To:
Financial Supervision Commission
Investment Activity Supervision Department
16 Budapest Str.
Sofia

Cc:
Bulgarian Stock Exchange - Sofia AD
6 Tri Ushi Str.
Sofia

*Re: Annual consolidated (audited) financial statements of First Investment Bank AD as at 31 Dec 2016*

Dear Sirs,

In compliance with the requirements of the Public Offering of Securities Act (POSA) and the regulations for its implementation, in our capacity as public company and issuer of bonds admitted for trading at a regulated market, we hereby submit the audited consolidated financial statements of First Investment Bank AD as at 31 December 2016, containing:

- ✓ Audited consolidated financial statements as at 31.12.2016 and notes thereto, accompanied by the auditor’s report as per Art. 100m, para. 4(1) of POSA;
- ✓ 2016 Annual Report of First Investment Bank pursuant to Art. 100m, Para. 4(2) of POSA;
- ✓ Declaration under Art. 100o, para. 4(4) of POSA.

Sincerely,

*(signed)*

Vassil Christov
Chief Executive Officer
Chairman of the MB

*(signed)*

Maya Oyfalosh
Executive Director
Member of the MB

**FIRST INVESTMENT BANK AD**

**CONSOLIDATED FINANCIAL STATEMENTS**
**AS AT 31 DECEMBER 2016**
**WITH INDEPENDENT AUDITOR'S REPORT THEREON**

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# INDEPENDENT AUDITOR'S REPORT

**To the shareholders of First Investment Bank AD**

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the accompanying consolidated financial statements of First Investment Bank AD, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the First Investment Bank AD as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

### Basis for Opinion

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

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Impairment of loans to customers**

| Nature of the area of focus | Matters discussed with the audit committee |
|---|---|
| The impairment is a significant management estimate regarding the losses within the Bank's loan portfolio.<br>The Bank assesses the need for impairment of loans on individual and portfolio base.<br>Loans constitute 55% of the Bank's assets. The Bank categorises loans to customers in 4 business segments: retail, SME, microlending and corporate clients. Loans to corporate clients have the biggest share - 63% of all loans to customers.<br>Due to their significance and the uncertainty related to the process of identifying loans which are about to become non-performing, the assessment of objective evidence of impairment and the determination of the recoverable amount, are defined as key audit matter.<br>The process includes different assumptions and factors, including the borrower's financial position, expected future cash flows, value of | Matters discussed included the positive outcomes and the good practices underlying the provisioning model. The Bank complied with the IFRS requirements for developing the provisioning policy and rules.<br>The following improvements in procedures were discussed which the Bank should introduce with a view to:<br>- Clearer documenting of the estimates of the future cash flows of borrowers and the expected development of loan exposures in future periods, specifically with regard to turnover lending by the Bank.<br>- Systematic confirmation from the borrower's owners that they are committed to providing continuing support to those companies. |

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| Nature of the area of focus | Matters discussed with the audit committee |
|---|---|
| collateral.<br>As a result of using different modelling and assumption techniques, these can lead to differences in assessing the provisions for loss. The exposures causing highest uncertainty of assessment are those in which there is a risk of insufficient cash flows or insufficient collateral. | We also discussed with the audit committee a recommendation to the Bank's bodies responsible for risk management to monitor for changes in risk factors, the macroeconomic environment and other data used in the provisioning models, so that significant changes can be reflected in these models in a timely manner. |

Procedures carried out in support of our conclusions and discussions:

- We reviewed the Bank's internal rules, gained understanding of the key controls in significant business processes and tested the efficiency of controls in accordance with the audit strategy.
- We reviewed a sample of borrowers based on risk analysis for which we carried out procedures relating to the estimate for sufficiency of the recognized provision for impairment.
- For individually recognised provisions we tested assumptions regarding the identification and quantitative determination of impairment, including forecasts for future cash flows and valuation of collaterals. We reviewed a sample of loan exposures which remain, became or were about to be subjected to impairment risk.
- As regards the collective provisions for impairment, we reviewed the methodology used by the Bank to determine them, the reasonability of the major assumptions and the sufficiency of data used by the management.
- For selected non-performing loans we assessed the management's forecast for generating cash flows, the valuation of collateral and other sources of repayment. In addition we tested a sample of performing loans for which the financial indicators were assessed for weaknesses and other risks which might endanger the ability to repay the exposures.

Relevant references in the Annual Financial Statement

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

**Repossessed assets**

| Nature of the area of focus | Matters discussed with the audit committee |
|---|---|
| The position in the financial statement amounts to BGN 1,034,501 thousand, disclosed in the relevant subgroups.<br>The "Buildings" group contains assets with a different stage of completion and in accordance with their status as at the date of acquisition.<br>For the largest item which includes assets from all groups the Bank has outsourced to a subsidiary the activities relating to the management, security and preparation for disposal. As a result of these activities during the year BGN 30,377 thousand were transferred from Buildings to Lands, duly disclosed.<br>In 2016 assets for a total of BGN 41,253 thousand were sold. The Bank recognized in "Other income/(expense)" a net of BGN (6,177) thousand, of which other income of BGN 19,337 thousand and those resulting from revaluation of property, sale of assets and rented assets.<br>The Bank, like any other banking institutions, is subject to a significant risk as regard the disposal of repossessed assets. | We discussed the actions and procedures which the Bank should introduce in order to enable the consistent tracking of changes in income and expense for subgroups up to the time of disposal of the relevant asset. In addition we made a recommendation to improve the processes of inventory taking of repossessed assets with a view to better and complete application of the national framework for financial reporting. |

Procedures carried out in support of our conclusions and discussions:

- We reviewed the Bank's internal rules, gained understanding of the key controls in significant business processes and tested the efficiency of controls in accordance with the audit strategy.
- For a sample of newly repossessed assets for a total amount of BGN 91,585 thousand we reviewed the acquisition documents and the reports for determining the fair value, which also

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| Nature of the area of focus | Matters discussed with the audit committee |
|---|---|
| indicates the stage of completion of the relevant asset.<br>- We reviewed the supporting documents for our sample relating to the biggest item - agreement for mediation, rental agreement, commission agreement, as well as the annexes thereto. We carried out procedures to confirm the completeness and accuracy of the reclassification between groups.<br>- We reviewed the supporting documents for a sample of written-off assets for a total of BGN 19,495 thousand in order to obtain sufficient assurance regarding the transactions. | |
| Relevant references in the Annual Financial Statement<br>• Note 12<br>• Note 24 | |

**Court proceedings and provisions**

| Nature of the area of focus | Matters discussed with the audit committee |
|---|---|
| The Bank, as any other banking institution, is subject to significant risk from court proceedings and regulatory inspections. The degree of impact cannot always be forecasted, but it may lead to provisions for contingent and other liabilities depending on the relevant facts and circumstances. The level of provisioning is subject to management and judgment based on legal consultations.<br>The Bank recognized provisions in the amount of BGN 1,144 thousand for court proceedings.<br>In relation to issued bank guarantees the Bank has a blocked amount of BGN 43,094 thousand, disclosed in Note 25 to the financial statement, included in "Other Assets" subgroup.<br>Due to the lack of clarity relating to the occurrence and making of claims with regard to court proceedings against the Bank, there is a risk of incomplete or untimely recognition in the financial statements of legal claims belonging to the relevant reporting period. | The recognition and assessment of provisions were discussed with the Audit Committee in order to ascertain that the Bank has applied correctly its provisioning policies.<br>The proceedings for which the Bank does not recognize provisions were discussed in order to obtain sufficient assurance that there is no need for additional provisioning, specifically:<br>the Bank's legal department reports to the Audit Committee on the current status of court proceedings. We discussed the significant changes which occurred, taking into account any potential changes in the provisions.<br>The discussion also had the objective of identifying all significant court disputes. |
| Procedures carried out in support of our conclusions and discussions:<br>- We reviewed the Bank's internal rules, gained understanding of the key controls in significant business processes and tested the efficiency of controls in accordance with the audit strategy.<br>- We received a letter from the Bank's legal department concerning information on proceedings under foreign jurisdiction and subsequent proceedings in Bulgaria. Pending cases in Bulgarian and Romanian courts for which final court rulings have not become effective are listed. | |
| Relevant references in the Annual Financial Statement<br>• Note 25<br>• Note 31 | |

**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 consolidated management report, including the corporate governance statement 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

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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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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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 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.

**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 Financial Statements and Auditor's Report Thereon" section, in relation to the management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016/approved by its Management Board on 29 November 2016. 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 consolidated financial statements have been prepared is consistent with those financial statements.
b) The consolidated 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 consolidated 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.

*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.

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***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 36 to the financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the 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 financial statements for the year ended 31 December 2016, 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 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 financial statements as a whole, described in the Auditor's Responsibilities for the Audit of the 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 financial statements for the year ended 31 December 2016, 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 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.

**Sofia, 10.04.2017**

**BDO Bulgaria OOD**

Одиторско дружество
София
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БДО България ООД

Stoyanka Apostolova
CPA, Registered auditor

Nedyalko Apostolov
Manager

**Fibank**
First Investment Bank

## Consolidated statement of comprehensive income for the year ended 31 December 2016

*In thousands of BGN*

| | Note | 2016 | 2015 |
|---|---|---|---|
| Interest income | | 441,225 | 485,026 |
| Interest expense | | (122,046) | (221,480) |
| **Net interest income** | 6 | **319,179** | **263,546** |
| Fee and commission income | | 111,052 | 102,750 |
| Fee and commission expense | | (19,566) | (18,533) |
| **Net fee and commission income** | 7 | **91,486** | **84,217** |
| Net trading income | 8 | 13,937 | 11,017 |
| Other operating income | 9 | 40,115 | 62,802 |
| **TOTAL INCOME FROM BANKING OPERATIONS** | | **464,717** | **421,582** |
| General administrative expenses | 10 | (192,307) | (180,827) |
| Impairment losses | 11 | (156,120) | (329,137) |
| Other income/(expenses), net | 12 | (6,177) | 108,734 |
| **PROFIT BEFORE TAX** | | **110,113** | **20,352** |
| Income tax expense | 13 | (11,302) | (2,501) |
| **GROUP PROFIT AFTER TAX** | | **98,811** | **17,851** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Exchange differences on translating foreign operations | | 373 | 430 |
| Available for sale financial assets | | 7,806 | 5,623 |
| **Other comprehensive income for the period** | | **8,179** | **6,053** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | | **106,990** | **23,904** |
| Profit attributable to: | | | |
| Owners of the Bank | | 98,708 | 17,815 |
| Non-controlling interests | | 103 | 36 |
| Total comprehensive income attributable to: | | | |
| Owners of the Bank | | 106,887 | 23,868 |
| Non-controlling interests | | 103 | 36 |
| **Basic and diluted earnings per share *(in BGN)*** | 14 | **0.90** | **0.16** |

The consolidated 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 5 to 67.

Vassil Christov
*Chief Executive Officer*

Svetoslav Moldovanski
*Chief Operating Officer*

Maya Oyfalosh
*Chief Corporate Banking Officer*

Dimitar Kostov
*Chief Risk Officer*

Jivko Todorov
*Chief Financial Officer*

According to independent auditor's report:
Nedyalko Apostolov
*Manager*

*BDO Bulgaria OOD*

Stoyanka Apostolova
*Registered auditor*

Fibank
First Investment Bank

## Consolidated statement of financial position as at 31 December 2016

*In thousands of BGN*

| | Note | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 15 | 1,639,888 | 1,522,374 |
| Financial assets held for trading | 16 | 9,562 | 10,886 |
| Available for sale investments | 17 | 619,836 | 584,415 |
| Financial assets held to maturity | 18 | 262,437 | 84,244 |
| Loans and advances to banks and financial institutions | 19 | 51,863 | 109,455 |
| Loans and advances to customers | 20 | 5,044,850 | 5,221,360 |
| Property and equipment | 21 | 97,239 | 105,309 |
| Intangible assets | 22 | 10,186 | 11,878 |
| Derivative assets held for risk management | | 1,818 | 3,357 |
| Deferred tax assets | 23 | 6 | - |
| Current tax assets | | 320 | 1,912 |
| Repossessed assets | 24 | 1,034,501 | 931,555 |
| Investment property | 24a | 222,267 | 206,244 |
| Other assets | 25 | 95,082 | 92,375 |
| **TOTAL ASSETS** | | **9,089,855** | **8,885,364** |
| **LIABILITIES AND CAPITAL** | | | |
| Due to credit institutions | 26 | 3,348 | 4,708 |
| Due to other customers | 27 | 7,911,911 | 7,203,969 |
| Ministry of Finance deposit | 27a | - | 450,922 |
| Other borrowed funds | 28 | 70,367 | 135,726 |
| Perpetual debt | 29 | - | 44,663 |
| Hybrid debt | 30 | 208,740 | 202,044 |
| Deferred tax liabilities | 23 | 15,168 | 5,371 |
| Current tax liabilities | | 595 | 434 |
| Other liabilities | 31 | 22,890 | 87,681 |
| **TOTAL LIABILITIES** | | **8,233,019** | **8,135,518** |
| Issued share capital | 32 | 110,000 | 110,000 |
| Share premium | 32 | 97,000 | 97,000 |
| Statutory reserve | 32 | 39,865 | 39,865 |
| Revaluation reserve on available for sale investments | | 20,543 | 12,737 |
| Revaluation reserve on land and buildings | | 4,500 | 4,500 |
| Reserve from translation of foreign operations | | (2,043) | (2,416) |
| Retained earnings | 32 | 584,513 | 485,805 |
| **SHAREHOLDERS' EQUITY** | | **854,378** | **747,491** |
| Non-controlling interests | | 2,458 | 2,355 |
| **TOTAL GROUP EQUITY** | | **856,836** | **749,846** |
| **TOTAL LIABILITIES AND GROUP EQUITY** | | **9,089,855** | **8,885,364** |

The consolidated statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 67.

