,820	**742,306**
Financial assets held to maturity	–	2,406	10,527	40,781	–	**53,714**
Loans and advances to banks and other financial institutions	52,258	–	–	2,144	–	**54,402**
Loans and advances to customers	381,300	229,923	988,734	3,562,950	–	**5,162,907**
Other financial assets, net	1,720	(124)	–	–	–	**1,596**
Total financial assets	**2,580,069**	**236,275**	**1,009,994**	**3,659,340**	**15,820**	**7,501,498**
Liabilities						
Due to banks	8,136	–	–	–	–	**8,136**
Due to other customers	2,892,510	883,287	2,687,171	1,120,851	–	**7,583,819**
Liabilities evidenced by paper	9,101	–	241	118,151	–	**127,493**
Hybrid debt	–	–	–	–	208,786	**208,786**
Total financial liabilities	**2,909,747**	**883,287**	**2,687,412**	**1,239,002**	**208,786**	**7,928,234**
Net liquidity gap	**(329,678)**	**(647,012)**	**(1,677,418)**	**2,420,338**	**(192,966)**	**(426,736)**

The table shows mainly investments available for sale with a maturity of up to 1 month in order to reflect the management's intent to sell them within a short-term period.

Maturity table as at 31 December 2016

in thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	1,639 888	–	–	–	–	**1,639,888**
Financial assets held for trading	9,562	–	–	–	–	**9,562**
Investments available for sale	519,132	8,957	16,631	60,655	14,461	**619,836**
Financial assets held to maturity	743	222,501	1,466	37,727	–	**262,437**
Loans and advances to banks and other financial institutions	49,172	2,319	372	–	–	**51,863**
Loans and advances to customers	420,733	207,308	1,108,093	3,308,716	–	**5,044,850**
Other trading assets	1,831	14	(27)	–	–	**1,818**
Total financial assets	**2,641,061**	**441,099**	**1,126,535**	**3,407,098**	**14,461**	**7,630,254**
Liabilities						
Due to banks	3,348	–	–	–	–	**3,348**
Due to other customers	2,690,514	859,336	3,158,894	1,203,167	–	**7,911,911**
Liabilities evidenced by paper	39	1,230	6,175	62,923	–	**70,367**
Hybrid debt	–	–	–	–	208,740	**208,740**
Total financial liabilities	**2,693,901**	**860,566**	**3,165,069**	**1 266,090**	**208,740**	**8,194,366**
Net liquidity gap	**(52,840)**	**(419,467)**	**(2,038,534)**	**2,141,008**	**(194,279)**	**(564,112)**

The following table provides a remaining maturities analysis of the financial assets and liabilities of the Group as at 31 December 2017 based on the contractual undiscounted cash flows.

in thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	More than 1 year	Total
Financial assets					
Cash and balances with Central Banks	1,478,594	–	–	–	**1,478,594**
Financial assets held for trading	7,979	–	–	–	**7,979**
Investments available for sale	658,221	4,105	11,074	74,731	**748,131**
Financial assets held to maturity	–	2,429	10,569	40,181	**53,179**
Loans and advances to banks and other financial institutions	52,258	–	–	2,144	**54,402**
Loans and advances to customers	382,232	232,368	1,024,543	4,569,915	**6,209,058**
Total financial assets	**2,579,284**	**238,902**	**1,046,186**	**4,686,971**	**8,551,343**
Financial liabilities					
Due to banks	8,136	–	–	–	**8,136**
Due to other customers	2,892,877	884,183	2,697,371	1,141,441	**7,615,872**
Liabilities evidenced by paper	9,105	–	243	123,663	**133,011**
Hybrid debt	–	–	–	241,349	**241,349**
Total financial liabilities	**2,910,118**	**884,183**	**2,697,614**	**1,506,453**	**7,998,366**
Derivatives held for risk management					
For trading, outgoing cash flow	35,127	8,182	–	–	**43,309**
For trading, incoming cash flow	36,847	8,058	–	–	**44,905**
Cash flow from derivatives, net	1,720	(124)	–	–	**1,596**

The following table provides a remaining maturities analysis of the financial assets and liabilities of the Group as at 31 December 2016 based on the contractual undiscounted cash flows.

in thousands of BGN	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	More than 1 year	Total
Financial assets					
Cash and balances with Central Banks	1,639,888	–	–	–	**1,639,888**
Financial assets held for trading	9,562	–	–	–	**9,562**
Investments available for sale	519,136	9,034	17,167	81,369	**626,706**
Financial assets held to maturity	744	222,654	1,488	44,641	**269,527**
Loans and advances to banks and other financial institutions	49,172	2,319	372	–	**51,863**
Loans and advances to customers	491,582	244,557	1,350,432	4,420,400	**6,506,971**
Total financial assets	**2,710,084**	**478,564**	**1,369,459**	**4,546,410**	**9,104,517**
Financial liabilities					
Due to banks	3,348	–	–	–	**3,348**
Due to other customers	2,690,947	861,026	3,182,118	1,231,489	**7,965,580**
Liabilities evidenced by paper	39	1,231	6,214	65,924	**73,408**
Hybrid debt	–	–	22,883	241,349	**264,232**
Total financial liabilities	**2,694,334**	**862,257**	**3,211,215**	**1,538,762**	**8,306,568**
Derivatives held for risk management					
For trading, outgoing cash flow	146,610	1,956	1,369	–	**149,935**
For trading, incoming cash flow	148,441	1,970	1,342	–	**151,753**
Cash flow from derivatives, net	**1,831**	**14**	**(27)**	**–**	**1,818**

The expected cash flows of the Bank from some financial assets and liabilities are different from the cash flows as per the loan contract. The main differences are:

- There is an expectation that the deposits on demand will remain stable and will increase.
- Retail mortgages have original maturity of 25 years on average, but the expected average effective maturity is 14 years as some clients take advantage of the early repayment possibility.

As part of the liquidity risk management, the Bank keeps available liquid assets. They consist of cash, cash equivalents and debt securities, which could be sold immediately in order to provide liquidity.

Liquid assets

in thousands of BGN	2017	2016
Balances with BNB	874,096	1,157,101
Current accounts and amounts with other banks	616,004	492,610
Unencumbered debt securities	468,590	647,230
Gold	6,198	7,104
Total liquid assets	**1,964,888**	**2,304,045**

Reasonable liquidity management requires avoidance of concentration of the borrowings from large depositors. Analysis of the significant borrowings in terms of total amount is performed on a daily basis and the diversity of the total liabilities portfolio is supervised.

As at 31 December 2017 the thirty largest non-bank unguaranteed depositors represent 4.06% of total deposits from other customers (31 December 2016: 5.88%).

(ii) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Basic Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value defined as the difference between fair value of assets and fair value of liabilities.

The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as at 31 December 2017 is BGN +24.6/-15.2 Mio.

The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2017 is BGN 8.5/-11.1 Mio.

Effect in millions of BGN	Profit or loss		Equity	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
31 December 2017				
as at 31 December	8.5	-11.1	24.6	-15.2
Average for the period	5.1	-6.1	18.3	-14.5
Maximum for the period	8.5	-3.9	24.6	-12.7
Minimum for the period	2.6	-11.1	15.4	-19.2
31 December 2016				
as at 31 December	-1.3	-1.6	18.5	-17.5
Average for the period	0.9	-3.7	18.2	-17.3
Maximum for the period	1.9	-1.6	19.8	-14.5
Minimum for the period	-1.3	-4.8	15.4	-18.9

The following table indicates the effective interest rates at 31 December 2017 and the periods in which financial liabilities and assets reprice.

in thousands of BGN	Total	Floating rate Instruments	Fixed rate instruments			
			Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets						
Cash and balances with Central Banks	**657,536**	609,749	47,787	–	–	–
Financial assets held for trading	**3,815**	–	3,815	–	–	–
Investments available for sale	**726,486**	21,419	636,799	4,070	10,733	53,465
Financial assets held to maturity	**53,714**	–	–	2,406	10,527	40,781
Loans and advances to banks and other financial institutions	**24,581**	–	24,581	–	–	–
Loans and advances to customers	**4,560,523**	3,302,119	21,976	24,547	263,107	948,774
Total interest-bearing assets	**6,026,655**	**3,933,287**	**734,958**	**31,023**	**284,367**	**1,043,020**
Liabilities						
Due to banks	**8,136**	3,281	4,855	–	–	–
Due to other customers	**7,558,202**	1,916,169	950,724	883,287	2,687,171	1,120,851
Liabilities evidenced by paper	**127,493**	114,406	9,099	1,226	1,435	1,327
Hybrid debt	**208,786**	–	–	–	–	208,786
Total interest-bearing liabilities	**7,902,617**	**2,033,856**	**964,678**	**884,513**	**2,688,606**	**1,330,964**

The following table indicates the effective interest rates at 31 December 2016 and the periods in which financial liabilities and assets reprice.

in thousands of BGN	Total	Floating rate Instruments	Fixed rate instruments			
			Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets						
Cash and balances with Central Banks	**554,016**	323,219	230,797	–	–	–
Financial assets held for trading	**5,671**	–	5,671	–	–	–
Investments available for sale	**605,375**	26,304	492,828	8,957	16,631	60,655
Financial assets held to maturity	**262,437**	–	743	222,501	1,466	37,727
Loans and advances to banks and other financial institutions	**14,792**	–	14,792	–	–	–
Loans and advances to customers	**4,624,365**	3,534,353	15,935	40,371	219,578	814,128
Total interest-bearing assets	**6,066,656**	**3,883,876**	**760,766**	**271,829**	**237,675**	**912,510**
Liabilities						
Due to banks	**3,348**	2,790	558	–	–	–
Due to other customers	**7,882,825**	1,677,261	984,167	859,336	3,158,894	1,203,167
Liabilities evidenced by paper	**70,367**	21,601	17	1,230	1,280	46,239
Hybrid debt	**208,740**	–	–	–	–	208,740
Total interest-bearing liabilities	**8,165,280**	**1,701,652**	**984,742**	**860,566**	**3,160,174**	**1,458,146**

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is exposed to currency risk in performing transactions in foreign currencies and foreign-currency denominated financial instruments.

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents it financial statements is the Bulgarian lev, the Group's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the presentation currency of the Group. These exposures were as follows:

in thousands of BGN	**2017**	**2016**
Monetary assets		
Euro	3,854,451	4,155,163
US dollar	569,389	780,619
Other	285,191	246,276
Gold	6,198	7,104
Monetary liabilities		
Euro	3,050,261	3,265,429
US dollar	569,750	780,348
Other	269,324	234,806
Gold	2,186	3,591
Net position		
Euro	804,190	889,734
US dollar	(361)	271
Other	15,867	11,470
Gold	4,012	3,513

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Group manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

The table below sets out information about maximum exposure to credit risk:

in thousands of BGN	Loans and advances to other customers		Loans and advances to banks and balances with central banks		Investments and financial assets held for trading		Off balance sheet commitments	
	2017	2016	2017	2016	2017	2016	2017	2016
Carrying amount	5,162,907	5,044,850	1,335,084	1,526,912	784,015	873,483	–	–
Amount committed/ guaranteed	–	–	–	–	–	–	845,464	720,381

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. These exposures are as follows:

31 December 2017		in thousands of BGN
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Performing		
Collectively impaired	4,514,558	4 ,497,278
Non-performing		
Collectively impaired	378,338	183,852
Individually impaired	871,872	481,777
Total	**5,764,768**	**5,162,907**
31 December 2016		in thousands of BGN
Class of exposure	**Gross amount of loans and advances to customers**	**Carrying amount of loans and advances to customers**
Performing		
Collectively impaired	4,442,689	4,431,472
Non-performing		
Collectively impaired	424,778	216,323
Individually impaired	1,011,722	397,055
Total	**5,879,189**	**5,044,850**

Exposures classification into risk classes reflects the management's estimate regarding the loans recoverable amounts.