Vassil Christov
*Chief Executive Officer*

Svetoslav Moldovanski
*Chief Operating Officer*

Maya Oyfalosh
*Chief Corporate Banking Officer*

Dimitar Kostov
*Chief Risk Officer*

Jivko Todorov
*Chief Financial Officer*

According to independent auditor's report:
Nedyalko Apostolov
*Manager*

*BDO Bulgaria OOD*

Stoyanka Apostolova
*Registered auditor*

Fibank
First Investment Bank

## Consolidated statement of cash flows for the year ended 31 December 2016

*In thousands of BGN*

| | 2016 | 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the period | 98,811 | 17,851 |
| **Adjustment for non-cash items** | | |
| Impairment losses | 156,120 | 329,137 |
| Net interest income | (319,179) | (263,546) |
| Depreciation and amortisation | 17,553 | 17,976 |
| Income tax expense | 11,302 | 2,501 |
| Loss from sale and derecognition of tangible and intangible fixed assets, net | 1 | 1,674 |
| (Profit) from sale of other assets, net | (3,812) | (3,273) |
| (Gain) from revaluation of investment property | (9,213) | (111,940) |
| | **(48,417)** | **(9,620)** |
| **Change in operating assets** | | |
| (Increase)/decrease in financial instruments held for trading | 1,307 | (1,228) |
| (Increase) in available for sale investments | (28,089) | (91,375) |
| Decrease in loans and advances to banks and financial institutions | 9,547 | 7,267 |
| (Increase) /decrease in loans to customers | 53,929 | (303,869) |
| Net (increase) in other assets | (1,123) | (52,043) |
| | **35,571** | **(441,248)** |
| **Change in operating liabilities** | | |
| (Decrease)/increase in deposits from banks | (1,360) | 3,315 |
| Increase in amounts owed to other depositors | 272,357 | 74,720 |
| Net increase/(decrease) in other liabilities | (64,064) | 67,635 |
| | **206,933** | **145,670** |
| Interest received | 327,195 | 516,036 |
| Interest paid | (134,318) | (238,993) |
| Dividends received | 629 | 383 |
| Income tax paid | (435) | (3,580) |
| **NET CASH FLOWS FROM OPERATING ACTIVITIES** | **387,158** | **(31,352)** |
| **Cash flows from investing activities** | | |
| (Purchase) of tangible and intangible fixed assets | (7,813) | (12,036) |
| Sale of tangible and intangible fixed assets | 21 | 2,489 |
| Sale of other assets | 45,065 | 30,982 |
| (Increase) of investments | (248,565) | (20,663) |
| **NET CASH FLOWS FROM INVESTING ACTIVITIES** | **(211,292)** | **772** |
| **Cash flows from financing activities** | | |
| (Decrease) in borrowings | (65,337) | (41,733) |
| Repayment of subordinated liabilities | (41,054) | (52,660) |
| **NET CASH FLOWS USED IN FINANCING ACTIVITIES** | **(106,391)** | **(94,393)** |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **69,475** | **(124,973)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **1,612,257** | **1,737,230** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (see note 34)** | **1,681,732** | **1,612,257** |

The consolidated cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 67.

Vassil Christov
*Chief Executive Officer*

Svetoslav Moldovanski
*Chief Operating Officer*

Maya Oyfalosh
*Chief Corporate Banking Officer*

Dimitar Kostov
*Chief Risk Officer*

Jivko Todorov
*Chief Financial Officer*

According to independent auditor's report:
Nedyalko Apostolov
*Manager*

*BDO Bulgaria OOD*

Одиторско дружество София Рег. № 016 БДО България ООД

Stoyanka Apostolova
*Registered auditor*

Fibank
First Investment Bank

**Consolidated statement of changes in equity for the year ended 31 December 2016**

*In thousands of BGN*

| | Share capital | Share premium | Retained earnings | Revaluation reserve on available for sale investments | Revaluation reserve on land and buildings | Reserve from translation of foreign operations | Statutory reserve | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Balance as at 1 January 2015** | **110,000** | **97,000** | **468,945** | **7,114** | **4,500** | **(2,846)** | **39,865** | **2,319** | **726,897** |
| **Total comprehensive income** | | | | | | | | | |
| Profit for the year ended 31 December 2015 | - | - | 17,815 | - | - | - | - | 36 | 17,851 |
| **Other comprehensive income** | | | | | | | | | |
| Revaluation reserve on available for sale investments | - | - | - | 5,623 | - | - | - | - | 5,623 |
| Reserve from translation of foreign operations | - | - | - | - | - | 430 | - | - | 430 |
| Dividend paid by subsidiary | - | - | (955) | - | - | - | - | - | (955) |
| **Balance as at 31 December 2015** | **110,000** | **97,000** | **485,805** | **12,737** | **4,500** | **(2,416)** | **39,865** | **2,355** | **749,846** |
| **Total comprehensive income** | | | | | | | | | |
| Profit for the year ended 31 December 2016 | - | - | 98,708 | - | - | - | - | 103 | 98,811 |
| **Other comprehensive income** | | | | | | | | | |
| 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** |

The consolidated 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 5 to 67.

The consolidated financial statements have been approved by the Management Board on 7 April 2017 and signed on its behalf by:

Vassil Christov
*Chief Executive Officer*

Svetoslav Moldovanski
*Chief Operating Officer*

Maya Oyfalosh
*Chief Corporate Banking Officer*

Dimitar Kostov
*Chief Risk Officer*

Jivko Todorov
*Chief Financial Officer*

According to independent auditor's report:
Nedyalko Apostolov
*Manager*

*BDO Bulgaria OOD*

Одиторско дружество
София
Рег. № 016
БДО България ООД

Stoyanka Apostolova
*Registered auditor*

## 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 the Bulgarian legislation.

As a result of a successful initial public offering (IPO) of new shares on the Bulgarian Stock Exchange –Sofia the Bank was registered as a public company at the Register of the Financial Supervision Commission in accordance with the provisions of the Bulgarian Public Offering of Securities Act on 13 June 2007.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 comprise the Bank and its subsidiaries (see note 37), together referred to as the "Group".

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

### (b) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted 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 consolidated financial statements, are disclosed in note 2 (r).

### (c) Basis of preparation

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 for investments in equity instruments whose fair value cannot be reliably measured. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost.

### (d) New standards, amendments and interpretations effective as of 1 January 2016

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 27: Equity Method in Separate Financial Statements (issued on 12 August 2014); EU effective date 1 January 2016.
- Amendments to IAS 1: Disclosure Initiative (issued on 18 December 2014); EU effective date 1 January 2016.
- Annual Improvements to IFRSs 2012–2014 Cycle (issued on 25 September 2014); EU effective date 1 January 2016.
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization (issued on 12 May 2014); EU effective date 1 January 2016.
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (issued on 6 May 2014); EU effective date 1 January 2016. Amendments to IAS 16 and IAS 41: Bearer Plants (issued on 30 June 2014); EU effective date 1 January 2016.

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 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) Fee and commission*

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 include 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 dividends is established. Usually this is the ex-dividend date for equity securities.

### (b) Basis of consolidation

#### *(i) Business combinations*

The Group accounts for business combinations using the acquisition method 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.

**2. Significant accounting policies, continued**

**(b) Basis of consolidation, continued**

***(i) Business combinations, continued***

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 theconsideration 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 interests (NCI)***

NCI are measured at their 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 equity transactions.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.

***(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 the subsidiaries are included line by line in the consolidated financial statements from the date control commences until the date the control ceases.

***(iv) Loss of control***

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and the other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost. Subsequently that retained interest is accounted for as an equity-accounted investee or as financial instruments available for sale depending on the level of influence retained.

**2. Significant accounting policies, continued**

**(b) Basis of consolidation, continued**

***(v) Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same manner as unrealised gains, but only if 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 differences between amortised cost in functional currency at 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 internally evaluated and reported on a fair value basis. Derivatives are also categorised as held for trading unless they are designated as hedges.

**2. Significant accounting policies, continued**

**(d) Financial assets, continued**

***(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 has the positive intention and ability to hold to maturity. Were the Group to sell or reclassify other than an insignificant amount of held-to-maturity assets, the entire category shall be reclassified as available for sale.

***(iv) Available-for-sale***

Available-for-sale investments are those non-derivative financial assets 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 which 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***

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.

**2. Significant accounting policies, continued**

**(d) Financial assets, continued**

***(vii) Fair value measurement, continued***

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.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk, are 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 it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. 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 assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

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.

**2. Significant accounting policies, continued**

**(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 receivables from banks with original maturity of three months or less.

**(f) Investments**

Investments that the Group holds for the purpose of short-term profit taking are classified as trading instruments. 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 recognized as Group's asset. 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 (expense).

**(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 recognised in profit or loss over the period of the borrowings using the effective interest 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.

**2. Significant accounting policies, continued**

**(j) Impairment**

The carrying amounts of the Group's assets are reviewed at the end of each reporting period 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 as a result of one or more events which occurred after the initial recognition of the asset and this loss event (or events) has an impact on 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 Group 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 borrower's financial difficulty the Group makes concessions which it would not otherwise consider; 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 collective assessment of risk exposures depending on the exposure classification (performing/non-performing) and size. For all individually significant exposures non-performing exposures specific impairment is calculated on the basis of the individual cash flow and portfolio assessment calculation for all other exposures. As regards performing exposures the Bank applies the collective principle of assessment (taking into account incurred but not reported losses), grouping exposures into prtfolios 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 selected to 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, loss given default, loss identification period, cure rate) and the impairment loss to be recognised.

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

Risk exposures fully covered with allowance for impairment are written off where there is a reason to believe that all relevant financial efforts 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) Available for sale financial assets***

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

**Significant accounting policies, continued**

***(ii) Available for sale financial assets, continued***

recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. 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 at revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. All other Items of property and equipment are stated in the statement of financial position at their acquisition cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis at prescribed rates designed to decrease the net book value of fixed assets over their expected useful lives. The following are the annual rates used:

| Assets | % |
|---|---|
| ▪ Buildings | 3 - 4 |
| ▪ Equipment | 10 – 50 |
| ▪ Fixtures and fittings | 10 – 15 |
| ▪ 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, trademarks | 10 - 20 |
| ▪ Computer software | 8 - 50 |

**(m) Investment property**

Investment property is property (land or a building—or part of a building—or both) held by the Group to earn rentals or for capital appreciation or both. The Group chooses as its accounting policy the fair value model and applies it to measure all of its investment property at fair value. An investment property is measured initially at its cost and its carried thereafter at fair value. A gain or loss arising from a change in the fair value of investment property is recognised in profit or loss for the period in which it arises. Transfers from repossessed asstes accounted for as inventories to investment property are made when there is commencement of an operating lease to another party. The fair value of investment property is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued and reliable valuation techniques are used.

**2. Significant accounting policies, continued**

**(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 a reliable estimate can be made of the amount of the obligation. 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 other borrowed funds.

**(p) Off-statement of financial position 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 these 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 period 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 at the end of each reporting period, 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 amount of an asset or liability for financial reporting purposes and the amount 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 2016 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:

**2. Significant accounting policies, continued**

**r) Critical accounting estimates and judgements in applying accounting policies, continued**

- 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. 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) Measurement of repossessed assets from collaterals***

Assets obtained as collateral are measured 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 overall 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 when the official interpretations of the authorities are available.Where the final tax outcome of these matters is different from the amounts that were initially

**2. Significant accounting policies, continued**

**r) Critical accounting estimates and judgements in applying accounting policies, continued**

***(iii) Income taxes*, continued**

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 its ordinary shares. Basic EPS is calculated by dividing the profit or loss 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.

## 2. Significant accounting policies, continued

### (t) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further amounts. The respective jurisdictions are responsible for providing pensions under a defined contribution pension plan. The Group'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, paragraph 3 of the Bulgarian Labor Code. According to these regulations, when a labor contract of an employee of the Bank, who has acquired a pension right, is ended, the Bank is obliged to pay him or her compensation amounted to two gross monthly salaries. If the employee has service in the Bank during the last 10 years as at retirement date, then the compensation amounts to six gross monthly salaries. As at the end of the reporting period, the management of the Group 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 Group 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 employees, 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.

**2. Significant accounting policies, continued**

**(u) Insurance contracts**

***Classification of insurance contracts***

Insurance contracts are those that transfer significant insurance risk over the Company. The Company defines significant insurance risk as the possibility of having to pay benefits on the occurrence of an specific unpredictable future event which affects unfavorably the insured or the beneficiary. 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 installment 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 premiumns 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. Reveresed premiums within the current year, related to policies written in previous years, increase the expenses of the Group, incurred within the reporting period.

***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 conctract 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.

**2. Significant accounting policies, continued**

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

- IFRS 9 Financial Instruments (issued on 24 July 2014), effective 1 January 2018.

The final version of IFRS 9 Financial Instruments consolidates the stages of the IASB project to replace IAS 39 Financial Instruments: Recognition and Measurement with regard to the classification and measurement, impairment and reporting of hedging. This final version of IFRS 9 adds the new "expected loss" model in impairment and changes the model for classification and assessment of financial assets.

**Documents issued by the IASB / IFRIC not yet endorsed by the EU**

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 Group in preparing these financial statements.

- IFRS 14 Regulatory Deferral Accounts (issued on 30 January 2014), effective 1 January 2016. Adoption by the EU postponed.
- 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.
- IFRS 16 Leases (Issued on 13 January 2016); effective 1 January 2019.
- Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities – Applying the Consolidation Exception (issued on 18 December 2014) ; effective 1 January 2016.
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued on 11 September 2014), the effective date is postponed indefinetely.
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016); effective 1 January 2017.
- Amendments to IAS 7: Disclosure Initiative (issued on 29 January 2016); effective 1 January 2017.
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016); effective 1 January 2018.
- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016); effective 1 January 2018.

## 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*

Default risk is the risk that counterparties to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to the Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterparty 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 counterparty 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 of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Group 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 the Group'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 set by senior management for buying or selling instruments.

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 a 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 a one day horizon and 99% 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 rate VaR for all positions carried at fair value that was experienced in 2016:

| | 31 December | 2016 | | | 31 December |
|---|---|---|---|---|---|
| *in thousands of BGN* | 2016 | average | low | high | 2015 |
| VaR | 1,481 | 2,470 | 1,253 | 5,862 | 2,437 |

**3. Risk management disclosures, continued**

**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 borrowed funds, 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 Group strategy.

After the bank-run in June 2014, on 29 June 2014 the Bulgarian government provided the Bank with liquidity support at the amount of BGN 1.2 billion at 2.2% interest as part of the Liquidity Support for Bulgarian Banks – Bulgaria program № SA 38994 (2014/N), approved by the European Commission. Due to constraints in the state budget, this deposit was short-term and matured on 28 November 2014. The Bank returned BGN 300 million of the provided amount at maturity and Bulgaria applied for extention of the maturity for the remaining BGN 900 million for additional 18 months effective from this date.

The European Commission found that the liquidity support provided to the Bank until 28 May 2016 meets the requirements for the support to be classified as government assistance to banks and complies with the stricter requirements as per the Press Relase to Banks from 2013.

On 12 November 2014 First Investment Bank AD provided the European Commission with a liquidity recovey plan. The Bank committed to repay the liquidity support on dates predetermined in the plan. First Investment Bank AD has committed to strengthening of liquidity, improvement of the corporate governance structure and risk management policies. In order to limit any distortion of competition caused by the support, the Bank has also committed to certain limitations for the period of using the support, which include no dividend payments, no use of aggressive business practices and no acquisitions. An independent supervisor monitors the implementation of the plan and provides regular reports to the European Commission.

As at 31 December 2016 the Bank has fulfilled its commitments as per the liquidity recovery plan.

Taking into consideration the challenges of the external environment and more specifically the liquidity pressure from the end of June 2014, the Bank undertook increased measures for monitoring cash flows and early detect indicators of increased liquidity risk.

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 transposed in the Law on recovery and resolution of credit institutions and investment firms First Investment Bank AD prepares 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

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(i)* ***Liquidity risk, continued***

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 illiquid 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 Assets, liabilities and liquidity committee is the body that manages liquidity.

One of the main ratios used by the Group for managing liquidity risk is the ratio of total liquid assets to total borrowings.