As at 31 December 2017 the gross amount of overdue loans and advances to customers measured as exposures 90+ days overdue is BGN 1,007,466 thousand (2016: BGN 1,029,246 thousand).

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (See Note 32).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

Total economic sector credit risk concentrations in loans and advances to customers are presented in the table below:

in thousands of BGN	2017	2016
Trade	1,017,879	1,186,684
Industry	861,778	987,724
Services	630,706	558,738
Finance	109, 298	113,932
Transport, logistics	323,367	352,858
Communications	46,863	115,489
Construction	203,901	186,541
Agriculture	212,391	189,228
Tourist services	173,813	195,539
Infrastructure	467,483	466,536
Private individuals	1,519,859	1,455,420
Other	197,430	70,500
Allowance for impairment	(601,861)	(834,339)
Total	**5,162,907**	**5,044,850**

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the statement of financial position date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2017 with total exposures outstanding amounting to BGN 206,973 thousand (2016: BGN 211,037 thousand) - ferrous and non-ferrous metallurgy, BGN 80,190 thousand (2016: BGN 60,609 thousand) – mining industry and BGN 84,142 thousand (2016: BGN 115,099 thousand) - power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 8 individual clients or groups (2016: 6) with each individual exposure exceeding 10% of the capital base of the Bank. The total amount of these exposures after offsetting the admissible collateral is BGN 771,986 thousand which represents 75.78% of the capital base (2016: BGN 550,403 thousand which represented 59.13 % of the capital base) of which BGN 633,320 thousand (2016: BGN 484,491 thousand) represent loans and BGN 138,666 thousand (2016: BGN 65,912 thousand) represent guarantees, letters of credit and other commitments.

The biggest loan exposure of the Bank extended to a group of related parties amounts to BGN 247,257 thousand (2016: BGN 225,459 thousand), representing 24.27 % of the Bank's own funds (2016: 24.22%).

Loans extended by the branch in Cyprus amount to BGN 5,921 thousand (gross carrying amount before any allowances) (2016: BGN 12,508 thousand), and in Albania - to BGN 149,696 thousand (2016: BGN 110,473 thousand).

The Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations. The extent of collateral held for guarantees and letters of credit is 100 percent.

Collateral held against different types of assets:

Type of credit exposure	Main type of collateral	Collateral coverage ratio	
		2017	**2016**
Repurchase agreements	Tradable securities	100%	100%
Loans and advances to banks	None	–	–
Mortgage loans	Real estate	297%	326%
Consumer lending	Mortgage, warrant, financial and other collateral	56%	74%
Credit cards	None	–	–
Loans to companies	Mortgage, pledge of enterprise, pledge of long-term tangible assets, pledge of goods, pledge of other short-term tangible assets, financial and other collateral	410%	382%

The table below shows a breakdown of total gross loans and advances extended to customers by the Group by type of collateral to the amount of the collateral, excluding credit cards in the amount of BGN 259,303 thousand (31 December 2016: BGN 254,867 thousand).

in thousands of BGN	**2017**	**2016**
Mortgage	1,360,608	1,520,658
Pledge of receivables	1,526,759	1,180,833
Pledge of commercial enterprise	32,390	25,521
Securities	100,487	217,843
Bank guarantees	–	–
Other guaranties	1,780,285	1,810,284
Pledge of goods	23,752	39,169
Pledge of machines	109,570	116,530
Money deposit	36,065	46,905
Stake in capital	19	1
Gold	–	–
Other collateral	943	12,790
Unsecured	534,586	653,788
Total	**5,505,464**	**5,624,322**

Other collateral includes insurance policies up to the amount of the insurance cover, future receivables, remuneration transfers, etc.

Residential mortgage lending

The table below represents credit exposures from housing and mortgage loans to individual customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amount excludes any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

in thousands of BGN	**2017**	**2016**
Loan to value (LTV) ratio		
Less than 50%	130,627	139,669
51% to 70%	165,873	156,351
71% to 90%	208,796	180,632
91% to 100%	36,089	23,195
More than 100%	80,786	70,696
Total	**622,171**	**570,543**

Loans to corporate customers

Individually significant loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan. However, collateral provides additional security and the Group requests corporate borrowers to provide it. The Group takes collateral in the form of a first charge over real estate, floating charges over all corporate assets, and other liens and guarantees.

The Group routinely analyses collateral for possible changes in value due to market conditions, legal framework or debtor's actions. Where such changes lead to a breach in the requirements for sufficiency of collateral, the Group requires provision of additional collateral within a certain timeframe.

As at 31 December 2017 the net carrying amount of individually impaired loans to corporate customers amounts to BGN 567,083 thousand (2016: BGN 514,049 thousand) and the value of collateral held against those loans amounts to BGN 517,313 thousand (2016: BGN 514,419 thousand).

The Group constantly monitors the risk of default on already given loans and if there is available data for potential or actual problems, the Group prepares an action plan and takes measures for managing the possible unwanted results, including restructuring of the loans

For the purposes of the disclosure in these financial statements "renegotiated loans" are defined as loans, which have been renegotiated as a result of a change in the interest rates, repayment schedule, upon a client request, and others.

Renegotiated Loans

in thousands of BGN	2017		2016	
Type of renegotiation	**Amortised cost**	**Allowance for impairment**	**Amortised cost**	**Allowance for impairment**
Loans to individuals	**215,186**	**16,319**	**194,797**	**10,704**
Change of maturity	128,313	15,618	120,822	9,813
Change of amount of instalment	105	(2)	138	(4)
Change of interest rate	21,904	(32)	41,579	(23)
Change due to customers request	52,442	8	19,780	12
Other reasons	12,422	727	12,478	906
Loans to corporate clients	**1,693,140**	**8,621**	**2,211,952**	**148,292**
Change of maturity	391,785	5,046	294,848	2,788
Change of amount of instalment	80,258	325	166,900	34,158
Change of interest rate	242,896	208	412,290	276
Change due to customers request	931,764	1,411	1,272,952	107,175
Other reasons	46,437	1,631	64,962	3,895
Total:	**1,908,326**	**24,940**	**2,406,749**	**158,996**

Structure and organization of credit risk management functions

Credit risk management as a comprehensive process is accomplished under the supervision of the Management Board of the Bank. The Supervisory Board exercises control over the activities of the Management Board on the credit risk management either directly or through the Risk Committee, which supports the Supervisory Board with the extensive supervision over the risk management function in the Bank, including over the formation of risk exposures.

There are collective bodies in the Bank the function of which is to support the activities of the Management Board on the credit risk management- Credit Council and Restructuring Committee. The Credit Council supports the adopted credit risk management and forms an opinion on loans as per its limits of competence. The Restructuring Committee is a specialized body for supervision of the loan exposures with indicators for deterioration. In addition to the collective bodies in the Bank, there are other independent specialized bodies - the Risk Analysis and Control Department and the Credit Risk Management, Monitoring and Provisioning Department, which fulfil the functions of identification, evaluation and management of the credit risk, including performing additional second control over the risk exposures. The realization, coordination and current control over the lending process is organized from the following departments: Corporate Banking, SME financing, Retail Banking, and Loan Administration, while the problem assets management is performed by the Impaired Assets Department.

(iv) Government debt exposures

The Group closely manages the credit risk on government debt exposures and as a result the overall quality of the government debt portfolio is very high.

The table below shows the carrying amount of the government debt portfolio by country issuer. The Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as at 31 December 2017 and 31 December 2016 as well as those classified as available for sale.

31 December 2017								in thousands of BGN
Portfolio	**Bulgaria**	**Albania**	**Slovakia**	**Latvia**	**Lithuania**	**USA**	**EFSF***	**Belgium**
Financial assets held for trading	3,815	–	–	–	–	–	–	–
Investments available for sale	379,985	63,243	2,069	70	44,870	187,488	1,945	2,701
Financial assets held to maturity	–	34,099	–		–	–	–	–
Total	**383,800**	**97,342**	**2,069**	**70**	**44,870**	**187,488**	**1,945**	**2,701**

*European Financial Stability Facility

31 December 2016									in thousands of BGN
Portfolio	**Bulgaria**	**Albania**	**Slovakia**	**Latvia**	**Lithuania**	**USA**	**EFSF***	**Belgium**	**Белгия**
Financial assets held for trading	4,302	–	–	–	–	–	–	–	–
Investments available for sale	398,551	74,868	2,021	69	21,831	55,590	3,891	1,484	2,768
Financial assets held to maturity	–	18,974				222,501	–	–	–
Total	**402,853**	**93,842**	**2,021**	**69**	**21,831**	**278,091**	**3,891**	**1,484**	**2,768**

Maturity table of government debt securities by country issuer as at 31 December 2017

in thousands of BGN

Country issuer	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Bulgaria	43,971	-	706	194,410	144,713	**383,800**
Albania	1,000	4,070	13,881	62,686	15,705	**97,342**
Slovakia	-	-	-	-	2,069	**2,069**
Latvia	-	-	-	-	70	**70**
Lithuania	-	-	-	-	44,870	**44,870**
USA	187,488	-	-	-	-	**187,488**
EFSF	-	-	-	-	1,945	**1,945**
Belgium	-	-	-	-	2 701	**2 701**
Total	**232,459**	**4,070**	**14,587**	**257,096**	**212,073**	**720,285**

Maturity table of government debt securities by country issuer as at 31 December 2016

in thousands of BGN

Country issuer	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	8,681	4,817	40,910	176,706	171,739	**402,853**
Albania	744	–	1,466	55,538	36,094	**93,842**
Slovakia	–	–	–	–	2,021	**2,021**
Latvia	–	–	–	–	69	**69**
Lithuania	–	–	–	–	21,831	**21,831**
USA	–	278,091	–	–	–	**278,091**
EFSF	–	–	–	–	3,891	**3,891**
Austria	–	–	–	–	1,484	**1,484**
Belgium	–	–	–	–	2,768	**2,768**
Total	**9,425**	**282,908**	**42,376**	**232,244**	**239,897**	**806,850**

C. Capital adequacy

Since 1 January 2014, the provisions of the CRD IV package have been in force. Through Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, CRD IV package transposes into European law the provisions of the new capital standards for banks – Basel III.

Regulatory capital

The equity capital of the Group for regulatory purposes consists of the following elements:

Common Equity Tier 1 capital

a) issued and paid up capital instruments (ordinary shares);

b) share premium from issuance of ordinary shares;

c) audited retained earnings;

d) accumulated other comprehensive income, including revaluation reserves;

e) other reserves;

Deductions from components of the Common Equity Tier 1 capital include intangible assets.

Additional Tier 1 capital

The instruments of Additional Tier 1 capital include hybrid debt (see note 29). Deductions from components of Tier 1 capital include regulatory adjustments relating to items that are included in the capital balance or the assets of the Bank, but are treated differently for capital adequacy regulation.

Tier 2 Capital

Tier 2 capital reflects previous regulatory adjustments related to the revaluation reserve from real property.