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| **Liquid assets ratio** | 28.12% | 25.37% |

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 2016**

| *In thousands of BGN* | Up to 1 Month | From 1 to 3 Months | From 3 months to 1 year | Over 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** |
| Available for sale investments | 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 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 financial 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 credit institutions | 3,348 | - | - | - | - | **3,348** |
| Due to other customers | 2,690,514 | 859,336 | 3,158,894 | 1,203,167 | - | **7,911,911** |
| Other borrowed funds | 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)** |

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(i)* ***Liquidity risk, continued***

The table presents available for sale investments mainly with a maturity of up to 1 month as it reflects the managenent's intent to sell them in a short-term period.

**Maturity table as at 31 December 2015**

| *In thousands of BGN* | Up to 1 Month | From 1 to 3 Months | From 3 months to 1 year | Over 1 year | Maturity not defined | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and balances with central banks | 1,522,374 | - | - | - | - | **1,522,374** |
| Financial assets held for trading | 10,886 | - | - | - | - | **10,886** |
| Available for sale investments | 503,128 | 4,890 | 9,874 | 60,235 | 6,288 | **584,415** |
| Financial assets held to maturity | 2,967 | 39,402 | 5,825 | 36,050 | - | **84,244** |
| Loans and advances to banks and financial institutions | 82,688 | - | 18,711 | 8,056 | - | **109,455** |
| Loans and advances to customers | 576,128 | 222,730 | 1,089,740 | 3,332,762 | - | **5,221,360** |
| Other financial assets | 3,283 | 40 | 74 | (40) | - | **3,357** |
| **Total financial assets** | **2,701,454** | **267,062** | **1,124,224** | **3,437,063** | **6,288** | **7,536,091** |
| **Liabilities** | | | | | | |
| Due to credit institutions | 4,708 | - | - | - | - | **4,708** |
| Due to other customers | 2,238,980 | 773,711 | 2,807,751 | 1,383,527 | - | **7,203,969** |
| Due to Ministry of Finance | - | - | 450,922 | - | - | **450,922** |
| Other borrowed funds | 28,959 | 1,653 | 7,665 | 97,449 | - | **135,726** |
| Perpetual debt | - | - | - | - | 44,663 | **44,663** |
| Hybrid debt | - | - | - | - | 202,044 | **202,044** |
| **Total financial liabilities** | **2,272,647** | **775,364** | **3,266,338** | **1,480,976** | **246,707** | **8,042,032** |
| **Net liquidity gap** | **428,807** | **(508,302)** | **(2,142,114)** | **1,956,087** | **(240,419)** | **(505,941)** |

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(i) Liquidity risk, continued*

The following table provides 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 | Over 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** |
| Available for sale investments | 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 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 credit institutions | 3,348 | - | - | - | **3,348** |
| Due to other customers | 2,690,947 | 861,026 | 3,182,118 | 1,231,489 | **7,965,580** |
| Other borrowed funds | 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** |
| **Derivative assets held for risk management** | | | | | |
| Outgoing cash flow | 146,610 | 1,956 | 1,369 | - | 149,935 |
| Incoming cash flow | 148,441 | 1,970 | 1,342 | - | 151,753 |
| **Total derivatives, net** | **1,831** | **14** | **(27)** | **-** | **1,818** |

**3. Risk management disclosures, continued**

**B. Non-trading activities, continued**

***(i) Liquidity risk, continued***

The following table provides remaining maturities analysis of the financial assets and liabilities of the Group as at 31 December 2015 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 | Over 1 year | Total |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and balances with central banks | 1,522,374 | - | - | - | **1,522,374** |
| Financial assets held for trading | 10,886 | - | - | - | **10,886** |
| Available for sale investments | 578,127 | - | - | 6,288 | **584,415** |
| Financial assets held to maturity | 2,972 | 39,451 | 6,033 | 43,600 | **92,056** |
| Loans and advances to banks and financial institutions | 82,688 | - | 18,711 | 8,056 | **109,455** |
| Loans and advances to customers | 659,253 | 257,461 | 1,305,777 | 4,417,357 | **6,639,848** |
| **Total financial assets** | **2,856,300** | **296,912** | **1,330,521** | **4,475,301** | **8,959,034** |
| **Financial liabilities** | | | | | |
| Due to credit institutions | 4,708 | - | - | - | **4,708** |
| Due to other customers | 2,239,644 | 776,138 | 2,840,667 | 1,435,458 | **7,291,907** |
| Due to Ministry of Finance | - | - | 454,041 | - | **454,041** |
| Other borrowed funds | 28,964 | 1,655 | 7,702 | 102,039 | **140,360** |
| Perpetual debt | - | - | 45,927 | - | **45,927** |
| Hybrid debt | - | - | 12,908 | 264,233 | **277,141** |
| **Total financial liabilities** | **2,273,316** | **777,793** | **3,361,245** | **1,801,730** | **8,214,084** |
| **Derivative assets held for risk management** | | | | | |
| Outgoing cash flow | 3,041 | 1,956 | 9,877 | 978 | 15,852 |
| Incoming cash flow | 6,324 | 1,996 | 9,951 | 938 | 19,209 |
| **Total derivatives, net** | **3,283** | **40** | **74** | **(40)** | **3,357** |

The expected cash flows by the Group 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 of the clients take advantage of the early repayment possibility.

As part of the liquidity risk management, the Group keeps available liquid assets. They consist of cash, cash equivalents and debt securities, which could be sold immediately in order to provide liquidity.

**3.** **Risk management disclosures, continued**

**B.** **Non-trading activities, continued**

***(i)*** ***Liquidity risk, continued***

**Liquid assets**

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Balances with central banks | 1,157,101 | 849,402 |
| Cash and current accounts with other banks | 492,610 | 754,351 |
| Unencumbered debt securities | 647,230 | 427,874 |
| Gold | 7,104 | 8,496 |
| **Total liquid assets** | **2,304,045** | **2,040,123** |

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 of 31 December 2016 the funds borrowed from the top 30 depositors, who are not banks and have no collateral, represent 5.88% of the total amount of the liabilities to other clients (31 December 2015: 3.65%).

***(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 Group is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Base 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 Group measures the impact of a change in the market rates both on net interest income and on the Group's economic value defined as the difference between fair value of assets and fair value of liabilities included in the banking book. The interest rate risk on the economic value of the Group following a standardised shock of +100bp/-100bp as of 31 December 2016 is BGN +18.5/-17.5 Mio. The interest rate risk on the Group's net interest income one year forward following a standardised shock of +100bp/-100bp as of 31 December 2016 is BGN -1.3/-1.6 Mio. The similar effect on the net ineterst income coming from two opposite scenarios is a result of the different degree of shock absorbtion for the specific financial assets and liabilities which in turn is due to existence of natural limits relating to the values of the interest rates for some instruments. Some of these natural limits are regulatory and contractually set while others are internally accepted assumptions.

**3. Risk management disclosures, continued**

**B. Non-trading activities, continued**

***(ii) Market risk*, continued**

***Interest rate risk*, continued**

| | Net interest income | | Equity | |
|---|---|---|---|---|
| *Effect in millions of BGN* | 100 bp increase | 100 bp decrease | 100 bp increase | 100 bp decrease |
| 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 |
| 2015 | | | | |
| As at 31 December | -7.5 | 7.8 | -24.7 | 30 |
| Average for the period | 1.9 | -1.5 | -8.6 | 22 |
| Maximum for the period | 22.2 | -4.5 | 11.4 | 62 |
| Minimum for the period | -13.4 | -22.2 | -24.7 | 1.3 |

The following table indicates the periods in which financial liabilities and assets reprice at 31 December 2016.

| | | | Fixed rate instruments | | | |
|---|---|---|---|---|---|---|
| *In thousands of BGN* | Total | Floating 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 | - | - | - |
| Available for sale investments | 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 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-earning assets** | **6,066,656** | **3,883,876** | **760,766** | **271,829** | **237,675** | **912,510** |
| **Liabilities** | | | | | | |
| Due to credit institutions | 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 |
| Other borrowed funds | 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** |

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(ii)* ***Market risk, continued***

***Interest rate risk, continued***

The following table indicates the periods in which financial liabilities and assets reprice at 31 December 2015.

| *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 | 534,480 | 463,861 | 70,619 | - | - | - |
| Financial assets held for trading | 7,767 | - | - | - | - | 7,767 |
| Available for sale investments | 578,124 | 33,635 | 4,644 | 18,080 | 26,560 | 495,205 |
| Financial assets held to maturity | 84,244 | - | 38,751 | 3,618 | 5,825 | 36,050 |
| Loans and advances to banks and financial institutions | 83,433 | - | 73,611 | - | 9,822 | - |
| Loans and advances to customers | 4,955,324 | 3,832,070 | 96,189 | 81,728 | 185,623 | 759,714 |
| **Total interest-earning assets** | **6,243,372** | **4,329,566** | **283,814** | **103,426** | **227,830** | **1,298,736** |
| **Liabilities** | | | | | | |
| Due to credit institutions | 4,708 | 1,889 | 2,819 | - | - | - |
| Due to other customers | 7,194,894 | 1,289,322 | 940,472 | 773,711 | 2,807,862 | 1,383,527 |
| Due to Ministry of Finance | 450,922 | - | - | - | 450,922 | - |
| Other borrowed funds | 135,726 | 26,257 | 28,856 | 1,532 | 2,517 | 76,564 |
| Perpetual debt | 44,663 | - | - | - | - | 44,663 |
| Hybrid debt | 202,044 | - | - | - | - | 202,044 |
| **Total interest-bearing liabilities** | **8,032,957** | **1,317,468** | **972,147** | **775,243** | **3,261,301** | **1,706,798** |

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(ii)* ***Market risk, continued***

***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 through transactions in foreign currencies and on financial instruments that are denominated in a foreign currency.

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 Group presents it financial statements is the Bulgarian lev, the Group's financial statements are affected 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 as net trading income 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* | 2016 | 2015 |
|---|---|---|
| **Monetary assets** | | |
| Euro | 4,155,163 | 4,485,517 |
| US dollar | 780,619 | 534,278 |
| Other currencies | 246,276 | 222,071 |
| Gold | 7,104 | 8,496 |
| **Monetary liabilities** | | |
| Euro | 3,265,429 | 3,163,496 |
| US dollar | 780,348 | 528,354 |
| Other currencies | 234,806 | 212,688 |
| Gold | 3,591 | 6,517 |
| **Net position** | | |
| Euro | 889,734 | 1,322,021 |
| US dollar | 271 | 5,924 |
| Other currencies | 11,470 | 9,383 |
| Gold | 3,513 | 1,979 |

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.

## 3. Risk management disclosures, continued

## B. Non-trading activities, continued

### *(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 contingent liabilities. 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** | |
|---|---|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Carrying amount | 5,044,850 | 5,221,360 | 1,526,912 | 1,467,942 | 873,483 | 670,139 | - | - |
| Amount committed/ guaranteed | - | - | - | - | - | - | 720,381 | 874,562 |

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 in the statement of financial position. These exposures are as follows:

**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** |

**3. Risk management disclosures, continued**

**B. Non-trading activities, continued**

***(iii) Credit risk, continued***

| **31 December 2015** | | *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 | 4,533,507 | 4,517,064 |
| Non-performing | | |
| Collectively impaired | 377,608 | 188,420 |
| Individually impaired | 1,043,740 | 515,876 |
| **Total** | **5,954,855** | **5,221,360** |

Exposures classification into risk classes reflects the management's estimate regarding the loans recoverable amounts.

At 31.12.2016 the gross amount of overdue receivables from customers measured as exposures overdue for more than 90 days is BGN 1,029,246 thousand (2015: BGN 881,041 thousand).

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (see note 33).

Concentrations of credit risk (whether on or off statement of financial position 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 also by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(iii)* ***Credit risk, continued***

Total economic sector credit risk concentrations in loans and advances to customers are presented in the table below.

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Trade | 1,186,684 | 1,102,617 |
| Industry | 987,724 | 1,145,360 |
| Services | 558,738 | 467,974 |
| Finance | 113,932 | 135,235 |
| Transport, logistics | 352,858 | 361,759 |
| Communications | 115,489 | 94,254 |
| Construction | 186,541 | 238,275 |
| Agriculture | 189,228 | 128,393 |
| Tourist services | 195,539 | 215,520 |
| Infrastructure | 466,536 | 481,471 |
| Private individuals | 1,455,420 | 1,496,179 |
| Other | 70,500 | 87,818 |
| Less allowance for impairment | (834,339) | (733,495) |
| **Total** | **5,044,850** | **5,221,360** |

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, significantly exceed expected losses, which are included in the allowance for impairment.

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(iii)* ***Credit risk, continued***

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 2016 with total exposures outstanding amounting to BGN 211,037 thousand (2015: BGN 204,787 thousand) - ferrous and non-ferrous metallurgy, BGN 60,609 thousand (2015: BGN 60,611 thousand) – mining industry and BGN 115,099 thousand (2015: BGN 111,590 thousand) - power engineering.

The Group has extended loans and issued contingent liabilities to 6 individual clients or groups (2015: 4) with each individual exposure exceeding 10% of the own funds of the Group. The total amount of these exposures after regulatory exemptions is BGN 550,405 thousand which represents 58.87% of the Group's own funds (2015: BGN 597,879 thousand which represented 63.88%of capital base) of which BGN 517,447 thousand (2015: BGN 527,068 thousand) represent loans and BGN 32,958 thousand (2015: BGN 70,811 thousand) represent guarantees, letters of credit and other commitments.

The biggest loan exposure of the Group extended to a group of connected clients amounts to BGN 225,459 thousand (2015: BGN 173,334 thousand) representing 24.12% of the Group's own funds (2015: 18.52%).

The loans extended by the Cyprus branch amount to BGN 12,508 thousand amortised cost before allowance (2015: BGN 60,349 thousand) and in Albania – BGN 110,473 thousand (2015: BGN 96,522 thousand).

The Group's policy is to require suitable collateral to be provided by 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 Group'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** | |
|---|---|---|---|
| | | **2016** | **2015** |
| Repurchase agreements | Tradable securities | 100% | 100% |
| Loans and advances to banks | None | - | - |
| Mortgage loans | Residiential real estate and commercial property | 326% | 304% |
| Consumer loans | Mortgage, guarantee, financial and other collateral | 74% | 66% |
| Credit cards | None | - | - |
| Loans to companies | Mortgage, pledge of enterprise, pledge of fixed assets, pledge of goods and other inventory, guarantee facilities, financial and other collateral | 382% | 391% |

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(iii)* ***Credit risk, continued***

The table below shows a breakdown of total gross loans and advances extended to customers by the Group by type of collateral up to the collateral amount, excluding credit cards in the amount of BGN 254,867 thousand (31 December 2015: BGN 262,435 thousand):

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Mortgage | 1,520,658 | 1,632,673 |
| Pledge of receivables | 1,180,833 | 1,002,745 |
| Pledge of commercial enterprise | 25,521 | 64,417 |
| Securities | 217,843 | 229,634 |
| Bank guarantee | - | 667 |
| Other guaranties | 1,810,284 | 1,813,063 |
| Pledge of goods | 39,169 | 33,580 |
| Pledge of machines | 116,530 | 107,595 |
| Money deposit | 46,905 | 75,207 |
| Stake in capital | 1 | 944 |
| Gold | - | 18 |
| Other collateral | 12,790 | 13,071 |
| Unsecured | 653,788 | 718,806 |
| **Total** | **5,624,322** | **5,692,420** |

Other collateral position includes insurance policies limited up to the insurance amount, future money transfers to account, other proceeds such as salaries transfers and other.

**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* | **2016** | **2015** |
|---|---|---|
| **Loan to value (LTV) ratio** | | |
| Less than 50% | 139,669 | 160,978 |
| From 50% to 70% | 156,351 | 184,496 |
| From 70% to 90% | 180,632 | 180,856 |
| From 90% to 100% | 23,195 | 24,893 |
| More than 100% | 70,696 | 63,894 |
| **Total** | **570,543** | **615,117** |

**3. Risk management disclosures, continued**

**B. Non-trading activities, continued**

***(iii) Credit risk, continued***

**Loans and advances to companies**

The Group's loans and advances to enterprises that are individually significant 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 extended to it. However, collateral provides additional security and the Group requests corporate borrowers to provide it. The Group may take collateral in the form of a first charge over real estate, floating charges over all corporate assets and other liens and guarantees.

The Group periodically analyses provided collateral in terms of possible changes in its valuation due to alteration in market conditions, legal framework or because of arrangements of the borrower in respect to the collateral. If these valuation changes lead to insufficient collateral coverage, the Group requires extra collateral security in a certain period of time.

As at 31 December 2016 the carrying amount of non-performing loans to companies amounts to BGN 514,049 thousand (2015: BGN 604,566 thousand) and the value of collateral held against those loans amounts to BGN 514,419 thousand (2015: BGN 597,869 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*

| Type of renegotiation | 2016 | | 2015 | |
|---|---|---|---|---|
| | Amortised cost | Impairment | Amortised cost | Impairment |
| **Loans to individuals** | **416,201** | **39,528** | **434,043** | **35,315** |
| Change of maturity | 148,327 | 12,838 | 175,573 | 7,926 |
| Change of amount of installment | 9,278 | 1,381 | 12,004 | 1,820 |
| Change of interest rate | 92,194 | 3,064 | 81,336 | 4,385 |
| Change due to customers request | 64,557 | 2,351 | 62,058 | 2,560 |
| Other reasons | 101,845 | 19,894 | 103,072 | 18,624 |
| **Loans to companies** | **3,085,871** | **426,733** | **3,029,620** | **358,778** |
| Change of maturity | 420,895 | 18,426 | 267,161 | 13,000 |
| Change of amount of installment | 277,189 | 105,265 | 504,383 | 116,057 |
| Change of interest rate | 434,067 | 8,434 | 219,176 | 22,985 |
| Change due to customers request | 1,800,331 | 275,699 | 1,851,013 | 163,298 |
| Other reasons | 153,389 | 18,909 | 187,887 | 43,438 |
| **Total** | 3,502,072 | 466,261 | 3,463,663 | 394,093 |

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(iii)* ***Credit risk, continued***

**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 Problem Assets Department.

*(iv)* ***Government debt exposures***

The Group closely manages the credit risk related to government debt 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. As at 31 December 2016 and 31 December 2015 the Group does not recognise allowance for impairment against the exposures which are measured at amortised cost as well as those classified as available for sale.

*In thousands of BGN*
**31 December 2016**

| **Portfolio** | **Bulgaria** | **Albania** | **Slovakia** | **Latvia** | **Lithuania** | **USA** | **European Financial Stability Facility** | **Austria** | **Belgium** |
|---|---|---|---|---|---|---|---|---|---|
| Financial assets held for trading | 4,302 | - | - | - | - | - | - | - | - |
| Available for sale investments | 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** |

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(iv)* ***Government debt exposures*, continued**

*In thousands of BGN*
**31 December 2015**

| Portfolio | Bulgaria | Albania | Slovakia | Latvia | Lithuania | USA | European Financial Stability Facility |
|---|---|---|---|---|---|---|---|
| Financial assets held for trading | 6,354 | - | - | - | - | - | - |
| Available for sale investments | 420,333 | 60,093 | 2,024 | 68 | 21,481 | - | 16,553 |
| Financial assets held to maturity | - | 27,890 | - | - | - | 35,784 | - |
| **Total** | 426,687 | 87,983 | 2,024 | 68 | 21,481 | 35,784 | 16,553 |

**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** |
| European Financial Stability Facility | - | - | - | - | 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 |

3. **Risk management disclosures, continued**

B. **Non-trading activities, continued**

*(iv)* ***Government debt exposures*, continued**

**Maturity table of government debt securities by country issuer as at 31 December 2015**

*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 | 2,999 | 13,190 | 16,686 | 192,694 | 201,118 | **426,687** |
| Albania | 4,613 | 8,508 | 15,700 | 30,533 | 28,629 | **87,983** |
| Slovakia | - | - | - | - | 2,024 | **2,024** |
| Latvia | - | - | - | 68 | - | **68** |
| Lithuania | - | - | - | - | 21,481 | **21,481** |
| USA | - | 35,784 | - | - | - | **35,784** |
| European Financial Stability Facility | - | - | - | - | 16,553 | **16,553** |
| **Total** | 7,612 | 57,482 | 32,386 | 223,295 | 269,805 | 590,580 |

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;
f) minority interests.

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 30). Deductions from components of Tier 1 capital include regulatory adjustments relating to items that are included in the capital or the assets of the Group, but are treated differently for capital adequacy regulation.

**Tier 2 capital**

Tier 2 capital consists of perpetual debt (see note 29) and regulatory adjustments related to the revaluation reserve on land and buildings.

3. **Risk management disclosures, continued**

C. **Capital adequacy, continued**

*In thousands of BGN*

**Own funds**

| | 2016 | 2015 |
|---|---|---|
| Paid up capital instruments | 110,000 | 110,000 |
| (-) Indirect shareholding in Common Equity Tier 1 capital instruments | (93) | (60) |
| Premium reserves | 97,000 | 97,000 |
| Other reserves | 523,627 | 505,411 |
| Minority interests | 2,355 | 2,355 |
| Accumulated other comprehensive income | 25,043 | 17,237 |
| ***Deductions from Common Equity Tier 1 capital:*** | | |
| (-) Intangible assets | (10,186) | (11,878) |
| Transitional adjustments of Common Equity Tier 1 capital | (5,944) | (3,215) |
| **Common Equity Tier 1 capital** | **741,802** | **716,850** |
| **Additional Tier 1 capital instruments** | | |
| Hybrid debt | 195,583 | 195,583 |
| ***Tier 1 capital deductions:*** | | |
| Transitional adjustments of Additional Tier 1 capital | (4,290) | (8,006) |
| **Tier 1 capital** | **933,095** | **904,427** |
| **Tier 2 capital** | | |
| Perpetual debt | - | 28,751 |
| Transitional adjustments of Tier 2 capital | 1,800 | 2,700 |
| **Total own funds** | **934,895** | **935,878** |

**3. Risk management disclosures, continued**

**C. Capital adequacy, continued**

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 amount is calculated as the sum of the risk-weighted assets for credit, market, and operational risk.

The Group calculates the credit risk requirements for the exposures in its banking and trading portfolios based on the standardised approach. Exposures are taken into account at their book value. Off-balance sheet commitments are taken into account by applying conversion factors for the purpose of their approximation to book values. Positions are weighted for risk using different percentages depending on the class of exposure and its credit rating. A variety of techniques are used to reduce credit risk, such as collaterals and guarantees. For derivative instruments, such as forwards and options, the counterparty credit risk is estimated.

The Group also calculates capital requirements for market risk for foreign exchange and commodity instruments in the trading and banking books.

The Group calculates capital requirements for operational risk using the basic indicator approach. The capital requirement is equal to the average gross annual income over the last three years multiplied by a fixed percentage (15%). The respective risk weighted assets are calculated by further multiplication by 12.5.

The total capital adequacy ratio should not be less than 13.5%, the Tier 1 capital adequacy ratio - less than 11.5%, and the Common Equity Tier 1 capital ratio - less than 10% (including the systemic risk capital buffer at the rate of 3% and the capital conservation buffer of 2.5%).

The Group has complied with the regulatory capital requirements.

3. **Risk management disclosures, continued**

C. **Capital adequacy, continued**

Capital adequacy level is as follows:

| *In thousands of BGN* | **Balance sheet amount/notional amount** | | **Risk weighted assets** | |
|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** |
| **Risk-weighted assets for credit risk** | | | | |
| ***Balance sheet items*** | | | | |
| **Exposure classes** | | | | |
| Central governments or central banks | 1,969,445 | 1,543,573 | 118,073 | 109,568 |
| Multilateral development banks | 483 | 602 | - | - |
| Institutions | 440,647 | 698,022 | 144,343 | 174,538 |
| Corporates | 2,199,095 | 2,470,926 | 2,006,837 | 2,378,218 |
| Retail | 941,373 | 849,405 | 546,229 | 513,192 |
| Secured by mortgages on immovable property | 1,290,834 | 1,171,945 | 542,107 | 482,944 |
| Exposures in default | 613,366 | 681,173 | 668,291 | 733,573 |
| Collective investments undertakings | 2,547 | 2,214 | 2,547 | 2,214 |
| Equity | 15,718 | 7,142 | 16,469 | 7,893 |
| Other items | 1,591,486 | 1,433,024 | 1,426,649 | 1,261,718 |
| **Total** | **9,064,994** | **8,858,026** | **5,471,545** | **5,663,858** |
| ***Off-balance sheet items*** | | | | |
| **Exposure classes** | | | | |
| Institutions | - | - | 96 | 487 |
| Corporates | 293,479 | 509,198 | 109,485 | 160,074 |
| Retail | 395,495 | 332,634 | 5,710 | 1,315 |
| Secured by mortgages on immovable property | 31,407 | 32,730 | 5,592 | 6,796 |
| Other items | - | - | 2 | 6 |
| **Total** | **720,381** | **874,562** | **120,885** | **168,678** |
| ***Derivatives*** | | | | |
| **Exposure class** | | | | |
| Central governments or central banks | 587 | - | - | - |
| Institutions | 1,444 | 20 | 289 | 4 |
| Corporates | 72 | 411 | 72 | 411 |
| Other items | 1,831 | 3,324 | 1,831 | 3,324 |
| **Total** | **3,934** | **3,755** | **2,192** | **3,739** |
| **Total risk-weighted assets for credit risk** | | | **5,594,622** | **5,836,275** |
| **Risk-weighted assets for market risk** | | | **5,625** | **6,300** |
| **Risk-weighted assets for operational risk** | | | **578,388** | **513,413** |
| **Total risk-weighted assets** | | | **6,178,635** | **6,355,988** |

| **Capital ratios** | Capital | | Capital ratios % | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Common Equity Tier 1 capital** | **741,802** | **716,850** | **12.01%** | **11.28%** |
| **Tier 1 Capital** | **933,095** | **904,427** | **15.10%** | **14.23%** |
| **Own funds** | **934,895** | **935,878** | **15.13%** | **14.72%** |

## 4. Segment reporting

Segment information is presented in respect of the Group's geographical segments. The primary format is based on the Group's management and internal reporting structure.

Measurement and reporting of segment assets and liabilities and segment revenues and expenses are based on the accounting policies set out in the accounting policy note.

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, income and expenses after intra-group eliminations are allocated based on the location of the Group affiliate that generates them. Segment assets and liabilities after intra-group eliminations are allocated based on their geographical location.

| *In thousands of BGN* | **Bulgarian operations** | | **Foreign operations** | | **Total** | |
|---|---|---|---|---|---|---|
| | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| Interest income | 424,769 | 451,427 | 16,456 | 33,599 | 441,225 | 485,026 |
| Interest expense | (118,493) | (217,251) | (3,553) | (4,229) | (122,046) | (221,480) |
| **Net interest income** | **306,276** | **234,176** | **12,903** | **29,370** | **319,179** | **263,546** |
| Fee and commission income | 106,982 | 99,057 | 4,070 | 3,693 | 111,052 | 102,750 |
| Fee and commission expense | (19,048) | (18,044) | (518) | (489) | (19,566) | (18,533) |
| **Net fee and commission income** | **87,934** | **81,013** | **3,552** | **3,204** | **91,486** | **84,217** |
| **Net trading income** | **13,583** | **11,237** | **354** | **(220)** | **13,937** | **11,017** |
| **General administrative expenses** | **(185,299)** | **(173,492)** | **(7,008)** | **(7,335)** | **(192,307)** | **(180,827)** |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| **Segment assets** | **8,807,868** | **8,584,956** | **281,987** | **300,408** | **9,089,855** | **8,885,364** |
| **Segment liabilities** | **7,888,777** | **7,891,349** | **344,242** | **244,169** | **8,233,019** | **8,135,518** |

The following table presents the allocation of assets and liabilities, income and expenses based on business segments as at 31 December 2016 and for the year then ended:

*In thousands of BGN*

| **Business segment** | **Assets** | **Liabilities** | **Interest income** | **Interest expense** | **Net fee and commission income** | **Net trading income** | **Other operating income** |
|---|---|---|---|---|---|---|---|
| Commercial banking | 3,597,307 | 1,317,939 | 274,373 | (9,275) | 33,380 | - | 7,473 |
| Retail banking | 1,447,543 | 6,593,972 | 148,884 | (103,150) | 36,056 | - | 3,850 |
| Cards business | - | - | - | - | 17,706 | - | - |
| Treasury | 2,585,404 | 3,348 | 17,968 | (1,140) | (101) | 13,937 | 28,792 |
| Other | 1,459,601 | 317,760 | - | (8,481) | 4,445 | - | - |
| Total | 9,089,855 | 8,233,019 | 441,225 | (122,046) | 91,486 | 13,937 | 40,115 |

## 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 that are unobservable. 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.

5. **Financial assets and liabilities, continued**

**Accounting classification and fair values, continued**

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 a 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 is responsibility of Risk analysis and control division subject to approval by the Managing 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, responsibility of 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 Group 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.

5. **Financial assets and liabilities, continued**

**Accounting classification and fair values, continued**

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.

*in thousands of BGN*

| **31 December 2016** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets held for trading | 9,562 | - | - | 9,562 |
| Available for sale investments | 488,317 | 131,009 | - | 619,326 |
| Derivatives held for risk management | 1,795 | 23 | - | 1,818 |
| **Total** | **499,674** | **131,032** | - | **630,706** |

*in thousands of BGN*

| **31 December 2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets held for trading | 10,886 | - | - | 10,886 |
| Available for sale investments | 460,459 | 117,668 | - | 578,127 |
| Derivatives held for risk management | 3,258 | 99 | - | 3,357 |
| **Total** | **474,603** | **117,767** | - | **592,370** |

Capital investments amounting to BGN 510 thousand at 31 December 2016 and BGN 6,288 thousand at 31 December 2015 are presented in the statements at their acquisition cost, because their fair value cannot be reliably measured.