In thousands of BGN **Total own funds**	**2017**	**2016**
Paid up capital instruments	110,000	110,000
(-) Indirect shareholding in Common Equity Tier 1 capital instruments	(185)	(93)
Premium reserves	97,000	97,000
Other reserves	619,380	523,627
Minority interests	(124)	2,355
Accumulated other comprehensive income	25,931	25,043
Deductions from Common Equity Tier 1 capital:		
(-) Intangible assets	(6,885)	(10,186)
Transitional adjustments of Common Equity Tier 1 capital	(3,809)	(5,944)
Other deductions	(10,147)	–
Common Equity Tier 1 capital	**831,161**	**741,802**
Additional Tier 1 capital instruments		
Hybrid debt	195,583	195,583
Tier 1 capital deductions:		
Transitional adjustments of Additional Tier 1 capital	(1,439)	(4,290)
Tier 1 Capital	**1,025,305**	**933,095**
Tier 2 Capital		
Transitional adjustments of Tier 2 capital	900	1,800
Total own funds	**1,026,205**	**934,895**

The Group calculates the following ratios:

a) the Common Equity Tier 1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;

b) the Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;

c) the total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

The total risk exposure is calculated as the total of the risk weighted assets for credit, market and operational risk.

The Group calculates the requirements for credit risk for its exposures in banking and trading portfolios based on the standardised approach. Exposures are taken into account using their balance sheet amount. Off-balance-sheet credit-related commitments are taken into account by applying different categories of conversion factors designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

The Group calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

The Group calculates capital requirements for operational risk using the basic indicator approach. Required capital is equal to the average gross annual income over the previous three years multiplied by a fixed percentage (15%). Respective risk weighted assets are calculated by further multiplication by 12.5.

The total capital adequacy ratio cannot be below 13.5%, the Tier 1 capital adequacy cannot be less than 11.5%, and the CET1 adequacy cannot be less than 10% (with included capital buffer for systemic risk of 3% and protective capital buffer of 2.5%).

The Group has complied with the regulatory capital requirements throughout the period.

Capital adequacy level is as follows:

in thousands of BGN	Balance sheet/ notional amount		Risk weighted assets	
	2017	2016	2017	2016
Risk weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments or central banks	1,616,735	1,969,445	120,911	118,073
Multilateral development banks	296	483	–	–
Institutions	506,187	440,647	133,003	144,343
Corporates	2,082,600	2,199,095	2,053,527	2,006,837
Retail	1,127,687	941,373	668,060	546,229
Secured by mortgages on immovable property	1,283,593	1,290,834	523,004	542,107
Exposures in default	665,598	613,366	758,733	668,291
Collective investments undertakings	2,549	2,547	2,549	2,547
Equity	20,795	15,718	26,114	16,469
Other items	1 591,442	1,591,486	1,394,519	1,426,649
Total	**8,897,482**	**9,064,994**	**5,680,420**	**5,471,545**
Off balance sheet items				
Exposure class				
Institutions	–	–	28	96
Corporates	390,491	293,479	90,430	109,485
Retail	419,837	395,495	7,603	5,710
Secured by mortgages on immovable property	35,136	31,407	6,718	5,592
Other items	–	–	57	2
Total	**845,464**	**720,381**	**104,836**	**120,885**
Derivatives				
Exposure class				
Central governments or central banks	–	587	–	–
Institutions	379	1,444	76	289
Corporates	750	72	750	72
Other items	1 115	1,831	1,115	1,831
Total	**2,244**	**3,934**	**1,941**	**2,192**
Total risk-weighted assets for credit risk			**5,787,197**	**5,594,622**
Risk-weighted assets for market risk			**6,000**	**5,625**
Risk-weighted assets for operational risk			**665,625**	**578,388**
Total risk-weighted assets			**6,458,822**	**6,178,635**

Capital adequacy ratios	**Equity**		**Capital ratios %**	
	2017	**2016**	**2017**	**2016**
Common Equity Tier 1 capital	**831,161**	**741,802**	**12,87%**	**12,01%**
Tier 1 Capital	**1,025,305**	**933,095**	**15,87%**	**15,10%**
Total own funds	**1,026,205**	**934,895**	**15,89%**	**15,13%**

4. Segment Reporting

Segment information is presented in respect of the Group's geographical segments. The primary format, geographical segments, is based on the Bank's management and internal reporting structure.

Reporting and measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

Transactions between segments are conducted on an arm's length basis.

The Group operates principally in Bulgaria, but also has operations in Cyprus and Albania.

In presenting information on the basis of geographical segments, revenue and operating income is allocated after intergroup eliminations based on the location of the Bank branch that generated the revenue. Segment assets and liabilities are allocated after intergroup eliminations based on their geographical location.

in thousands of BGN	Bulgarian operations		Foreign operations		Total	
	2017	2016	2017	2016	2017	2016
Interest income	340,526	424,769	15,647	16,456	356,173	441,225
Interest expense	(92,333)	(118,493)	(2,914)	(3,553)	(95,247)	(122,046)
Net interest income	**248,193**	**306,276**	**12,733**	**12,903**	**260,926**	**319,179**
Fee and commission income	116,456	107,659	4,331	4,070	120,787	111,729
Fee and commission expense	(18,093)	(19,048)	(548)	(518)	(18,641)	(19,566)
Net fee and commission income	**98,363**	**88,611**	**3,783**	**3,552**	**102,146**	**92,163**
Net trading income	**14,771**	**13,583**	**555**	**354**	**15,326**	**13,937**
Administrative expenses	**(197,160)**	**(185,299)**	**(7,538)**	**(7,008)**	**(204,698)**	**(192,307)**
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Assets	**8,604,827**	**8,807,868**	**316,371**	**281,987**	**8,921,198**	**9,089,855**
Liabilities	**7,625,939**	**7,888,777**	**347,909**	**344,242**	**7,973,848**	**8,233,019**

The table below shows assets and liabilities and income and expense by business segments as at 31 December 2017.

in thousands of BGN

Business	Assets	Liabilities	Interest income	Interest expense	Net fee and commission income	Net trading income	Other net operating income
Commercial banking	2,996,544	1,048,964	169,280	(1,299)	19,440	–	245
Small and medium enterprises	675,844	231,585	36,965	(779)	15,248	–	1,691
Retail Banking	1,490,519	6,303,269	135,285	(67,064)	61,426	–	2,522
Treasury	2,338,592	90,446	14,643	(2,220)	3,428	15,326	12,384
Other	1,419,699	299,584	-	(23,885)	2,604	–	11,349
Total	**8,921,198**	**7,973,848**	**356,173**	**(95,247)**	**102,146**	**15,326**	**28,191**

5. Financial assets and liabilities

Accounting classification and fair values

The Group's accounting policy on fair value measurements is set out in Note 2(d)(vii).

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: inputs are observable date for a given asset or liability. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

However, where the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgement in determining appropriate portfolio level adjustments such as bid-ask spread.

Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

For more complex instruments, the Group uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an Risk Management function, which is independent of Treasury division and reports to management, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- a review and approval process for new models and changes to models involving the Risk Analysis and Control Division and the Management Board;
- calibration of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by Risk Analysis and Control division.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Risk Analysis and Control division assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The tables below set out analysis of financial instruments measured at fair value at the end of the reporting period classified by fair value hierarchy level framework categorising fair value measurement The amounts are based on the amounts in the statement of financial position.

in thousands of BGN

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	7,979	–	–	7,979
Investments available for sale	619,128	123,168	–	742,296
Derivatives held for risk management	1,092	504	–	1,596
Total	**628,199**	**123,672**	–	**751,871**

in thousands of BGN

31 December 2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	9,562	–	–	9,562
Investments available for sale	488,317	131,009	–	619,326
Derivatives held for risk management	1,795	23	–	1,818
Total	**499,674**	**131,032**	–	**630,706**

Capital investments amounting to BGN 10 thousand at 31 December 2017 and BGN 510 thousand at 31 December 2016 are presented in the statements at their acquisition cost, because their fair value cannot be reliably measured.

The tables below set out analysis of the fair values of financial instruments not recognised at fair value, classified by fair value hierarchy level framework categorising fair value measurement

in thousands of BGN

31 December 2017	Level 1	Level 2	Level 3	Total fair values	Total balance sheet value
Assets					
Cash and balances with Central Banks	–	1,478,594	–	1,478,594	1,478,594
Financial assets held to maturity	–	56,140	–	56,140	53,714
Loans and advances to banks and other financial institutions	–	54,402	–	54,402	54,402
Loans and advances to customers	–	665,629	4,781,433	5,447,062	5,162,907
Total	**–**	**2,254,765**	**4,781,433**	**7,036,198**	**6,749,617**
Liabilities					
Due to banks	–	8,136	–	8,136	8,136
Due to other customers	–	2,892,520	4,691,190	7,583,710	7,583,819
Liabilities evidenced by paper	–	127,455	–	127,455	127,493
Hybrid debt	–	208,786	–	208,786	208,786
Total	**–**	**3,236,897**	**4,691,190**	**7,928,087**	**7,928,234**

in thousands of BGN

31 December 2016	Level 1	Level 2	Level 3	Total fair values	Total balance sheet value
Assets					
Cash and balances with Central Banks	–	1,639,888	–	1,639,888	1,639,888
Financial assets held to maturity	222,501	41,327	–	263,828	262,437
Loans and advances to banks and other financial institutions	–	51,863	–	51,863	51,863
Loans and advances to customers	–	613,378	4,442,689	5,056,067	5,044,850
Total	**222,501**	**2,346,456**	**4,442,689**	**7,011,646**	**6,999,038**
Liabilities					
Due to banks	–	3,348	–	3,348	3,348
Due to other customers	–	2,690,515	5,221,451	7,911,966	7,911,911
Liabilities evidenced by paper	–	70,343	–	70,343	70,367
Hybrid debt	–	208,740	–	208,740	208,740
Total	**–**	**2,972,946**	**5,221,451**	**8,194,397**	**8,194,366**

Where available, the fair value of loans and advances is based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques. Input into the valuation techniques includes expected lifetime credit losses, interest rates, prepayment rates. For collateral-dependent impaired loans, the fair value is measured based on the value of the underlying collateral. To improve the accuracy of the valuation estimate for retail and smaller commercial loans, homogeneous loans are grouped into portfolios with similar characteristics such as product and borrower type, maturity, currency, collateral type.

The fair value of deposits from banks and customers is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is the amount payable at the reporting date.

6. Net interest income

in thousands of BGN	2017	2016
Interest income		
Accounts with and placements to banks and financial institutions	891	993
Retail Banking	126,072	139,464
Corporate customers	169,280	232,886
Small and medium enterprises	36,965	41,366
Microlending	9,213	9,541
Debt instruments	13,752	16,975
	356,173	**441,225**
Interest expense		
Deposits from banks	(28)	(87)
Deposits from other customers	(69,142)	(112,425)
Liabilities evidenced by paper	(820)	(588)
Perpetual debt	–	(1,184)
Hybrid debt	(22,929)	(6,695)
Interest on assets cost	(2,317)	(1,052)
Lease agreements and other	(11)	(15)
	(95,247)	**(122,046)**
Net interest income	**260,926**	**319,179**

For 2017 the recognized interest income from individually impaired financial assets (loans to customers) amounted to BGN 59,363 thousand (2016: BGN 48,786 thousand).