The tables below analyse the fair values of financial instruments not measured at fair value by fair value hierarchy level framework categorising fair value measurement.

*In thousands of BGN*

| **31 December 2016** | **Level 1** | **Level 2** | **Level 3** | **Fair value** | **Total carrying amount** |
|---|---|---|---|---|---|
| **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 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 credit institutions | - | 3,348 | - | 3,348 | 3,348 |
| Due to other customers | - | 2,690,515 | 5,221,451 | 7,911,966 | 7,911,911 |
| Other borrowed funds | - | 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** |

## 5. Financial assets and liabilities,continued

### Accounting classification and fair values, continued

*In thousands of BGN*

| 31 December 2015 | Level 1 | Level 2 | Level 3 | Fair value | Total carrying amount |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and balances with central banks | - | 1,522,374 | - | 1,522,374 | 1,522,374 |
| Financial assets held to maturity | 35,652 | 49,298 | - | 84,950 | 84,244 |
| Loans and advances to banks and financial institutions | - | 109,455 | - | 109,455 | 109,455 |
| Loans and advances to customers | - | 704,296 | 4,506,579 | 5,210,875 | 5,221,360 |
| **Total** | 35,652 | 2,385,423 | 4,506,579 | 6,927,654 | 6,937,433 |
| | | | | | |
| **Liabilities** | | | | | |
| Due to credit institutions | - | 4,708 | - | 4,708 | 4,708 |
| Due to other customers | - | 2,238,980 | 4,964,497 | 7,203,477 | 7,203,969 |
| Due to Ministry of Finance | - | - | 450,602 | 450,602 | 450,922 |
| Other borrowed funds | - | 135,669 | - | 135,669 | 135,726 |
| Perpetual debt | - | 44,711 | - | 44,711 | 44,663 |
| Hybrid debt | - | 201,616 | - | 201,616 | 202,044 |
| **Total** | - | 2,625,684 | 5,415,099 | 8,040,783 | 8,042,032 |

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* | 2016 | 2015 |
|---|---|---|
| **Interest income** | | |
| Accounts with and placements to banks and financial institutions | 993 | 494 |
| Retail customers | 139,464 | 136,997 |
| Loans to corporate clients | 232,886 | 279,820 |
| Loans to small and medium enterprises | 41,366 | 42,806 |
| Microlending | 9,541 | 7,050 |
| Debt instruments | 16,975 | 17,859 |
| | **441,225** | **485,026** |
| **Interest expense** | | |
| Deposits from banks | (87) | (3) |
| Deposits from other customers | (112,425) | (203,400) |
| Other borrowed funds | (588) | (2,534) |
| Perpetual debt | (1,184) | (8,847) |
| Hybrid debt | (6,695) | (6,598) |
| Interest expense related to assets | (1,052) | (77) |
| Lease agreements and other | (15) | (21) |
| | **(122,046)** | **(221,480)** |
| **Net interest income** | 319,179 | 263,546 |

For 2016 the recognised interest income on individually impaired financial assets (loans and advances to customers) amounts to BGN 48,786 thousand (2015: BGN 27,865 thousand).

## 7. Net fee and commission income

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| **Fee and commission income** | | |
| Letters of credit and guarantees | 4,301 | 6,138 |
| Payments transactions | 18,210 | 14,727 |
| Customer accounts | 28,064 | 23,554 |
| Cards business | 29,544 | 30,351 |
| Other | 30,933 | 27,980 |
| | **111,052** | **102,750** |
| **Fee and commission expense** | | |
| Letters of credit and guarantees | (277) | (299) |
| Payments systems | (2,077) | (1,842) |
| Cards business | (11,838) | (13,533) |
| Other | (5,374) | (2,859) |
| | **(19,566)** | **(18,533)** |
| **Net fee and commission income** | 91,486 | 84,217 |

## 8. Net trading income

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| Net trading gains/(losses) arise from: | | |
| - Debt instruments | 39 | 157 |
| - Equity instruments | 777 | (59) |
| - Foreign exchange | 13,121 | 10,919 |
| **Net trading income** | **13,937** | **11,017** |

## 9. Other operating income

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| Other operating income arise from: | | |
| - Debt instruments | 4,604 | 3,044 |
| - Equity instruments | 24,188 | - |
| - Operating income from management of assigned receivables | 3,855 | 50,456 |
| - Operating income from management of loans acquired through business combination | 7,468 | 9,285 |
| - Other | - | 17 |
| **Other operating income** | **40,115** | **62,802** |

The reported operating income from equity instruments for 2016 includes gain from the acquisition of Visa Europe by Visa Inc. amounting to BGN 24,930 thousand.

## 10. General administrative expenses

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| General and administrative expenses comprise: | | |
| - Personnel cost | 61,034 | 60,436 |
| - Depreciation and amortisation | 17,553 | 17,976 |
| - Advertising | 14,788 | 14,266 |
| - Building rent expense | 33,446 | 33,527 |
| -Telecommunication, software and other computer maintenance | 11,511 | 10,826 |
| - Other expenses for external services | 53,975 | 43,796 |
| **General administrative expenses** | **192,307** | **180,827** |

Personnel costs include salaries, social and health security contributions under the provisions of the respective local legislation. At 31 December 2016 the total number of employees of the Group is 3,322 (31 December 2015: 3,234).

## 11. Impairment losses

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| **Write-downs** | | |
| *Loans and advances to customers* | (262,768) | (400,490) |
| **Reversal of write-downs** | | |
| *Loans and advances to customers* | 106,648 | 71,353 |
| **Net impairment losses** | **(156,120)** | **(329,137)** |

Impairment charge in 2016 and 2015 is due to additional allowances resulting from the development of credit risk in a period of unstable 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

| | 2016 | 2015 |
|---|---|---|
| Net income from transactions and revaluation of gold and precious metals | (1) | 786 |
| Rental income | 6,177 | 4,198 |
| Income from sale of assets | 3,947 | 3,051 |
| Revaluation of investment property | 9,213 | 111,940 |
| (Loss) from sale of investment property | (229) | - |
| Dividend income | 629 | 1,338 |
| Earned insurance premiums, net | 2,969 | 2,951 |
| Contribution to deposit insurance and bank resolution authorities | (36,328) | (41,533) |
| Insurance claims incurred | (1,752) | (1,695) |
| Provision (expenses )/ reversals for litigations,net | 5,541 | (6,686) |
| Other income, net | 3,657 | 34,384 |
| **Total** | **(6,177)** | **108,734** |

## 13. Income tax expense

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| Current taxes | (1,790) | (628) |
| Deferred taxes (see note 23) | (9,512) | (1,873) |
| **Income tax expense** | **(11,302)** | **(2,501)** |

Reconciliation between tax expense and the accounting profit is as follows:

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| **Accounting profit before taxation** | **110,113** | **20,352** |
| Corporate tax at applicable tax rate (10% for 2016 and 10% for 2015) | 11,011 | 2,035 |
| Effect of tax rates of foreign subsidiaries and branches | 442 | 507 |
| Tax effect of permanent tax differences | 55 | (31) |
| Other | (206) | (10) |
| **Income tax expense** | **11,302** | **2,501** |
| Effective tax rate | 10.26% | 12.29% |

## 14. Earnings per share

| | 2016 | 2015 |
|---|---|---|
| Net profit attributable to shareholders *(in thousands of BGN)* | 98,708 | 17,815 |
| Weighted average number of ordinary shares *(in thousands)* | 110,000 | 110,000 |
| **Earnings per share *(in BGN)*** | **0.90** | **0.16** |

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. During 2016 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* | 2016 | 2015 |
|---|---|---|
| Cash on hand | | |
| - In Bulgarian leva | 107,233 | 116,572 |
| - In foreign currencies | 52,636 | 47,315 |
| Balances with central banks | 1,157,101 | 849,402 |
| Current accounts and amounts with resident banks | 19 | 17 |
| Current accounts and amounts with foreign banks | 322,899 | 509,068 |
| **Total** | **1,639,888** | **1,522,374** |

## 16. Financial assets held for trading

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| Bonds, notes and other instruments issued by: | | |
| Bulgarian government, assessed with BBB- rating : | | |
| - denominated in Bulgarian leva | 4,195 | 4,208 |
| - denominated in foreign currencies | 107 | 2,146 |
| Foreign banks, assessed with BB rating | 1,369 | 1,414 |
| Other issuers – equity instruments (unrated) | 3,891 | 3,118 |
| **Total** | **9,562** | **10,886** |

## 17. Available for sale investments

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Bonds, notes and other instruments issued by: | | |
| Bulgarian government | | |
| - denominated in Bulgarian leva | 225,709 | 233,817 |
| - denominated in foreign currencies | 172,842 | 186,516 |
| Foreign governments | | |
| - treasury bills | 100,334 | 33,219 |
| - government bonds | 62,188 | 67,000 |
| Foreign banks | 44,302 | 57,575 |
| Other issuers – equity instruments | 14,461 | 6,288 |
| **Total** | **619,836** | **584,415** |

## 18. Financial assets held to maturity

The securities held to maturity represent debt investments that the Group has the intent and ability to hold to maturity.

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| **Securities held to maturity issued by:** | | |
| Foreign governments | 241,475 | 63,674 |
| Foreign banks | 20,962 | 20,570 |
| **Total** | **262,437** | **84,244** |

## 19. Loans and advances to banks and financial institutions

### (a) Analysis by type

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Placements and other amounts due from banks | 15,952 | 98,372 |
| Receivables under resale agreements | 4,970 | 2,006 |
| Other | 30,941 | 9,077 |
| **Total** | **51,863** | **109,455** |

### (b) Geographical analysis

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Resident banks and financial institutions | 29,318 | 6,940 |
| Foreign banks and financial institutions | 22,545 | 102,515 |
| **Total** | **51,863** | **109,455** |

## 20. Loans and advances to customers

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| Retail customers | | |
| - Consumer loans | 497,524 | 478,485 |
| - Mortgage loans | 570,543 | 615,117 |
| - Credit cards | 254,867 | 262,435 |
| - Other programs and collateralised lending | 130,568 | 141,144 |
| Small and medium enterprises | 612,093 | 570,490 |
| Microlending | 108,561 | 102,218 |
| Corporate customers | 3,705,033 | 3,784,966 |
| Less allowance for impairment | (834,339) | (733,495) |
| **Total** | **5,044,850** | **5,221,360** |

### (a) Movement in impairment allowances

*In thousands of BGN*

| | |
|---|---|
| **Balance at 1 January 2016** | **733,495** |
| Additional allowances | 262,768 |
| Amounts released | (106,648) |
| Write – offs | (57,148) |
| Effects of changes in foreign currencies rates | 1,872 |
| **Balance at 31 December 2016** | **834,339** |

The impairment allowance increased during 2016 and amounts to BGN 834,339 thousand at the end of the period (2015: BGN 733,495 thousand) due to the development of the credit risk and the continuing challenges in the market environment. In 2016 loans to customers amounting to BGN 57,148 thousand were written off through an allowance account compared to BGN 119,432 thousand an year earlier.

## 21. Property and equipment

| *in thousands of BGN* | Land and buildings | Fixture and fittings | Motor vehicles | Assets under construction | Leasehold improvements | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **At 1 January 2015** | **17,550** | **142,110** | **6,825** | **26,285** | **64,713** | **257,483** |
| Additions | - | 111 | - | 11,574 | 13 | 11,698 |
| Foreign exchange differences | - | 74 | 6 | 2 | 35 | 117 |
| Disposals | (185) | (3,630) | (204) | (23) | (797) | (4,839) |
| Transfers | 286 | 8,193 | 15 | (11,241) | 2,402 | (345) |
| **At 31 December 2015** | **17,651** | **146,858** | **6,642** | **26,597** | **66,366** | **264,114** |
| Additions | - | 51 | 16 | 7,549 | 15 | 7,631 |
| Acquired trought business combination | - | 21 | 43 | - | - | 64 |
| Foreign exchange differences | - | 58 | 5 | 1 | 26 | 90 |
| Disposals | - | (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** |
| **Depreciation** | | | | | | |
| **At 1 January 2015** | **2,261** | **110,435** | **5,374** | - | **30,388** | **148,458** |
| Foreign exchange differences | - | 57 | 3 | - | 29 | 89 |
| Charge for the year | 628 | 9,947 | 411 | - | 3,785 | 14,771 |
| On disposals | (8) | (3,512) | (196) | - | (797) | (4,513) |
| **At 31 December 2015** | **2,881** | **116,927** | **5,592** | **-** | **33,405** | **158,805** |
| Acquired trought business combination | - | 11 | 2 | - | - | 13 |
| Foreign exchange differences | - | 49 | 1 | - | 23 | 73 |
| Charge for the year | 634 | 9,438 | 387 | - | 3,778 | 14,237 |
| On disposals | - | (5,257) | (231) | - | (565) | (6,053) |
| **At 31 December 2016** | **3,515** | **121,168** | **5,751** | **-** | **36,641** | **167,075** |
| **Net book value** | | | | | | |
| **At 1 January 2015** | 15,289 | 31,675 | 1,451 | 26,285 | 34,325 | 109,025 |
| **At 31 December 2015** | 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 |

The fair value of assets consisting of land and buildings was determined as of 31 December 2012 by independent property assessors holding recognised professional qualification and recent experience in assessing property with similar location and category. The Group's policy requires internal or external appraisers to determine the fair value with sufficient frequency to ensure that the book value does not differ significantly from the fair value at the end of the reporting period. As at 31 December 2016 the fair value of land and buildings was confirmed by the internal appraisers of the Bank and it 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 input data on the valuation technique used.

**21. Property and equipment, continued**

| Valuation technique | 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%).<br>2. Period for cancellation (6 months on average after each rental agreement).<br>3.Occupancy (90-95%, weighted average 92.5%).<br>4. Periods when no rent is paid (1 year for new rental agreement).<br>5. Risk adjusted discount rate (7.5-8%, weighted average 7.75%). | The fair value will increase (decrease) where:<br>• the expected market growth of rent is higher (lower);<br>• periods for cancellation are shorter (longer);<br>• Occupancy is higher (lower);<br>• the periods when no rent is paid are shorter (longer); or<br>• 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.<br>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 similar sources 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%).<br>2. Time required to effect the sale (6 months on average after the offer is placed).<br>3. Transaction success rate (90-95%, weighted average 92.5%).<br>4. Location (1.0-1.05, weighted average 1.025).<br>5. Property status (1.0-1.1, weighted average 1.05). | The fair value will increase (decrease) where:<br>• the expected market growth of property is higher (lower);<br>• the period of time required for the sale is shorter (longer);<br>• there is a change in the technical condition of the property |

## 22. Intangible assets

| *in thousands of BGN* | Software and licences | Greenhouse allowances | Goodwill | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| **At 1 January 2015** | **29,272** | **3,820** | **721** | **33,813** |
| Additions | 338 | - | - | 338 |
| Foreign exchange differences | 12 | - | - | 12 |
| Disposals | - | (3,820) | (47) | (3,867) |
| Transfers | 345 | - | - | 345 |
| **At 31 December 2015** | **29,967** | - | **674** | **30,641** |
| Additions | 111 | - | - | 111 |
| Acquired trought business combination | 1 | - | - | 1 |
| Foreign exchange differences | 14 | - | - | 14 |
| Disposals | (2) | - | - | (2) |
| Transfers | 1,510 | - | - | 1,510 |
| **At 31 December 2016** | **31,601** | - | **674** | **32,275** |
| **Amortisation** | | | | |
| **At 1 January 2015** | **15,548** | - | - | **15,548** |
| Foreign exchange differences | 10 | - | - | 10 |
| Charge for the year | 3,205 | - | - | 3,205 |
| **At 31 December 2015** | **18,763** | - | - | **18,763** |
| Acquired trought business combination | 1 | - | - | 1 |
| Foreign exchange differences | 11 | - | - | 11 |
| Charge for the year | 3,316 | - | - | 3,316 |
| On disposals | (2) | - | - | (2) |
| **At 31 December 2016** | **22,089** | - | - | **22,089** |
| **Net book value** | | | | |
| **At 1 January 2015** | **13,724** | **3,820** | **721** | **18,265** |
| **At 31 December 2015** | **11,204** | - | **674** | **11,878** |
| **At 31 December 2016** | **9,512** | - | **674** | **10,186** |

## 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 15% for Albania.

Deferred income tax balances as at 31 December 2016 are attributable to the following items:

| *In thousands of BGN* | Assets | Liabilities | Net Assets | Net Liabilities |
|---|---|---|---|---|
| Property, equipment and intangibles | (117) | 2,679 | - | 2,562 |
| Investment property | - | 12,105 | - | 12,105 |
| Other items | (384) | 879 | (6) | 501 |
| **Net tax (assets)/liabilities** | **(501)** | **15,663** | **(6)** | **15,168** |

Deferred income tax balances as at 31 December 2015 are attributable to the following items:

| *In thousands of BGN* | Assets | Liabilities | Net Liabilities |
|---|---|---|---|
| Property, equipment and intangibles | (101) | 2,956 | 2,855 |
| Investment property | - | 11,194 | 11,194 |
| Tax loss | (8,304) | - | (8,304) |
| Other items | (966) | 592 | (374) |
| **Net tax (assets)/liabilities** | **(9,371)** | **14,742** | **5,371** |

Movements in temporary differences in 2016 are recognised, as follows:

| *In thousands of BGN* | **31 December 2015** | | | | **31 December 2016** | |
|---|---|---|---|---|---|---|
| | **Net liabilities** | **Recognised in (profit) or loss for the period** | **Recognised in equity for the period** | **Other adjustments** | **Net assets** | **Net liabilities** |
| Property, equipment and intangibles | 2,855 | (291) | - | (2) | - | 2,562 |
| Investment property | 11,194 | 911 | - | - | - | 12,105 |
| Tax loss | (8,304) | 8,304 | - | - | - | - |
| Other items | (374) | 588 | 278 | 3 | (6) | 501 |
| **Net tax (assets)/liabilities** | 5,371 | 9,512 | 278 | 1 | (6) | 15,168 |

## 24. Repossessed Assets

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Land | 403,748 | 366,571 |
| Buildings | 469,470 | 371,213 |
| Machines, equipment and motor vehicles | 160,473 | 192,961 |
| Fixtures and fittings | 810 | 810 |
| **Total** | **1,034,501** | **931,555** |

Due to the change in the intended use of some of the repossessed assets obtained during the previous reporting period some real estate property, amounting to BGN 30,377, is reclassified into "Land" section in 2016.

Repossessed assets acquired as collateral are measured at the lower of cost and net realisable value. The net realizable value of the land and buildings is approximately similar to their fair value. The valuation technique used for land and buildings is presented in Note 21.

24a. In 2015 the Group began reporting a new class of assets – investment property, that includes land and buildings, for the purpose of generating rentals and for capital appreciation.

**Movement in investment property**

| *In thousands of BGN* | |
|---|---|
| **At 1 January 2016** | **206,244** |
| Transfers from repossessed assets acquired as collateral in the current period | 5,966 |
| Revaluation of investment property to fair value | 9,213 |
| Derecognition on disposal by sale | (529) |
| Additions resulting from subsequent expenditure | 1.373 |
| **At 31 December 2016** | **222,267** |

## 25. Other assets

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Deferred expense | 10,003 | 10,918 |
| Gold bullion | 7,104 | 8,496 |
| Tax receivables | 6,093 | 56,411 |
| Other assets | 71,882 | 16,550 |
| **Total** | **95,082** | **92,375** |

## 26. Due to credit institutions

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Term deposits | - | 1,933 |
| Payable on demand | 3,348 | 2,775 |
| **Total** | **3,348** | **4,708** |

## 27. Due to other customers

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| Retail customers | | |
| - current accounts | 870,576 | 694,887 |
| - term and savings deposits | 5,723,396 | 5,451,553 |
| Corporate, state-owned and public institutions | | |
| - current accounts | 926,679 | 681,812 |
| - term deposits | 391,260 | 375,717 |
| **Total** | **7,911,911** | **7,203,969** |

## 27.a Ministry of Finance deposit

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| | - | 450,922 |

In 2015 the Bank repaid to the Ministry of Finance BGN 464,297 thousand (of which BGN 450,000 thousand principal and BGN 14,297 thousand interest), and in the first half of 2016 - BGN 450,000 thousand principal and BGN 3,242 thousand interest of the liquidity support.

In May 2016 the Bank repaid fully to the Ministry of Finance the liquidity support received.

## 28. Other borrowed funds

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| Acceptances under letters of credit | 21,602 | 26,255 |
| Liabilities under repurchase agreements | - | 28,856 |
| Financing from financial institutions | 48,765 | 80,615 |
| **Total** | **70,367** | **135,726** |

Financing from financial institutions through extension of loan facilities can be analyzed as follows:

*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** |

*In thousands of BGN*

| Lender | Interest rate | Maturity | Amortised cost as at 31.12.2015 |
|---|---|---|---|
| State Fund Agriculture | 2% | 10.12.2016 - 13.01.2020 | 4,082 |
| European Investment Fund – JEREMIE 2 | 0 % - 1.589% | 31.12.2024 | 68,097 |
| Bulgarian Bank for Development AD | 3.50% | 30.03.2019 | 8,436 |
| **Total** | | | **80,615** |

## 29. Perpetual debt

| *In thousands of BGN* | Principal amount | % | Amortised cost as at 31 December 2015 |
|---|---|---|---|
| Step-up guaranteed perpetual subordinated bonds EUR 21 mio | 41,073 | 11.625% | 44,663 |
| **Total** | **41,073** | | **44,663** |

The issue of the step-up subordinated bonds by First Investment Finance B.V., a limited liability company registered under the laws of the Netherlands and 100% owned by First Investment Bank AD is fully guaranteed by the Bank.

After the adoption of Regulation 575/2013 (effective 1 January 2014) on prudential requirements for credit institutions and investment firms, the two issues are subject to grandfathering. As at 31.12.2015 the EUR 21 mio Step-up Guaranteed Perpetual Subordinated Bonds were included in Tier 2 capital with 70% of their principal value.

In March 2016 the Group repaid the Step-up Guaranteed Perpetual Subordinated Bonds with initial principal EUR 21 mio after obtaining permission from the Bulgarian National Bank.

## 30. Hybrid debt

| *In thousands of BGN* | Principal amount | Amortised cost 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 thousands of BGN* | Principal amount | Amortised cost at 31 December 2015 |
|---|---|---|
| Hybrid debt with principal EUR 40 mio | 78,233 | 78,207 |
| Hybrid debt with principal EUR 60 mio | 117,350 | 123,837 |
| **Total** | **195,583** | **202,044** |

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 and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 40,000 thousand. In June 2012 the Bank issued the second tranche of the instrument with nominal value of EUR 20,000 thousand, which after obtaining permission from the Bulgarian National Bank was included as 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 and issue value of EUR 20,000 thousand, constituting the first tranche of a bond issue for up to EUR 60,000 thousand. In November 2013 the Bank issued the second and the third tranches of the instrument with total nominal value of EUR 40,000 thousand, which after obtaining permission from the Bulgarian National Bank were included as 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.

## 31. Other liabilities

| *In thousands of BGN* | 2016 | 2015 |
|---|---|---|
| Liabilities to personnel | 2,367 | 2,605 |
| Insurance contract provisions | 2,017 | 1,965 |
| Provisions for litigations | 1,144 | 6,686 |
| Other payables | 17,362 | 76,425 |
| **Total** | **22,890** | **87,681** |

## 32. Capital and reserves

### (a) Number and face value of registered shares as at 31 December 2016

As at 31 December 2016 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 2016 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 the Bulgarian Stock Exchange – Sofia.

### (c) Statutory reserve

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under Bulgarian law, the Bank is required to allocate at least 1/10 of its annual profit as statutory reserves until their aggregate amount reaches 1/10 of the Banks' share capital.

In 2016, as in the previous year, the Bank has not distributed dividends.

## 33. Commitments and contingent liabilities

### (a) Memorandum items

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 represent the maximum accounting loss that would be recognised at the end of the reporting period if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value.

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Bank guarantees | | |
| - in BGN | 151,462 | 217,138 |
| - in foreign currency | 63,796 | 85,337 |
| **Total guarantees** | **215,258** | **302,475** |
| Unused credit lines | 416,566 | 480,548 |
| Letters of credit | 16,315 | 16,351 |
| Other contingent liabilities | 72,242 | 75,188 |
| **Total** | **720,381** | **874,562** |

These commitments and contingent liabilities have off balance-sheet credit risk because only organisation 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 in the table do not represent expected future cash flows.

The contingent loan is a framework agreement for collateral management covering several 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 facility 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 by the Bank.

As at the date of the report there are no other significant contingent liabilities and commitments requiring additional disclosure.

## 34. Cash and cash equivalents

For the purposes of the cash flows statement, cash and cash equivalents comprises the following balances with less than 90 days original maturity:

| *In thousands of BGN* | **2016** | **2015** |
|---|---|---|
| Cash and balances with central banks | 1,639,888 | 1,522,374 |
| Loans and advances to banks and financial institutions with original maturity less than 90 days | 41,844 | 89,883 |
| **Total** | **1,681,732** | **1,612,257** |

## 35. 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* | 2016 | 2015 |
|---|---|---|
| **FINANCIAL ASSETS** | | |
| Cash and balances with central banks | 1,477,659 | 1,495,121 |
| Financial assets held for trading | 10,775 | 11,553 |
| Available for sale investments | 553,019 | 641,940 |
| Financial assets held to maturity | 75,926 | 125,922 |
| Loans and advances to banks and financial institutions | 128,506 | 116,441 |
| Loans and advances to customers | 5,132,811 | 5,723,467 |
| | | |
| **FINANCIAL LIABILITIES** | | |
| Due to credit institutions | 7,519 | 4,768 |
| Due to other customers | 7,594,614 | 7,726,537 |
| Other borrowed funds | 107,879 | 182,460 |
| Perpetual debt | 7,548 | 77,452 |
| Hybrid debt | 199,760 | 197,396 |

## 36. Related party transactions

Parties are considered to be related if one party controls or exercises significant influence over the other party on making financial or operational decisions or the 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 are 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* | 2016 | 2015 | 2016 | 2015 |
| **Loans** | | | | |
| Loans outstanding at beginning of the period | 1,500 | 765 | 16,137 | 17,149 |
| Loans issued/(repaid) during the period | (137) | 735 | (14,583) | (1,012) |
| Loans outstanding at end of the period | 1,363 | 1,500 | 1,554 | 16,137 |
| **Deposits and other financing received** | | | | |
| Deposits at beginning of the period | 7,836 | 10,346 | 2,138 | 1,787 |
| Deposits received/(repaid) during the period | (5) | (2,510) | 1,187 | 351 |
| Deposits at end of the period | 7,831 | 7,836 | 3,325 | 2,138 |
| **Deposits placed** | | | | |
| Deposits at beginning of the period | - | - | 9,822 | - |
| Deposits placed/(matured) during the period | - | - | - | 9,822 |
| Deposits at end of the period | - | - | 9,822 | 9,822 |
| **Off-balance sheet commitments issued by the Group** | | | | |
| At beginning of the period | 2,484 | 2,117 | 838 | 968 |
| Granted/(expired) | (225) | 367 | (374) | (130) |
| At the end of the period | 2,259 | 2,484 | 464 | 838 |

In 2016 the key management personnel of the Bank received remuneration of BGN 7,397 thousand and other related parties received BGN 1,800 thousand.

**37. Subsidiary undertakings**

**(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., which is wholly owned by the Bank. Its purpose 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 proceeds from which are used to finance the operations of the Bank. The issued and paid up share capital of the company amounts to EUR 18 thousand, divided into 180 common shares of EUR 100 each. The Bank consolidates its investment in this company.

**(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 2016 the registered share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. The Bank consolidates its investment in the company.

**(c) First Investment Bank – Albania Sh.a.**

In April 2006 the Bank founded First Investment Bank - Albania Sh.a. with a 99.9998% shareholding. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 effectively took over the activities of the former FIB-Tirana Branch by assuming all its rights and obligations, assets and liabilities.

As at 31 December 2016 the share capital of First Investment Bank – Albania Sh.a. is EUR 11,975 thousand, fully paid in and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

**(d) Debita OOD and Realtor OOD**

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two companies Debita OOD and Realtor OOD, which were entered in the Commercial Registry in January 2010. Each of the two companies has a capital of BGN 150,000, which is divided into shares with nominal value of BGN 100 in the following way:

1. Debita OOD – 70% or 1,050 shares held by the Bank and 30% or 450 shares held by FFBH.

2. Realtor OOD – 51% or 765 shares held by the Bank and 49% or 735 shares held by FFBH.

These affiliate companies are set up with the aim to act as servicing companies in accordance to Article 18 of the Special Purpose Investment Companies Act. Debita OOD is engaged in the following activities - acquisition, servicing, management and transactions with receivables, as well as consultancy services in relation to such operations, and Realtor OOD - in management, servicing and maintenance of real estate, organization of construction and renovation of buildings, and consultancy services related to real estate. The Bank consolidates its investments in the companies.

**(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). In June 2013 following a decision by Financial Supervision Commission the company was given a licence to perform insurance activities. The name of the company was changed to Fi Health Insurance AD. It is engaged in insurance business – offering "Illness" and "Accident" insurance policies. As at 31 December 2016 the registered 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 company.

**37. Subsidiary undertakings, continued**

**(f) Framas Enterprises Limited**

In November 2010 the Bank acquired 10,000 shares, representing 100% of the issued share capital of Framas Enterprises Limited, British Virgin Islands, with the view of providing auxiliary services pursuant to Article 2 (4) of the Law on Credit Institutions. In December 2015 the company was dissolved.

**(g) Balkan Financial Services EAD**

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services OOD. 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 single member joint stock company. As at 31 December 2016 the registered share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%. The Bank consolidates its investment in the company.