7. Net fee and commission income

in thousands of BGN	2017	2016
Fee and commission income		
Letters of credit and guarantees	2,911	4,301
Payment operations	20,862	18,210
Customer accounts	30,863	28,064
Card services	31,375	29,544
Other	34,776	31,610
	120,787	**111,729**
Fee and commission expense		
Letters of credit and guarantees	(296)	(277)
Payment systems	(2,196)	(2,077)
Card services	(13,540)	(11,838)
Other	(2,609)	(5,374)
	(18,641)	**(19,566)**
Net fee and commission income	**102,146**	**92,163**

8. Net trading income

in thousands of BGN	2017	2016
Net trading income arises from:		
– Debt instruments	236	39
– Equities	247	777
– Foreign exchange rate fluctuations	14,843	13,121
Net trading income	**15,326**	**13,937**

9. Other net operating income

in thousands of BGN	2017	2016
Other net operating income arising from:		
– net income/(expense) from transactions and revaluation of gold and precious metals	66	(1)
– rental income	11,283	6,177
– Debt instruments	12,384	4,604
– Equities	–	24,188
– income from management of assigned receivables	–	3,855
– Gain on administration of loans acquired through business combination	4,458	7,468
Other net operating income	**28,191**	**46,291**

The reported operating income from capital instruments for 2016 includes the profit from the acquisition of Visa Europe by Visa Inc. amounting to BGN 24,930 thousand.

10. Administrative expenses

in thousands of BGN	2017	2016
General and administrative expenses comprise:		
– Personnel cost	64,968	61,034
– Depreciation and amortisation	16,206	17,553
– Advertising	18,379	14,788
– Building rent expense	33,475	33,446
– Telecommunication, software and other computer maintenance	11,832	11,511
– Other expenses for external services	59,838	53,975
Administrative expenses	**204,698**	**192,307**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2017 the total number of employees was 3,221 (31 December 2016: 3,322).

The amounts charged in 2017 for services delivered by the registered auditors separately for independent financial audit and for other services unrelated to audit amount respectively to BGN 677 thousand and BGN 587 thousand. The amounts charged in 2016 for services delivered by the registered auditors separately for independent financial audit and for other services unrelated to audit amount respectively to BGN 414 thousand and BGN 3,058 thousand.

11. Allowance for impairment

in thousands of BGN	2017	2016
Write-downs		
Loans and advances to customers	(95,924)	(262,768)
Reversal of write-downs		
Loans and advances to customers	17,074	106,648
Impairment, net	**(78,850)**	**(156,120)**

The expense for impairment in 2017 and 2016 is due to additional allowances resulting from the development of credit risk in a period of challenging economic environment and the conservative approach applied by the Group in recognising the risk of loss for certain individually impaired exposures.

12. Other income/(expenses), net

in thousands of BGN	2017	2016
Income from sale of assets	10,642	3,947
Revaluation of investment property	-	9,213
(Loss) from sale of investment property	(42)	(229)
Dividend income	4,478	629
Net earned insurance premiums	3,577	2,969
Cost of guarantee schemes	(36,371)	(36,719)
Claims incurred	(2,334)	(1,752)
Reversal of expense for provisions for pending court cases	308	5,541
Other income/(expenses), net	(689)	3,371
Total	**(20,431)**	**(13,030)**

13. Income tax expense

in thousands of BGN	2017	2016
Current taxes	(10,855)	(1, 790)
Deferred taxes (See Note 23)	490	(9,512)
Income tax expense	**(10,365)**	**(11,302)**

Reconciliation between tax expense and the accounting profit is as follows:

in thousands of BGN	2017	2016
Accounting profit before taxation	**102,610**	**110,113**
Corporate tax at applicable tax rate (10% for 2017 and 10% for 2016)	10,261	11,011
Effect from tax rates of foreign subsidiaries and branches	382	442
Tax effect of permanent tax differences	(241)	55
Other	(37)	(206)
Income tax expense	**10,365**	**11,302**
Effective tax rate	10,10%	10,26%

14. Earnings per share

	2017	2016
Net profit attributable to shareholders (in thousands of BGN)	92,175	98,708
Average weighted number of ordinary shares held (in thousands)	110,000	110,000
Earnings per share (BGN)	**0,84**	**0,90**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In 2017 as in the previous year, no conversion or option rights were outstanding. The diluted earnings per share, therefore, correspond to the basic earnings per share.

15. Cash and balances with Central Banks

in thousands of BGN	2017	2016
Cash on hand		
- in BGN	130,754	107,233
- in foreign currency	62,181	52,636
Balances with Central Banks	898,134	1,157,101
Current accounts and amounts with local banks	33	19
Current accounts and amounts with foreign banks	387,492	322,899
Total	**1,478,594**	**1,639,888**

16. Financial assets held for trading

in thousands of BGN	2017	2016
Bonds and notes issued by:		
Bulgarian government, rated BBB:		
- denominated in BGN	3,799	4,195
- denominated in foreign currencies	16	107
Foreign banks, rated BB	–	1,369
Other issuers – equity instruments (unrated)	4,164	3,891
Total	**7,979**	**9,562**

17. Investments available for sale

In thousands of BGN	2017	2016
Bonds and notes issued by:		
Bulgarian Government		
– denominated in BGN	232,090	225,709
– denominated in foreign currencies	147,895	172,842
Foreign governments		
– treasury bills	250,731	100,334
– treasury bonds	51,655	62,188
Foreign banks	44,115	44,302
Other issuers – equity instruments	15,820	14,461
Total	**742,306**	**619,836**

18. Financial assets held to maturity

Securities held to maturity represent debt investments that the Group has the intent and ability to hold to maturity.

in thousands of BGN	2017	2016
Securities held to maturity issued by:		
Foreign governments	34,099	241,475
Foreign banks	19,615	20,962
Total	**53,714**	**262,437**

19. Loans and advances to banks and other financial institutions

(a) Analysis by type

in thousands of BGN	2017	2016
Placements with banks	21,748	15,952
Receivables under resale agreements	4,977	4,970
Other	27,677	30,941
Total	**54,402**	**51,863**

(b) Geographical analysis

in thousands of BGN	2017	2016
Domestic banks and financial institutions	11,680	29,318
Foreign banks and other financial institutions	42,722	22,545
Total	**54,402**	**51,863**

20. Loans and advances to customers

31.12.2017

in thousands of BGN	Gross value	Allowance for impairment	Net value
Retail Banking			
- Consumer loans	622,681	(43,757)	578,924
- Mortgage loans	622,171	(31,628)	590,543
- Credit cards	259,303	(36,452)	222,851
- Other programmes and collateralised financing	3,182	–	3,182
Small and medium enterprises	753,438	(77,593)	675,845
Microlending	121,533	(26,515)	95,018
Corporate customers	3,382,460	(385,916)	2,996,544
Including receivables from financial lease	108,218	(24)	108,194
Total	**5,764,768**	**(601,861)**	**5,162,907**

31.12.2016

in thousands of BGN	Gross value	Allowance for impairment	Net value
Retail Banking			
- Consumer loans	497,524	(30,214)	467,310
- Mortgage loans	570,543	(29,863)	540,680
- Credit cards	254,867	(27,885)	226,982
- Other programmes and collateralised financing	130,568	–	130,568
Small and medium enterprises	612,093	(73,058)	539,035
Microlending	108,561	(26,372)	82,189
Corporate customers	3,705,033	(646,947)	3,058,086
Including receivables from financial lease	27,361	(96)	27,265
Total	**5,879,189**	**(834,339)**	**5,044,850**

(a) Movement in impairment allowances

in thousands of BGN

Balance as at 01 January 2017	**834,339**
Additional allowances	95,924
Amounts released	(17,074)
Write-offs	(308,913)
Effect from change in exchange rates	(2,418)
Other	3
Balance as at 31 December 2017	**601,861**

21. Property and equipment

in thousands of BGN	Land and Buildings	Fixtures and fittings	Motor vehicles	Assets under Construction	Leasehold Improve-ments	Total
Cost						
At 01 January 2016	**17,651**	**146,858**	**6,642**	**26,597**	**66,366**	**264,114**
Additions	–	51	16	7,549	15	7,631
Acquired via business combinations	–	21	43	–	–	64
Exchange rate differences	–	58	5	1	26	90
Write-offs	–	(5,260)	(231)	(6)	(578)	(6,075)
Transfers	–	5,955	155	(8,494)	874	(1,510)
At 31 December 2016	**17,651**	**147,683**	**6,630**	**25,647**	**66,703**	**264,314**
Additions	–	40	79	9,190	11	9,320
Exchange rate differences	–	67	6	6	30	109
Write-offs	(137)	(2,826)	(68)	(371)	(530)	(3,932)
Transfers	137	4,291	405	(6,737)	1,423	(481)
Other adjustments - deconsolidation of subsidiaries below the substantiality threshold	–	(2,529)	(59)	–	–	(2,588)
At 31 December 2017	**17,651**	**146,726**	**6,993**	**27,735**	**67,637**	**266,742**
Amortisation						
At 01 January 2016	**2,881**	**116,927**	**5,592**	**–**	**33,405**	**158,805**
Acquired via business combinations	–	11	2	–	–	13
Exchange rate differences	–	49	1	–	23	73
Accrued during the year	634	9,438	387	–	3,778	14,237
For write offs	–	(5,257)	(231)	–	(565)	(6,053)
At 31 December 2016	**3,515**	**121,168**	**5,751**	**–**	**36,641**	**167,075**
Exchange rate differences	–	57	4	–	28	89
Accrued during the year	634	8,350	338	–	3,666	12,988
For write offs	(17)	(2,816)	(68)	–	(530)	(3,431)
Other adjustments - deconsolidation of subsidiaries below the substantiality threshold	–	(1,516)	(2)	–	–	(1,518)
At 31 December 2017	**4,132**	**125,243**	**6,023**	**–**	**39,805**	**175,203**
Carrying amount						
At 01 January 2016	**14,770**	**29,931**	**1,050**	**26,597**	**32,961**	**105,309**
At 31 December 2016	**14,136**	**26,515**	**879**	**25,647**	**30,062**	**97,239**
At 31 December 2017	**13,519**	**21,483**	**970**	**27,735**	**27,832**	**91,539**

The fair value of assets constituting land and buildings was determined by independent property assessors holding recognised professional qualification and recent experience in assessing property with similar location and category. The Group's policy requires that independent assessors determine the fair value sufficiently frequently so as to ensure that the balance sheet value does not differ significantly from the fair value at the end of the reporting period. As at 31 December 2017 the fair value of land and buildings was not significantly different from their balance sheet value as at that date. The fair value of land and buildings is categorised as Level 3 fair value on the basis of incoming data on the assessment methodology used.