**(h) Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD**

In the first half of 2013 the Bank established the companies Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD as 100% owned by the Bank. The registered capital of each of the companies is the minimum required by law (BGN 2) and they are engaged in production and trade of commodities and services in Bulgaria and abroad (Turnaround Management EOOD, Creative Investment EOOD), acquisition, management and sale of assets, processing of information, financial advisory services (Lega Solutions EOOD) and other activities. The Bank consolidates its investments in the companies.

**37. Subsidiary undertakings, continued**

**(i) AMC Imoti EOOD**

AMC Imoti EOOD was registered in September 2010 and was acquired by the Bank through the purchase of MKB Unionbank EAD in 2013 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 2016 capital of the company is BGN 500 thousand, and the Bank is the sole owner. The Bank consolidates its investments in the company as at 31 December 2016.

**(j) Other**

The Bank indirectly owns Fi Health EOOD. The company is not included in the consolidated financial statements of the Group for the year ended 31 December 2016, as it is considered immaterial to the financial position, financial result and the cash flows of the Group for the same reporting period. This decision is reassessed at the end of each reporting period.

**38. Subsequent events**

There have been no events after the reporting date that require additional disclosures or adjustments to the financial statements of the Group.

# ACTIVITY REPORT

(ON A CONSOLIDATED BASIS)

OF FIRST INVESTMENT BANK AD

FOR 2016

APRIL 2017

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 and the National corporate governance code.

## 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

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

## HISTORY

First Investment Bank has operated in the Bulgarian market for 23 years. 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 offering high quality customer service.

## GOVERNANCE STRUCTURE

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

## EMPLOYEES

3,322 employees at end-2016.

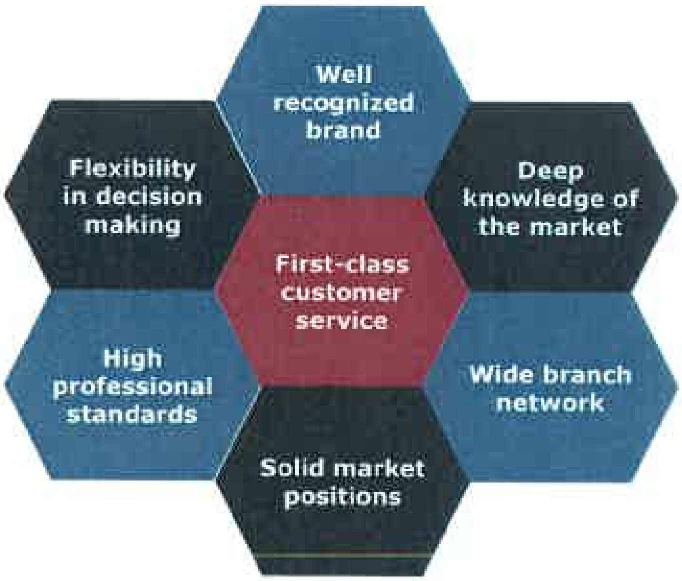
## HEADQUARTERS

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.

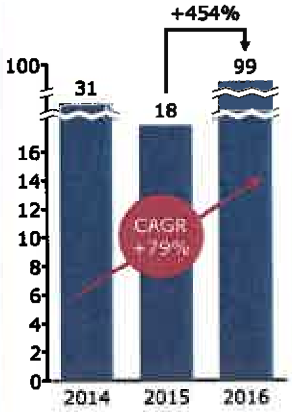
## COMPETITIVE ADVANTAGES



## SELECTED INDICATORS

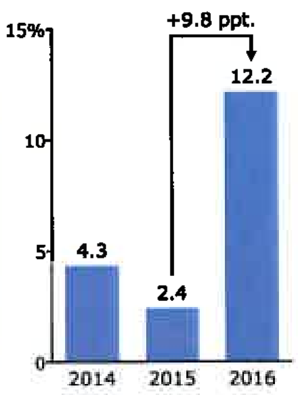
**Profit after tax**

Profit after tax, BGNm



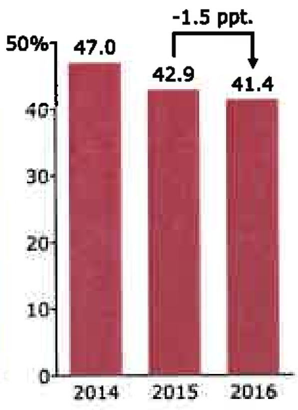

**Return-on-equity (ROE)**

ROE, %



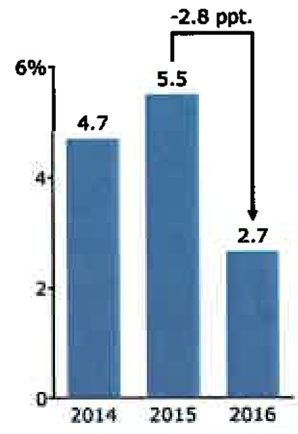

**Cost/income ratio**

Cost/income ratio, %



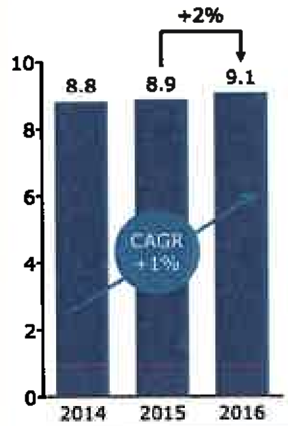

**Cost of Risk**

Cost of Risk, %



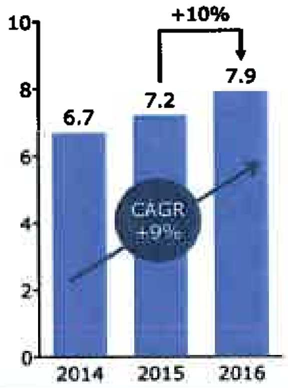

**Assets**

Assets, BGNb



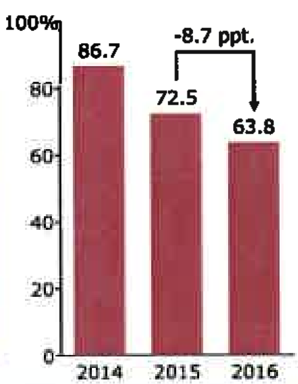

**Deposits**

Deposits, BGNb



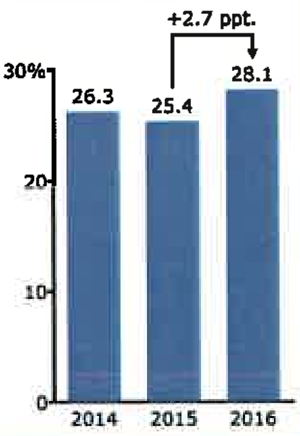

**Loan/deposit ratio**

Net loan/deposit ratio, %



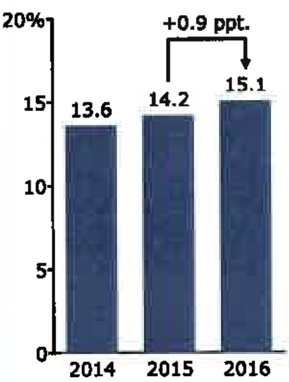

**Liquid assets ratio**

Liquid assets ratio, %



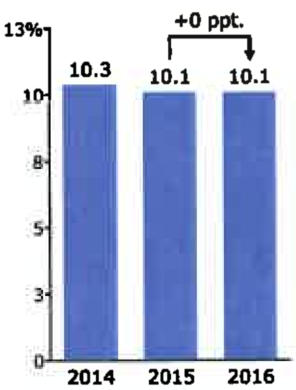

**Tier 1 capital ratio**

Tier 1 capital ratio, %



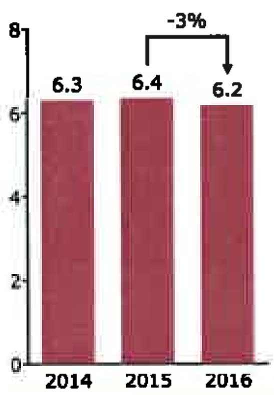

**Leverage ratio**

Leverage ratio, %



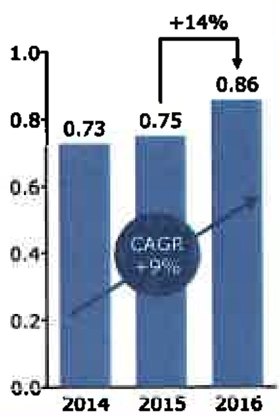

**Risk-weighted assets (RWA)**

RWA, BGNb




**Total Group equity**

Total Group equity, BGNb



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# MACROECONOMIC DEVELOPMENT

**Republic of Bulgaria**

| Indicators | |
|---|---|
| Population | 7.15 mln. people |
| Area | 110.994 km² |
| 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 | BB+, stable |

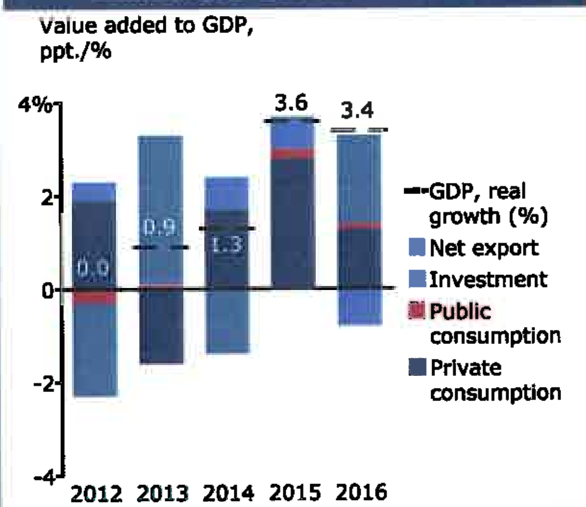
In 2016, although under conditions of a still unstable external environment, the Bulgarian economy continued to slowly recover driven by the gradual growth in private consumption and export-oriented industries, as well as the abatement of deflation processes. The existing Currency Board system and the fiscal position continued to contribute to maintaining the macroeconomic stability in the country.

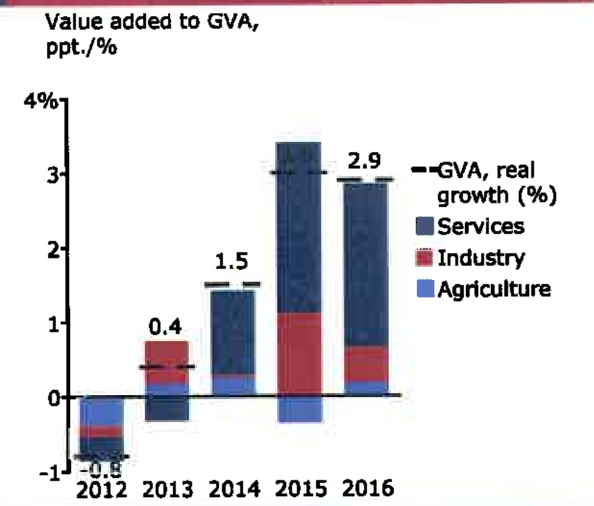
| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Gross domestic product (BGN million) | 92,196 | 88,571 | 83,634 | 82,166 | 82,040 |
| Gross domestic product, real growth (%) | 3.4 | 3.6 | 1.3 | 0.9 | 0.0 |
| - Consumption, real growth (%) | 1.8 | 3.8 | 2.2 | (1.9) | 2.0 |
| - Fixed capital formation, real growth (%) | (4.0) | 2.7 | 3.4 | 0.3 | 1.8 |
| - Net export, real growth (%) | 2.9 | 0.3 | (2.1) | 5.3 | (3.5) |
| Inflation, at period-end (%) | 0.1 | (0.4) | (0.9) | (1.6) | 4.2 |
| Average inflation (%) | (0.8) | (0.1) | (1.4) | 0.9 | 3.0 |
| Unemployment, at period-end (%) | 8.0 | 10.0 | 10.7 | 11.8 | 11.4 |
| Current account (% of GDP) | 3.9 | 0.4 | 0.1 | 1.3 | (0.9) |
| Trade balance (% of GDP) | (3.8) | (5.9) | (6.5) | (7.0) | (9.5) |
| Reserve assets of BNB (EUR million) | 23,899 | 20,285 | 16,534 | 14,426 | 15,553 |
| FDI in Bulgaria (% of GDP) | 1.5 | 3.8 | 2.7 | 3.3 | 3.1 |
| Gross external debt (% of GDP) | 73.9 | 75.3 | 92.0 | 87.9 | 89.9 |
| Public and publicly guaranteed debt (% of GDP) | 29.7 | 26.3 | 27.2 | 18.1 | 17.9 |
| Consolidated budget balance (% of GDP) | 1.6 | (2.8) | (3.7) | (1.8) | (0.4) |
| Exchange rate of USD (BGN for USD 1) | 1.86 | 1.79 | 1.61 | 1.42 | 1.48 |

Source: NSI, BNB, MF, Employment agency

In 2016, the country's economy reported a real annual growth rate of 3.4% (2015: 3.6%). The acceleration in the first half of the year (Q116: 3.6%; Q216: 3.5%) gradually slowed down to 3.4 % in the second half of 2016, influenced by the still uncertain international environment and the risks related to the general slowdown in the Eurozone. Net exports remained the main driver of the economy, growing by 2.9% during the year in line with the slow recovery of the economic activity in the country's main trading partners (the EU), and the associated higher demand for Bulgarian goods. Private consumption, increasing by 1.8% yoy due to recovering domestic demand and positive trends in the labor market dynamics, further contributed to economic growth.

A restrictive factor to growth was investment activity, which decreased by -4.0% over the period (2015: 2.7%). That was influenced by the lower share of public investment in relation to the initial stages of implementation of projects of the new 2014-2020 programming period, and the associated lower co-financing by the state.



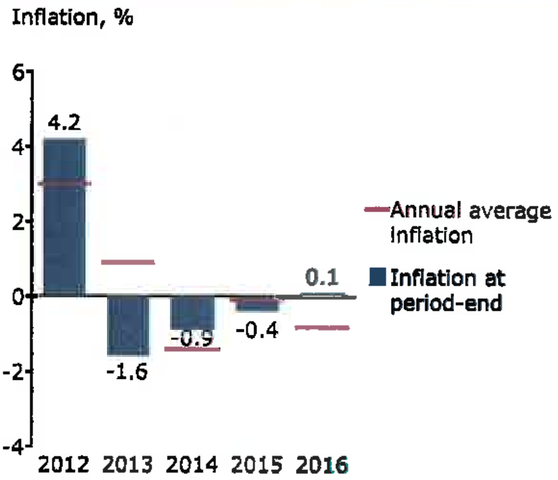



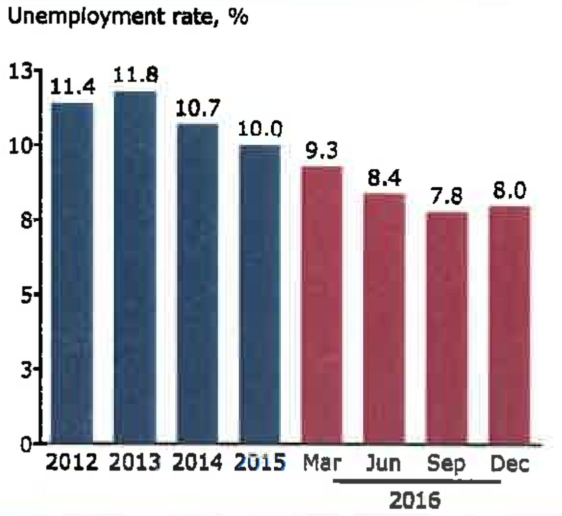

The gross value added in the economy grew by 2.9% over the period (2015: 3.0%), mainly driven by the services industry which reported real growth of 3.3% for 2016 (2015: 3.4%), including the sectors of trade, transport and tourism (2016: 3.9%), and IT and telecommunications services (2016: 3.6%). An annual increase of 6.1% was also reported in real estate transactions, as a result of the development of the real estate market in the country. In 2016, the index of house prices rose by 8.8% yoy by the third quarter, of which 7.9% for newly built apartments and 9.3% for existing housing.