Assessment methodology	**Significant unobservable inputs**	**Connection between key unobservable inputs and fair value**
1. Discounted cash flows: this valuation model takes into account the present value of cash flows generated by property, taking into account the expected growth of rental prices, the period required for cancellation, the level of occupancy, premiums such as periods in which no rent is paid and other expenses which are not paid by tenants. The expected net cash flows are discounted using discount rates adjusted for risk. Among other factors, when determining the discount rate, the quality of the building and its location are taken into account (first-rate or second-rate), as well as the creditworthiness of the tenant and the duration of the loan agreement.	1. Expected market growth of rent (4.5-6.8%, weighted average 5.6%). 2. Period for cancellation (6 months on average after each rental agreement). 3. Occupancy (90-95%, weighted average 92.5%). 4. Periods when no rent is paid (1 year for new rental agreement). 5. Risk adjusted discount rate (7.5-8%, weighted average 7.75%).	The fair value will increase (decrease) where: • the expected market growth of rent is higher (lower); • periods for cancellation are shorter (longer); • Occupancy is higher (lower); • the periods when no rent is paid are shorter (longer); or • the risk adjusted discount rate is lower (higher).
2. Market approach/Comparative approach. This method is based on the comparison of the property being evaluated to other similar properties which have been sold recently or which are available for sale. Using this method, the value of a given property is determined in direct comparison to other similar properties which have been sold in a period of time close to the time when the valuation is made. Based on detailed research, review and analysis of data from the property market, the value is formed and it is the most accurate indicator of market value. This method consists of using information about actual transactions in the real estate market in the last six months. Successful application of this method is only possible where a trustworthy database is available as regards actual transactions with properties similar to the property being valued. Information from real estate sites, local press and other such refers to future investment intentions of the seller and cannot be deemed a trustworthy source of information. When using such sites, the offer price for each analogous property is discounted at the valuator's discretion, but by no less than 5%.	1. Expected market growth of property (5-10%, weighted average 7.5%). 2. Time required to effect the sale (6 months on average after the offer is placed). 3. Transaction success rate (90-95%, weighted average 92.5%). 4. Location (1.0-1.05, weighted average 1.025). 5. Property status (1.0-1.1, weighted average 1.05).	The fair value will increase (decrease) where: • the expected market growth of property is higher (lower); • the period of time required for the sale is shorter (longer); • there is a change in the technical condition of the property

22. Intangible assets

in thousands of BGN	Software and licences	Goodwill	Total
Cost			
At 01 January 2016	**29,967**	**674**	**30,641**
Additions	111	–	111
Acquired via business combinations	1	–	1
Exchange rate differences	14	–	14
Write-offs	(2)	–	(2)
Transfers	1,510	–	1,510
At 31 December 2016	**31,601**	**674**	**32,275**
Additions	68	–	68
Exchange rate differences	18	–	18
Write-offs	(5)	–	(5)
Transfers	481	–	481
Other adjustments - deconsolidation of subsidiaries below the substantiality threshold	(132)	(134)	(266)
At 31 December 2017	**32,031**	**540**	**32,571**
Amortisation			
At 01 January 2016	**18,763**	–	**18,763**
Acquired via business combinations	1	–	1
Exchange rate differences	11	–	11
Accrued during the year	3,316	–	3,316
For write offs	(2)		(2)
At 31 December 2016	**22,089**	**–**	**22,089**
Exchange rate differences	15	–	15
Accrued during the year	3,218	–	3,218
For write offs	(5)	–	(5)
Other adjustments - deconsolidation of subsidiaries below the substantiality threshold	(88)	–	(88)
At 31 December 2017	**25,229**	**–**	**25,229**
Carrying amount			
At 01 January 2016	**11,204**	**674**	**11,878**
At 31 December 2016	**9,512**	**674**	**10,186**
At 31 December 2017	**6,802**	**540**	**7,342**

23. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% for Bulgaria and of 15% for Albania.

The deferred tax as at 31 December 2017 refers to the following items of the statement of financial position:

In thousands of BGN	Assets	Liabilities	Net	
			Assets	Liabilities
Property, equipment and intangibles	(124)	2,336	–	2,212
Investment Property	–	11,956	–	11,956
Other	(371)	670	–	299
Net tax (assets)/liabilities	**(495)**	**14,962**	**–**	**14,467**

The deferred tax as at 31 December 2016 refers to the following items of the statement of financial position:

In thousands of BGN	Assets	Liabilities	Net	
			Assets	Liabilities
Property, equipment and intangibles	(117)	2,679	–	2,562
Investment Property	–	12,105	–	12,105
Other	(384)	879	(6)	501
Net tax (assets)/liabilities	**(501)**	**15,663**	**(6)**	**15,168**

The movements of temporary differences in 2017 are recognised as follows:

in thousands of BGN	31 December 2016		Recognised during the period (in profit) or loss	Recognised during the period in equity	Other movements	31 December 2017	
	Net assets	Net liabilities				Net assets	Net liabilities
Property, equipment and intangibles	–	2,562	(348)	–	(2)	–	2,212
Investment Property	–	12,105	(149)	–	–	–	11,956
Other	(6)	501	7	(216)	13	–	299
Net tax (assets)/liabilities	**(6)**	**15,168**	**(490)**	**(216)**	**11**	**–**	**14,467**

24. Repossessed assets

in thousands of BGN	2017	2016
Land	536,797	403,748
Buildings	310,112	469,470
Machines, plant and vehicles	136,773	160,473
Fixtures and fittings	766	810
Total	**984,448**	**1,034,501**

Due to the change in the intended use of some of the repossessed assets during the previous reporting period, some assets show as an increase in the “Land” section in 2017, amounting to BGN 129,496 thousand (2016 - BGN 30,377 thousand).

Repossessed assets acquired as collateral are measured at the lower of cost and net realisable value. The net realizable value of the lands and buildings is approximately equal to their fair value. The assessment methodology for land and buildings is given in note 21.

24a. Investment Property

in thousands of BGN

Balance as at 01 January 2017	**222,267**
Write-offs upon sale	(4,055)
Balance as at 31 December 2017	**218,212**

25. Other assets

in thousands of BGN	2017	2016
Deferred expense	10,347	10,003
Gold	6,198	7,104
Other assets	101,551	77,975
Total	**118,096**	**95,082**

26. Due to banks

in thousands of BGN	2017	2016
Term deposits	4,855	–
Payable on demand	3,281	3,348
Total	**8,136**	**3,348**

27. Due to other customers

in thousands of BGN	2017	2016
Retail customers		
– current accounts	1,070,890	870,576
– term and savings deposits	5,234,573	5,723,396
Businesses and public institutions		
– current accounts	870,896	926,679
– term deposits	407,460	391,260
Total	**7,583,819**	**7,911,911**

28. Liabilities evidenced by paper

in thousands of BGN	2017	2016
Acceptances under letters of credit	16,941	21,602
Liabilities under repurchase agreements	9,099	–
Debt related to agreements for full swap of profitability	73,211	–
Financing from financial institutions	28,242	48,765
Total	**127,493**	**70,367**

Financing from financial institutions through extension of loan facilities can be analysed as follows:

in thousands of BGN

Lender	**Interest rate**	**Maturity**	**Amortised cost as at 31/12/2017**
State Fund Agriculture	2%	20.07.2018 – 15.02.2020	373
European Investment Fund – JEREMIE 2	0 % – 1,301%	30.09.2025	24,254
Bulgarian Bank for Development AD	3,50%	30.03.2019	3,615
Total			**28,242**

in thousands of BGN

Lender	**Interest rate**	**Maturity**	**Amortised cost as at 31/12/2016**
State Fund Agriculture	2%	20.01.2017 – 15.02.2020	690
European Investment Fund – JEREMIE 2	0 % – 1,329%	30.09.2025	42,050
Bulgarian Bank for Development AD	3,50%	30.03.2019	6,025
Total			**48,765**

29. Hybrid debt

in thousands of BGN	**Principal amount**	**Amortised cost as at 31 December 2017**
Hybrid debt with principal EUR 40 mio	78,233	84,929
Hybrid debt with principal EUR 60 mio	117,350	123,857
Total	**195,583**	**208,786**

in thousands of BGN	**Principal amount**	**Amortised cost as at 31 December 2016**
Hybrid debt with principal EUR 40 mio	78,233	84,910
Hybrid debt with principal EUR 60 mio	117,350	123,830
Total	**195,583**	**208,740**

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital. The Bank placed the bond issue under private subscription with a total nominal value of EUR 20,000 thousand, constituting the first tranche of a bond issue with an envisaged total amount of up to EUR 40,000 thousand. In June 2012 the Bank issued the second tranche of the instrument, also amounting to EUR 20,000 thousand and following permission from the Bulgarian National Bank included in its Tier 1 capital.

In November 2012 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital. The Bank placed the bond issue under private subscription with a total nominal value of EUR 20,000 thousand, constituting the first tranche of a bond issue with an envisaged total amount of up to EUR 60,000 thousand. In November 2013 the Bank issued the second and third tranches of the instrument, amounting to a total of EUR 40,000 thousand and following permission from the Bulgarian National Bank included them in its Tier 1 capital.

The bonds under both instruments are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem.

The two bond issues were admitted for trading at the Luxembourg Stock Exchange in 2014 based on prospects approved by the Luxembourg Commission de Surveillance du Secteur Financier.

The two hybrid instruments fully comply with the requirements of Regulation 575/2013 and are included in the additional tier 1 capital.

30. Other liabilities

in thousands of BGN	2017	2016
Liabilities to personnel	2,498	2,367
Insurance contract provisions	2,705	2,017
Provisions for pending court cases	836	1,144
Other payables	22,895	17,362
Total	**28,934**	**22,890**

31. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2017

As at 31 December 2017 the registered share capital of the Bank is BGN 110,000,000 divided into 110,000,000 ordinary dematerialized shares with voting rights of BGN 1 par value each. All the shares have been fully paid-up.

The share capital of the Bank was increased from BGN 100,000,000 to BGN 110,000,000 as a result of the successful IPO of new 10,000,000 dematerialized shares through the Bulgarian Stock Exchange – Sofia and was registered at the Commercial Register of Sofia City Court on 4 June 2007. In order to facilitate the IPO and prior to its launching the par value of the Bank's shares was reduced from BGN 10 to BGN 1 by a decision of the General Meeting of the Shareholders without affecting the aggregate amount of the share capital and the individual shareholdings.

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31 December 2017 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	46,750,000	42.50
Mr. Tzeko Todorov Minev	46,750,000	42.50
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves include amounts set aside for purposes regulated by local legislation. According to Bulgarian legislation the Bank is obliged to set aside at least 1/10 of its annual profit as statutory reserve until the total amount of reserves reaches 1/10 of the Bank's share capital.

In 2017, as in the previous year, the Bank did not distribute dividends.

32. Commitments and contingent liabilities

(a) Contingent liabilities

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for contingent liabilities represent the maximum accounting loss that would be recognised in the statement of financial position if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

in thousands of BGN	2017	2016
Bank guarantees	235,521	215,258
Unused credit lines	530,796	416,566
Letters of credit	16,981	16,315
Other contingent liabilities	62,166	72,242
Total	**845,464**	**720,381**

These commitments and contingent liabilities have off balance-sheet credit risk and only organization fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

The contingent loan is a framework agreement for collateral management under numerous loan transactions made with one or more clients. The contingent loan does not lead to an obligation of the Bank to extend specific financial instruments. The negotiation of a specific loan transaction with the Bank client, e.g. extension of a loan or overdraft, contingent liabilities, such as bank guarantees and letters of credit, is subject to a separate decision and approval of the Bank.

As at the date of the report there are no other significant contingent liabilities and commitments requiring additional disclosure.

33. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprises the following balances with less than 90 days original maturity:

in thousands of BGN	2017	2016
Cash and balances with Central Banks	1,478,594	1,639,888
Loans and advances to banks and financial institutions with original maturity less than 3 months	42,103	41,844
Total	**1,520,697**	**1,681,732**

34. Average balances

The average carrying amounts of financial assets and liabilities are set out in the table below. The amounts are calculated by using a simple average of monthly balances for all instruments.

in thousands of BGN	2017	2016
FINANCIAL ASSETS		
Cash and balances with Central Banks	1,540,181	1,477,659
Financial assets held for trading	8,956	10 ,775
Investments available for sale	683,787	553,019
Financial assets held to maturity	109,715	75,926
Loans and advances to banks and other financial institutions	43,521	128,506
Loans and advances to customers	5,085,110	5,132,811
FINANCIAL LIABILITIES		
Due to banks	6,656	7,519
Due to other customers	7,655,253	7,594,614
Liabilities evidenced by paper	128,173	107,879
Perpetual debt	-	7,548
Hybrid debt	208,053	199,760

35. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or both parties are under common control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

Type of related party	Parties that control or manage the Bank		Enterprises under common control	
in thousands of BGN	2017	2016	2017	2016
Loans				
Loans outstanding at beginning of the period	1,363	1,500	1,554	16,137
Loans issued/(repaid) during the period	(610)	(137)	(274)	(14,583)
Loans outstanding at end of the period	**753**	**1,363**	**1,280**	**1,554**
Deposits and loans received:				
At beginning of the period	7,831	7,836	3,325	2,138
Received/(paid) during the period	877	(5)	12,045	1,187
At the end of the period	**8,708**	**7,831**	**15,370**	**3,325**
Deposits placed				
Deposits at beginning of the period	–	–	9,822	9,822
Deposits placed/(matured) during the year	–	–	9,782	–
Deposits at end of the period	–	–	**19,604**	**9,822**
Other receivables				
At beginning of the period	–	–	–	–
Received/(paid) during the period	–	–	23,482	–
At the end of the period	–	–	**23,482**	–
Off-balance sheet commitments issued by the Bank				
At beginning of the period	2,259	2,484	464	838
Issued/(expired) during the period	(968)	(225)	(142)	(374)
At the end of the period	**1,291**	**2,259**	**322**	**464**

Type of related party	Parties that control or manage the Bank	Enterprises under common control
in thousands of BGN	2017	2017
Interest income	22	227
Interest expense	11	7
Fee and commission income	9	132

The key management personnel of the Bank received remuneration of BGN 8,149 thousand for 2017 and other related parties received BGN 1,628 thousand.

36. Subsidiaries

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The company is owned by the Bank. The purpose for creating the entity is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments guaranteed by the Bank. The entity's issued and paid up share capital is EUR 18 thousand divided into 180 issued and paid up shares, each with nominal value of EUR 100. The Bank consolidates its investment in the enterprise.

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 31 December 2017 the share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. The Bank consolidates its investment in the enterprise.

(c) First Investment Bank – Albania Sh.a.

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank – Albania Sh.a. upon its incorporation. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 it effectively took over the activities of the former branch FIB – Tirana, assuming all rights and obligations, assets and liabilities.

As at 31 December 2017 the share capital of First Investment Bank – Albania Sh.a. was EUR 11,975 thousand, fully paid up, and the Bank's shareholding is 100%. The Bank consolidates its investment in the enterprise.

d) Debita OOD and Realtor OOD

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in the Commercial Registry in January 2010. The capital of the two companies is BGN 150,000 each, distributed in shares with value of BGN 100 each, as follows:

1. Realtor OOD - 70%, i.e. 1.050 shares for the Bank and 30%, i.e. 450 shares for FFBH OOD.

2. Realtor OOD - 51%, i.e. 765 shares for the Bank and 49%, i.e. 735 shares for FFBH OOD.

The companies were established as servicing companies within the meaning of Article 18 of the Law on Special Investment Purpose Companies. The main lines of business for Debita OOD include acquisition, servicing, management and disposal of receivables and the related consultancy services; the main lines of business for Realtor OOD include management, servicing and maintenance of real estate, construction and refurbishment works and consultancy in the field of real estate.

These companies are not included in the consolidated financial statements of the Group for the year ended 31 December 2017, as they are considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiaries is reconsidered at each reporting date.

(e) Fi Health Insurance AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. With a decision of the Financial Supervision Commission issued in June 2013 the company has been granted a license to operate as an insurer. The name was changed to FI Health Insurance AD and the principal activity is insurance – Disease and Accident. As at 31 December 2017 the share capital of the company is BGN 5,000 thousand, and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the enterprise.

(f) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services EOOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed into a sole-shareholder company. As at 31 December 2017 the share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%. The company is not included in the consolidated financial statements of the Group for the year ended 31 December 2017, as it is considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiary is reconsidered at each reporting date.

(g) Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD

During the first half of 2013 the Bank established as the sole shareholder the companies Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD. Each company has the minimum required capital of BGN 2 and their principal activities include manufacturing and trade in goods and services in Bulgaria and abroad (Turnaround Management EOOD, Creative Investment EOOD), acquisition, management and sale of assets, information processing, financial consultations (Lega Solutions EOOD), etc. These companies are not included in the consolidated financial statements of the Group for the year ended 31 December 2017, as they are considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiaries is reconsidered at each reporting date

(h) AMC Imoti EOOD

AMC Imoti EOOD was registered in September 2010 and was acquired by the Bank in 2013 through the purchase of MKB Unionbank EAD as its subsidiary. The scope of operations of the company includes activities related to acquisition of property rights and their subsequent transfer, as well as research and evaluation of real estate, property management, consulting and other services. As at 31 December 2017 the capital of the company is BGN 500 thousand, and the Bank is the sole owner. The company is not included in the consolidated financial statements of the Group for the year ended 31 December 2017, as it is considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiary is reconsidered at each reporting date.

(i) Other

The Bank indirectly holds the subsidiary Fi Health EOOD. The company is not included in the consolidated financial statements of the Group for the year ended 31 December 2017, as it is considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiary is reconsidered at each reporting date.

37. Post balance sheet events

There have been no events after the reporting date that require additional disclosures or adjustments to the financial statements of the Group.

Accelerated globalization takes businesses and users into the virtual space of e-services and commerce. Banks are required to take the lead in this process, while remaining firmly on the ground.

Meeting the 2017 goals

N	Goals	Met
1	To continue its stable development in accordance with the market environment and regulatory framework	• First Investment Bank retained its third place in terms of assets and deposits among the banks in the country, as total Group assets were BGN 8,921,198 thousand, while customer deposits were BGN 7,583,819 thousand at end-2017. The Bank maintained a high liquid position (24.78%), as well as stable capital adequacy (15.89%) on a consolidated basis. • Recognition of development and customer trust came through the following awards during the year: for strongest brand among financial institutions in Bulgaria by Superbrands, as well as for the best brand in the consumer and SME banking by Global Brands Magazine. Fibank was awarded for a seventh time in its history as Bank of the client. • During the year the long-term rating of the Bank was upgraded to (B) by Fitch Ratings, and assigned (B1) by Moody's Investor Service. • Developing the projects for implementing the requirements of IFRS9, MiFID 2, PSD 2 and GDPR.
2	To maintain stable capital indicators and necessary buffers above regulatory requirements	• First investment Bank reported fulfillment of the specific measures for capital enhancement, by forming the recommended capital buffer by BNB in relation to the asset quality review and stress test organized in the country in 2016. • The initiatives for capital leverage in key areas continued, incl. through non-distributing the realized profit, diversification of the loan portfolio and active management of risk on the exposures. • At end-2017 the capital indicators of the Bank were significantly above the regulatory requirements: CET1 at 12.87%, tier 1 capital at 15.87% and total capital adequacy at 15.89%.
3	To continue to maintain a moderate risk profile and an effective control environment with regards to business processes and risk undertaking	In 2017 Fibank performed its activity in execution of the approved risk strategy and business goals, aiming further increase in the control mechanisms with respect to the inherent risks. The limits for debt and capital instruments, applied by the Bank were enhanced with the aim for minimizing risks and introducing a wider risk-based framework of limits. The methods for regular risk-control self-assessment of the operational risk (RCSA) were updated, used as an additional tool for analysis of the effectiveness and for reducing this type of risk. The internal regulatory framework on business continuity management was enhanced, aiming at greater integration of information into a single document with basic content. *For more information see section "Risk Management"*
4	To diversify the loan portfolio through priority lending to retail and small and medium companies	Loans to retail, micro enterprises and SMEs continued to increase their share in the gross loan portfolio – to 26.1%, 2.1% and 13.1% respectively at 2017 year-end, compared to 24.7%, 1.9% and 10.4% a year earlier. Loan portfolios in retail banking, micro enterprises and SMEs increased also in absolute terms up to BGN 1,507 million, BGN 122 million and BGN 753 million respectively. During the year, Fibank developed new lending products and programs in these segments, offering competitive terms consistent with the market trends. *For more information see section "Financial Review"*

5	To apply high corporate governance standards in compliance with good international practices and applicable regulatory requirements	The Bank continued to organise regular meetings with minority shareholders as part of its policy for further transparency and feedback between them and the senior management of the Bank. During 2017 the activity of the Audit Committee was additionally developed, including amending its rules of procedure in accordance with regulatory requirements as well as adding a second member of the Committee independent from the Supervisory Board and the Bank. For implementation of its strategic objectives, Fibank uses the services of internationally recognized advisors such as Bain & Co, Citigroup Global Markets Limited The internal regulations in corporate governance were further enhanced in line with best practices and standards, incl. a whistleblowing mechanism. *For more information see section "Corporate Governance"*
6	To develop electronic services, including through integrated management, upgrading and adding new functionalities	During 2017 Fibank realized the project for integrated platform for e- banking "My Fibank", which unified the existing remote services with the aim of enhancing and adding new functionalities through uniform channel for customer services. A number of new functionalities of the mobile application My Fibank were added during the year including online applications for credit cards and changing credit card limits. To the customers of Cyprus branch new services were provided, i.e. e-mail notification of sent and received interbank transfers in foreign currency, option for registration with 3D Card Security, as well as increasing the scope of reporting information. Recognition for the development in this sphere were the awards received during the year, incl. the awards "Mobile innovation" and "Technological innovation of the year", of the Annual b2b Media Awards 2017, as well as the awards for digital solutions at the Technological festival for innovation Webit 2017. *For more information see section "Remote Banking"*
7	To continue its policy for creating innovative services with a focus on digital services	• Fibank successfully upgraded its core banking information system by migrating to the highest version Oracle Flexcube 12, aiming at faster and easier parameterization of new more flexible and individualized banking products and services. • The Bank offered an innovative microcard issued as an additional debit card to the Debit MasterCard Pay Pass kids/teen, which was built in a special accessory (bracelet or keyring) with function for contactless payment. • Fibank continued to popularize the service Digital Payments for managing digital bank cards as well as focusing on fully online application for consumer loans on the Bank's website or contact center. • During 2017 Fibank received 3 awards for innovations in the consumer sector of the Product of the Year awards – for its digital cards, online consumer loans and debit cards for children and teenagers.
8	To offer new products and services to individuals and business customers, while maintaining high quality of customer service	New credit products were developed, targeting IT companies, as well as doctors and dentists. New credit solutions were offered for SMEs and micro enterprises in relation to the realization of investment projects, as well as payments on VAT expenses cofounded by the programs under the EU structural funds. A new agreement with the NGF was signed for applying a guarantee scheme for SME financing under a risk sharing mechanism. First Investment Bank updated the bank packages for business clients, as well as offered new numismatic products. *For more information see section "Business Review"*

9	To assert its positions as a good and preferable employer through determined and persistent work in human capital management	An innovative project "We Are" was launched in human resourses placing main emphasis on strengthening and developing attitudes and working behaviors aimed at proactivity and efficiency in sales, quality in service and interaction with customers. Through the "Together We Can Do More" program the Bank continued the successful practice of distinguishing employees with key contributions in delivering high performance, customer service development and team interaction. During the year the Bank was approved for financing under OP "Development of Human Resources" for training in digital competences and language skills for 450 employees *For more information see section "Human Capital"*
10	To affirm its image as a socially responsible institution supporting significant social projects and initiatives	During the year First Investment Bank continued its joint initiative with the National Center for Transfusion Hematology (NCTH), conducting a campaign for free and voluntary blood donation in which a number of celebrities and employees of the Bank took part. Computer equipment was also donated to the National Center to support its activity and facilitate the work of NCTH staff. Within the long-term program of Fibank to support and stimulate the development of Bulgarian education, during the period, outstanding students from the Yane Sandanski Natural-Mathematical High School in Gotse Delchev were awarded for their achievements in various contests and competitions during the school year 2016/2017, as well as students with excellent results from other major cities in the country. In December 2017, First Investment Bank presented its charity calendar for 2018, which is part of a social project in support of the birth promotion campaign "Do it for Bulgaria" organized by the National Cause Movement. *For more information see section "Social Responsibility"*

Subsequent events

- In January 2018, First Investment Bank and the National Guarantee Fund signed a new financing agreement under the COSME 2017 Guarantee Scheme, which aims to facilitate the access of SMEs to financing and to support the implementation of productive investment within the European Union.
- With regard to the option to apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds, First Investment Bank decided during the transitional period (2018-2022) to apply the measures under Article 473a of Regulation (EU) No 575/2013, including the additional relief provided for in paragraph 4 - the so-called dynamic part of the transitional treatment.
- In February 2018, Mr. Chavdar Georgiev Zlatev was elected as Chief Corporate Banking Officer (CCBO), member of the Management Board and executive director of First Investment Bank AD. Mr. Zlatev is a long-time employee, having occupied a number of executive positions in the Bank, with extensive experience in corporate banking and high professional qualifications.
- In April 2018, Mr. Svetoslav Stoyanov Moldovansky left his positions of Executive Director and Member of the Managing Board of First Investment Bank AD. The management of the Bank expressed its gratitude to his contribution to the development of the institution and wished him success in his future challenges.

Goals for development during 2018

- To prioritise the development of retail banking and services to small and medium businesses.
- To maintain focus on the high quality of service and customer satisfaction.
- To expand its market presence using new channels and sale solutions.
- To offer new products and package services, in line with customer needs.
- To continue to develop innovative electronic services, based on high technological solutions.
- To maintain stable capital indicators and applicable buffers above regulatory requirements.
- To maintain a moderate risk profile and effective control environment with regards to risks.
- To apply high corporate standards in compliance with the best international practices and applicable regulatory requirements.
- To assert its positions as a good and preferable employer through new initiatives and activities in human capital management.
- To continue its socially responsible policy supporting significant social projects and initiatives.

Other information

Members of the supervisory board

Evgeni Lukanov - Chairman of the Supervisory Board

Mr. Lukanov joined First Investment Bank AD in 1998 as Deputy Director, and later as Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was Director of the Bank's Vitosha Branch (Sofia).

Mr. Lukanov has occupied a number of senior positions with First Investment Bank AD. From 2003 to 2007 he was Director of the Risk Management Department and Member of the Managing Board. From 2004 to 2012 - Executive Director and Member of the Managing Board of First Investment Bank AD.

During his 19-year experience with First Investment Bank AD, Mr. Lukanov has been Chairman of the Credit Council and the Liquidity Council of the Bank. He has been in charge of the following departments: Risk Management, Impaired Assets and Provisioning, Loan Administration, Specialized Monitoring and Control, Retail Banking, Methodology, and Liquidity.

Mr. Lukanov has also been member of the Managing Board of First Investment Bank – Albania Sh.a.

At the beginning of February 2012, Mr. Lukanov was elected as Chairman of the Supervisory Board of First Investment Bank AD and as Chairman of the Risk Committee to the Supervisory Board of the Bank.

Mr. Lukanov holds a Masters Degree in Economics from the University of National and World Economy, Sofia. Prior to joining First Investment Bank AD, Mr. Evgeni Lukanov worked as currency broker with First Financial Brokerage House OOD.

Besides his position on the Supervisory Board of the Bank, Mr. Lukanov is also Chairman of the Board of Directors of Fi Health Insurance AD. He is owner of ET Imeksa-Evgeni Lukanov and holds more than 10% of the capital of Avea OOD.

Maya Georgieva - Deputy Chair of the Supervisory Board

Prior to joining First Investment Bank, Ms. Maya Georgieva worked with the Bulgarian National Bank for 19 years where she gained considerable experience in international banking relationships and payments, banking statistics and firm crediting. Her last appointment with BNB was as Head of the Balance of Payments Division.

Ms. Maya Georgieva joined First Investment Bank AD in 1995 as Director of the International Department. From 1998 to 2012 she served as Executive Director of First Investment Bank and Member of the Managing Board. During her 22-year experience with the Bank she has been responsible of the following departments: International Payments, Letters of Credit and Guarantees, SME Lending, Human Capital Management, Administrative Department, Sales Department, Retail Banking, Marketing, Advertising and PR, Branch Network, Private Banking and the Vault.

Alongside her responsibilities at the Bank, Ms. Georgieva has also occupied a number of other senior executive positions. From 2003 to 2011 she chaired the Supervisory Board of CaSys International - a Macedonia-based card processing company servicing card payments in Bulgaria, Macedonia and Albania.

From 2009 to 2011 she was Chair of the Board of Directors of Diners Club Bulgaria AD - a franchise company of Diners Club International, owned by First Investment Bank. In this capacity, she inspired the launch of a number of products, including the first female-oriented credit card.

From 2006 to 2011 she was also member of the Managing Board of First Investment Bank - Albania Sh.a., a subsidiary of First Investment Bank.

In the beginning of February 2012, Ms. Georgieva was elected as Deputy Chair of the Supervisory Board of First Investment Bank AD and Chair of the Presiding Committee to the Supervisory Board of First Investment Bank AD.

Ms. Georgieva holds a Masters Degree in Macroeconomics from the University of National and World Economy in Sofia and has post-graduate specializations in International Payments with the International Monetary Fund and Banking from Specialized postgraduate course of BNB joint with the Bulgarian Union of Science and Technology.

In both 2001 and 2011, she was granted the “Banker of the Year” award of the Bulgarian financial weekly “Banker”.

Georgi Mutafchiev, Ph.D. - Member of the Supervisory Board

Mr. Mutafchiev began his career in 1985 as an expert, and later as a senior expert on development of the system for management and coordination of enterprises of the Electronic Industry Association. In 1987, he joined Techno-Import-Export Foreign Trade Company as a senior expert with the Department of Coordination and Development under the Executive Director.

In 1991 Mr. Georgi Mutafchiev started work at the Bulgarian National Bank as Head Reserve Manager with the Foreign Currency Operations Department. During his six-year experience with the National Bank, he was responsible for the investment of foreign currency reserve and controlled the management thereof.

From 1997 to 2011 he was Executive Director of Flavia AD and Flavin AD. Flavia AD is one of the largest light industry companies in Bulgaria. Since 2011 Mr. Mutafchiev has participated in the management of Hefty Metals EOOD – one of the largest companies in recycling and trade with metals in Bulgaria.

Along with its responsibilities in Flavia, in 2000 Mr. Mutafchiev was elected as Member of the Supervisory Board of First Investment Bank. In 2014, he was elected as Chairman of the Nomination Committee to the Supervisory Board of First Investment Bank.

Mr. Mutafchiev graduated in law at the Sofia University St. Kliment Ohridski in 1982. From 1982 to 1984 he studied at the Sorbonne in Paris, where he received a PhD degree in Business Law. The same year Mr. Mutafchiev also acquired an MBA degree from the Schiller University, Paris.

Mr. Mutafchiev is not an owner and does not own controlling share in companies.

Radka Mineva - Member of the Supervisory Board

Prior to joining First Investment Bank AD, Ms. Mineva worked as a capital markets dealer at the Bulgarian National Bank where she gained considerable experience in banking. During the time spent with the Central Bank, she specialized at the Frankfurt Stock Exchange and the London Stock Exchange as a capital markets dealer.

Ms. Mineva started her career with the foreign trade enterprise Main Engineering Office, where she worked for 9 years; she also spent three years as an expert at RVM Trading Company.

Since 2000, Ms. Mineva has been a Member of the Supervisory Board of First Investment Bank AD.

She is a graduate of the University of National and World Economy in Sofia, with a degree in Trade and Tourism.

Besides her position on the Supervisory Board of the Bank, Ms. Mineva is Manager of Balkan Holidays Services OOD - a company with activities in the sphere of tourism, transportation, hotel business, tour operation, and tour agency services. Ms. Mineva is also Manager of Balkan Holidays Partners OOD - a company engaged in international and domestic tourism services, foreign economic transactions, and financial management. Ms. Mineva owns more than 25% of the capital of Balkan Holidays Partners OOD.

Jordan Skortchev - Member of the Supervisory Board

Before joining First Investment Bank AD, Mr. Jordan Skortchev worked for two years with the Central and Latin America Department of the foreign trade organization Intercommerce, followed by five years with First Private Bank, Sofia as an FX Dealer and Head of the Dealing Division.

Mr. Skortchev joined First Investment Bank in 1996 as Chief Dealer, FX Markets.

From 2000 to 2012 Mr. Skortchev was Member of the Managing Board and Executive Director of the Bank.

During his 21-year experience with the Bank, Mr. Skortchev has been responsible for the following departments: Card Payments, Operations, Gold and Numismatics, Internet Banking, Dealing, Security and Office Network-Sofia.

Alongside his responsibilities at the Bank, Mr. Skortchev has also occupied other senior executive positions.

Mr. Skortchev has been Chairman of the Supervisory Board of UNIBank, Republic of Macedonia, member of the Supervisory Board of CaSys International, Republic of Macedonia, member of the Board of Directors of Diners Club Bulgaria AD, member of the Board of Directors of Bankservice AD, member of the Board of Directors of Medical center FiHealth AD, and Manager of FiHealth OOD.

In the begining of February 2012, as a Member of the Supervisory Board of the First Investment Bank AD, Mr. Skortchev was elected as Chairman of the Remuneration Committee to the Supervisory Board of the Bank.

Mr. Skortchev holds a Masters Degree in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. He has specialized in banking in Luxembourg, in swap deals at Euromoney, and in futures and options at the Chicago Stock Exchange.

Mr. Skortchev holds more than 10% of the capital of Investment intermediary Delta Stock AD.

Jyrki Koskelo – Member of the Supervisory Board

Mr. Jyrki Koskelo was elected as member of the Supervisory Board of First Investment Bank AD in June 2015. In his capacity as an independent member Mr. Koskelo supports the Supervisory Board in setting up the business objectives and the strategy of the Bank, the corporate culture and values, as well as in overseeing good corporate governance practices and effective risk management. Mr. Koskelo has long-term experience in banking and global financial markets, as well as wide professional practice in different geographical regions.

Mr. Koskelo worked in the International Finance Corporation (IFC - a member of the World Bank Group) for 24 years, from 1987 to late 2011. The first 13 years he worked as an Investment Officer covering the Central and Eastern Europe and Africa regions. In 2000, he was appointed as Director Work-out Loans and in 2004 he became Director Global Financial Markets. In 2007, he was appointed as Vice President (reporting to the CEO) and a member of the IFC's Management Committee. Mr. Koskelo led the formulation and implementation of the IFC's investment strategy, policies, and practices across industries and regions, including in Central and Eastern Europe, Latin America and Africa. His major legacies include IFC's entry to Global Trade Finance Programs, decentralization of the organization with significant staffing across emerging markets, IFC's leading role in private sector side of Vienna Initiative to support Central Europe banks after Lehman Crisis and establishment of IFC's Asset Management subsidiary's first $3 billion fund for capitalization of weak banks in poor countries.

Prior to joining the IFC, he spent close to 10 years in senior management positions in the private sector in the Middle East and in USA.

Mr. Koskelo currently holds a number of senior and advisory positions in European, African and Middle Eastern organizations and financial institutions including:

- AATIF (Africa Agriculture and Trade Investment Fund), Luxemburg – Member of the Board of Directors, Member of the Investment Committee;
- EXPO Bank, Czech Republic – Member of the Supervisory Board;
- Al Jaber Group, U.A.E. – Senior Advisor.

During the period 2012 - April 2015 Mr. Koskelo was a Board Member and advisor in the Africa Development Corporation, Germany; African Banking Corporation, Botswana; RSwitch, Rwanda; EXPO Bank, Latvia, and AtlasMara Co-Nvest LLC, UK.

Mr. Koskelo holds a Master of Science (M.Sc.) degree in Civil Engineering from the Technical University of Helsinki, Finland and a Master of Business Administration (MBA) in International Finance from the Massachusetts Institute of Technology (MIT), Sloan School of Management in Boston, USA.

Members of the Managing Board

Nedelcho Nedelchev – Chief Executive Officer (CEO) and Chairman of the Managing Board

Mr. Nedelcho Nedelchev was appointed Chief Executive Officer (CEO) and Chairman of the Management Board of First Investment Bank AD in May 2017. During the 2007-2012 period Mr. Nedelchev was member of the Supervisory Board of First Investment Bank AD, and in 2013 he managed the project of acquisition of Unionbank EAD, and was member of its Supervisory Board until its merger into Fibank.

Mr. Nedelchev started his career in the Aval In brokerage house. In 1997 he was financial analyst in First Financial Brokerage House OOD, was soon thereafter promoted to Head of Analysis, and in 2001 became one of its managers. In 2003 he was appointed Deputy Minister of Transport and Communications of the Republic of Bulgaria, and in the 2003-2005 period was also Deputy Chairman and Chairman of the Board of Directors of Bulgarian Telecommunications Company AD. From September 2005 to March 2006, Mr. Nedelchev was an adviser to the Minister of State Administration. During his professional career he has been involved in the management of a number of companies operating in the energy and telecommunications sector in Bulgaria, as well as in the field of financial consulting.

Mr. Nedelchev holds a Master's degree in International Economic Relations from the University of National and World Economy in Sofia and has professional licenses and certifications in the field of international financial and commodity markets, investment services and activities, management, business planning, issued by internationally recognized institutions such as the World Bank, the Wholesale Markets Brokers' Association (London) and others.

In the Bank he is responsible for the Compliance function, the Corporate Communication Department, the Marketing and Advertising Department, the Human Capital Management Department, the Sales Department, the Administration Department, the Strategic Planning and Development Department, the Asset Management Department, the Protocol and Secretariat Department.

Besides his position in the Bank, Mr. Nedelchev is a Member of the Managing Board of First Investment Bank – Albania Sh.a., a Member of the Board of Directors of Borica AD and Member of the Board of Directors of Flips Media EAD. He owns more than 25% of the capital of Project Synergy OOD.

Sevdalina Vassileva – Chief Retail Banking Officer (CRBO), Member of the Managing Board and Executive Director

Mrs. Sevdalina Vassileva joined First Investment Bank AD in 2017 as Director of the Strategic Planning and Development Department. She was subsequently appointed as Executive Director, member of the Management Board of First Investment Bank AD and Chief Retail Banking Officer (CRBO).

The professional experience of Mrs. Vassileva in the banking sphere started in 2007 in Eurobank EFG Bulgaria AD (Postbank) as Director, Consumer Lending and Executive Director of one of the group's companies. From 2010 to 2016 she was Retail Banking Manager at Alpha Bank – Bulgaria Branch. Her career began in 1998 at Coca - Cola Hellenic Bottling Company Bulgaria AD, where she held various management positions in marketing and sales for 6 years. From 2004 until 2007 she was a member of the management team of United Milk Company EAD. Prior to joining First Investment Bank AD, Sevdalina Vassileva was part of the team of Bella Bulgaria AD, serving as Director of Business Development and Expansion.

Outside her strictly professional duties, in her spare time she mentors entrepreneurs and start-ups, assisting them in the development and realization of their ideas, mainly in the field of new technologies.

Sevdalina Vassileva is the Chair of the Management Board of the Alumni Association of the Faculty of Economics and Business Administration at the Sofia University St. Kliment Ohridski, where she works towards improving the professional orientation and training of young people, as well as promoting the contacts and cooperation between the business, academia and institutions.

Mrs. Vassileva graduated from the Faculty of Economics and Business Administration of Sofia University, with an MBA degree in Management Information Systems. In 1996 she specialized in Marketing and Management at Lund University, Sweden.

In the Bank she is responsible for the Retail Banking Department, the Private Banking Department, the Organisation and Control of Customer Service Department, the Branch Network Department and the Vault.

Besides her position in the Bank, Mrs. Vassileva is a Member of the Board of Directors of Diners Club Bulgaria AD and Member of the Board of Directors of Balkan Financial Services EAD.

Svetozar Popov – Chief Risk Officer (CRO), Member of the Managing Board and Executive Director

Mr. Svetozar Popov joined First Investment Bank AD in 2004 as part of the Risk Management Department, and was shortly thereafter promoted to Head of the Credit Risk Division. From 2006 to 2008 he served as Deputy Director of Risk Management, during which period he also chaired the Bank's Credit Council. From 2016 to 2017, Mr. Popov held the office of Chief Compliance Officer (CCO), and in May 2017 he was appointed as Chief Risk Officer (CRO), Member of the Management Board and Executive Director of First Investment Bank AD.

From 2008 to 2015, Mr. Popov was member of the Managing Board and Executive Director of Universal Investment Bank AD, Macedonia, where he gained significant management experience and was responsible for the areas of risk management, credit administration, and finance. Prior to joining First Investment Bank AD, Mr. Popov worked at Raiffeisenbank (Bulgaria) EAD as an SME loan officer.

Mr. Popov holds a Master's degree in Finance from the University of National and World Economy in Sofia, and has obtained additional qualifications in the field of financial analysis from the European

Bank for Reconstruction and Development (EBRD) and other internationally recognized institutions, as well as practical experience in foreign banks.

In the Bank he is responsible for the Risk Analysis and Control Department, the Credit Risk Management, Monitoring and Provisioning Department, the Impaired Assets Department, the Loan Administration Department and the specialized unit Information Security.

Besides his position in the Bank, Mr. Popov is a Member of the Board of Directors of Medical Centers Fi Health AD, a Member of the Board of Directors of Medical Centers Fi Health Plovdiv AD and a Manager of Debita OOD.

Svetoslav Moldovansky – Chief Operating Officer (COO), Member of the Managing Board and Executive Director

Mr. Svetoslav Moldovansky joined First Investment Bank AD in 2005 as Director of "Specialised Internal Control Service". From 2007 to 2008 he was a Chief Executive Officer of "First Investment Bank – Albania Sh.a". From 2008 to 2010 he held a position as Director of the "Operations" Department. In 2010, he was elected as a member of the Managing Board of First Investment Bank AD, and in the beginning of 2011 he was appointed as a Deputy Executive Director. Since the end of 2011 Mr. Moldovansky has been an Executive Director of the Bank. At the end of 2015, he was elected as Chief Operating Officer (COO).

Previously, Mr. Moldovansky worked as manager in "Management of Corporate Risk" at KPMG Bulgaria OOD and as a senior auditor at Deloitte&Touche (now Deloitte), Bulgaria. He holds a Master's in Finance from the University of National and World Economy in Sofia. Mr. Moldovansky is a certified auditor from the Information Systems Audit and Control Association (ISACA), USA.

In the Bank he is responsible for the Operations Department, the Card Payments Department, the E-banking Department, the Gold and Commemorative Coins Department, the Security Department and the Intensive Loan Management Department.

Besides his position in the Bank, Mr. Moldovansky is also Chairman of the Audit Committee of First Investment Bank – Albania Sh.a., a Chairman of the Supervisory Board of UNIBank, Republic of Macedonia, a member of the Supervisory Board of Casys International, Republic of Macedonia, a member of the Board of Directors of Diners Club Bulgaria AD, Chairman of the Board of Directors of Balkan Financial Services EAD. Mr. Moldovansky possesses more than 10% of the capital of Cook and More OOD.

Jivko Todorov – Chief Financial Officer (CFO) and Member of the Managing Board

Mr. Jivko Todorov joined First Investment Bank AD in June 2014 as Chief Financial Officer. At the end of 2015, Mr. Todorov was elected Member of the Managing Board of the Bank.

Prior to joining First Investment Bank AD, Mr. Todorov worked as Chief Financial Officer (CFO) for Alpha Bank Bulgaria (2012-2014) and for ING Bank NV – Sofia Branch (2004-2012), where he started his banking career in 1997.

Mr. Jivko Todorov holds a Master's degree in Accounting and Control from the University for National and World Economy in Sofia and is an Executive MBA at HULT International Business School, London UK.

In the Bank he is responsible for the Finance Department, the Accounting Department, the Treasury Department, the Investor Relations Department and the Financial Institutions and Correspondent Banking Department.

Mr. Todorov is a member of the CFO Club in Bulgaria.

Mr. Todorov does not hold outside professional positions.

Nadia Koshinska – Member of the Managing Board and Director of SME Banking Department"

Ms. Nadia Koshinska joined Fibank in 1997 as a corporate loan expert. In 2002, she was appointed Deputy Director Loan Administration and held this position until 2004. In 2004 Nadia Koshinska was appointed Director SME Lending Department responsible for increasing the market share of the Bank through implementing special programs and dedicated products for SMEs. Also in 2004, she was appointed as a member of the Credit Council. At the end of 2015, Ms. Koshinska was elected as Chief Retail Banking Officer (CRBO) and Member of the Managing Board, while since September 2017 has been a Member of the Managing Board and Director of SME Banking Department.

Prior to joining First Investment Bank she worked in the balance of payments and foreign debt division in Bulgarian National Bank.

Ms. Nadia Koshinska holds a Masters degree in Accounting and Control from the University of National and World Economy.

In the Bank she is responsible for the SME Banking Department.

Ms. Koshinska does not hold outside professional positions.

The present Activity report (on a consolidated basis) for 2017 was approved by the Managing Board of First Investment Bank AD in accordance with the Bank's internal regulations at a meeting dated 27 April 2017.

Nedelcho Nedelchev

Chief Executive Officer,
Chairman of the Managing Board

Svetozar Popov

Executive Director,
Chief Risk Officer,,
Member of the Managing Board

Jivko Todorov

Chief Financial Officer,
Member of the Managing Board

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