The industrial sector also had a positive impact on the value added in the economy, increasing by a total of 1.7% over the year (2015: 4.1%). 2.8% growth was reported in the mining and manufacturing industries, including in key export-oriented industries such as metallurgy, chemical industry, petroleum products, and food and beverages. Value added in the construction sector remained negative (2016: -2.5%), reflecting the still uneven recovery of that sector by region. Additionally, the agricultural sector contributed by a growth of 4.3% (2015: -6.8%), such dynamics mainly resulting from the higher production of grain and industrial crops, compared to the lower agricultural yields and weaker indicators of the previous 2015.

In 2016, the labor market showed some positive tendencies, including in seasonal employment. The unemployment rate declined to 8.0% by the end of the period (2015: 10.0%), reflecting the changing expectations of companies in terms of investments and costs. The number of employed persons in the last quarter of 2016 amounted to 3,006 thousand and the employment ratio – to 49.2%. The highest increase of employment was registered in the sectors of trade (2.9%), agriculture (6.1%), hospitality industry (3.3%), education (2.5%), and IT and telecommunication services (0.9 %).

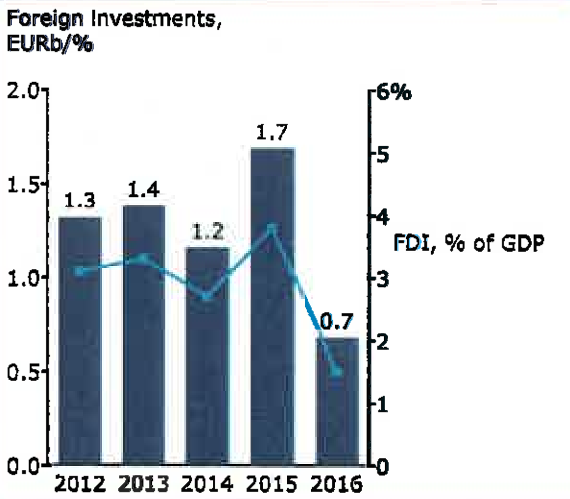
| Inflation | Unemployment rate |
|---|---|

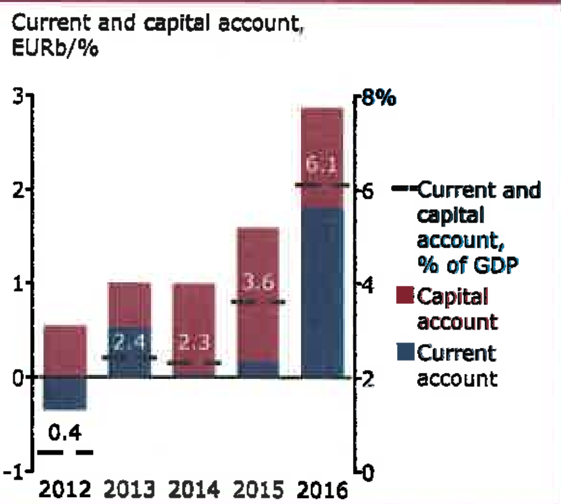



In 2016, deflationary processes in the country continued to gradually subside. The average annual inflation for the period amounted to -0.8%, and inflation at year-end recorded a positive value (2016: 0.1%) for the first time in three years. This was mainly driven by the appreciation in food and public catering, as well as in tobacco products and in some administered prices. Depreciation in the prices of raw materials and fuels, telecommunication services and durable goods, however, continued to negatively affect inflation. Harmonized inflation, which is one of the price stability criteria for joining the Eurozone, was -0.5% at year-end, and -1.3% on average for the period.

| Foreign investments in the country | Current and capital account |
|---|---|

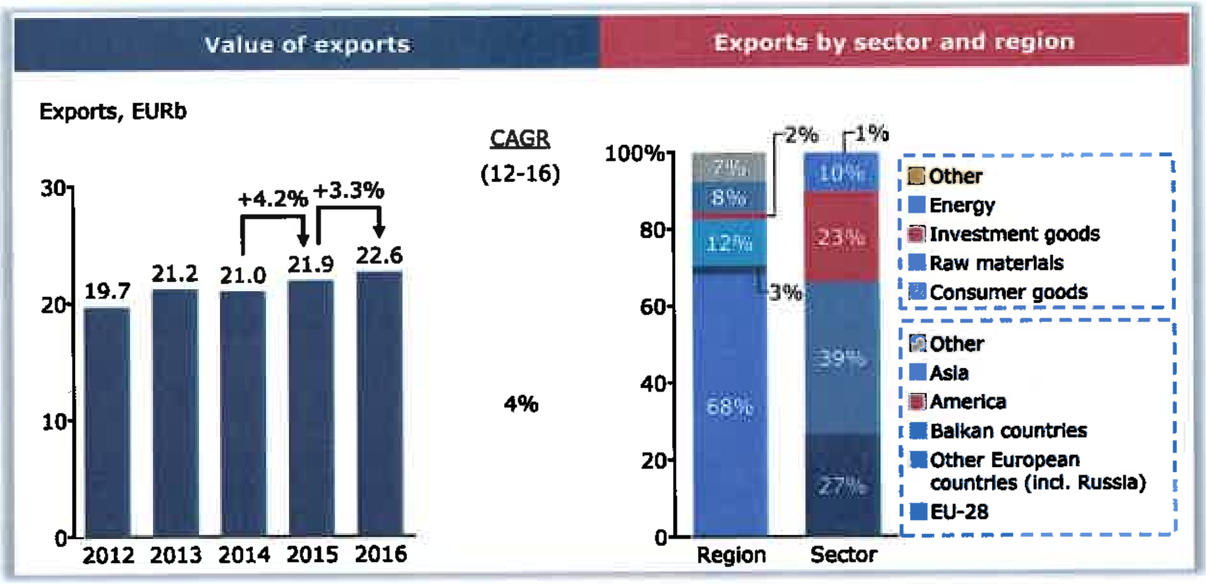



Foreign direct investment in the country declined to EUR 683 million (1.5% of GDP) for the period (2015: EUR 1,692 million, or 3.8% of GDP). Such decrease was mainly due to lower investments in form of equity. By country, the largest investments attracted came from Luxembourg (EUR 136 million), followed by the Netherlands (EUR 128 million), and the United Kingdom (EUR 118 million).

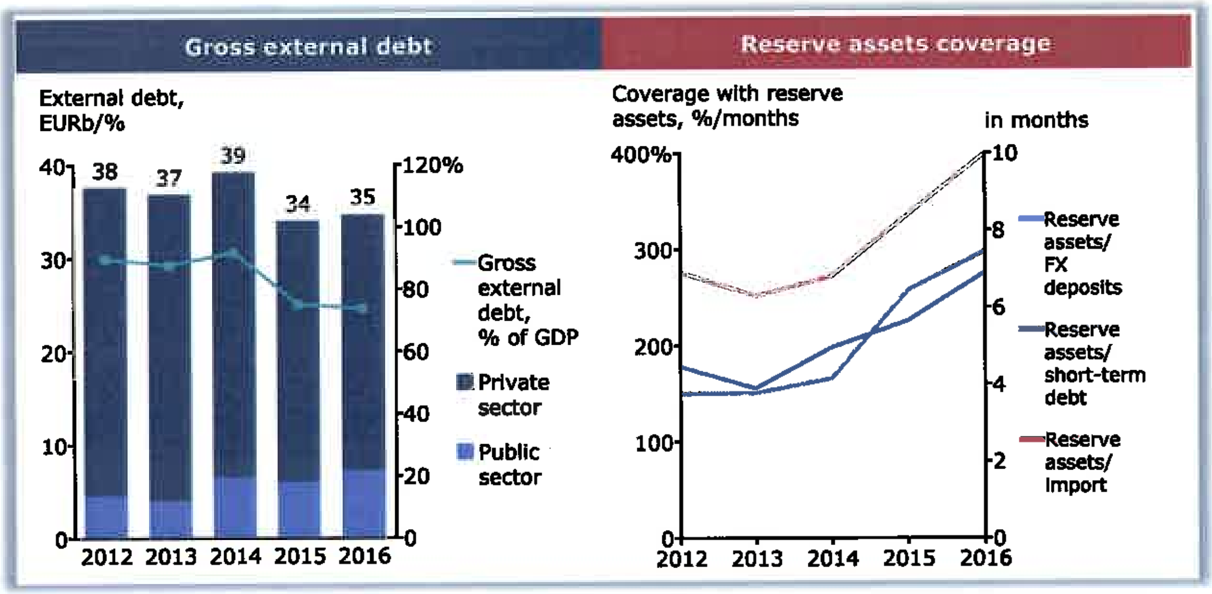
The faster growth in exports (3.3% yoy, to EUR 22,643 million) continued to lower the trade deficit, which reached EUR -1790 million or -3.8% of GDP at the end of 2016 (2015: EUR -2622 million, or

-5.9% of GDP). The current account remained positive, at the amount of EUR 1,810 million, or 3.9% of GDP. Raw materials (non-ferrous metals, foodstuffs, plastics and textiles) accounted for the main share of 39.5% in the structure of exports, followed by consumer goods (foods, medicines, clothing, furniture) at 26.8%, investment goods (machinery, spare parts and equipment) at 23.5%, and energy resources, including petroleum products, at 10.1%.

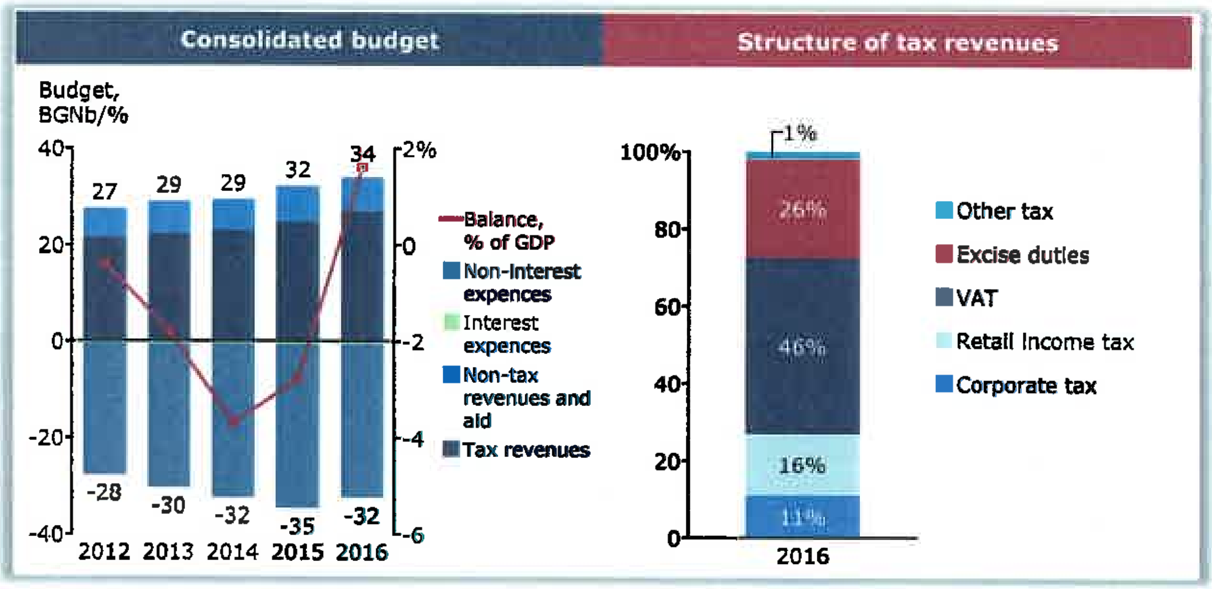



The gross external debt of the country increased by 1.9%, to EUR 34,728 million or 73.9% of GDP at the end of 2016 (2015: EUR 34,089 million, or 75.3% of GDP). Such increase was mainly attributable to the higher external debt of the public sector which reached EUR 7,245 million at the end of the period compared to EUR 6,001 million a year earlier, due to the EUR 1,058 million bonds issued on the international capital markets in March 2016 that were acquired by foreign investors.

The public external debt reached 15.4% of GDP, and the total government and government-guaranteed debt, including debt issued in the domestic market, reached 29.7% of GDP (2015: 26.3%). The BNB reserve assets covered 298.1% of the short-term debt (2015: 257.5%), and 276.2% of the foreign currency deposits (2015: 226.0%) in the country.



In 2016, the consolidated budget surplus reached BGN 1,473 million (1.6% of GDP), compared to a deficit of BGN -2485 million (-2.8% of GDP) a year earlier, due to the increased collectability of taxes and fees. Tax revenues increased by 8.2% to BGN 26,903 million, increase being was reported in all major revenue groups, including corporate income tax (by 11.6% to BGN 2,076 million), personal income tax (by 8.3% to BGN 2,944 million), VAT (10.5% to BGN 8,553 million), excise duties (6.2% to BGN 4,805 million), and customs duties (8.9% to BGN 173 million). Proceeds from social contributions also increased, amounting to BGN 7,318 million, of which BGN 5,105 million from social security contributions and BGN 2,213 million – from health insurance contributions.




Consolidated budget expenditures decreased by 6.4% to BGN 32,481 million at the end of December 2016, mainly as a result of the lower capital expenditures (2016: BGN 3,861 million; 2015: BGN 6,911 million), associated with the initial stages of implementation of projects of the new 2014-2020 programming period, and the respectively lower co-financing by the state.

In 2016, the long-term credit rating of Bulgaria in foreign currency was confirmed with a stable outlook by the leading international rating agencies as follows: Fitch Ratings (BBB-), and Standard & Poor's (BB +).

The expectations for 2017 include gradual recovery of private consumption and investment activity in the private sector, and cessation of the deflationary trend in consumer prices. At the same time, the influence of the unstable external environment on a global scale and the associated risks for slowdown in the European economy are also taken into account. The estimates of the Ministry of Finance and the Bulgarian National Bank forecast deceleration in real GDP growth to about 2.5% - 2.9% for 2017, and subsequent smooth acceleration to 3.0% - 3.1% in 2018-2019. For the period 2014-2020, EUR 15.7 billion are envisaged for the Bulgarian economy under EU funds and programs, which is an additional prerequisite for future economic growth.

# THE BANKING SYSTEM

In 2016 the banking system in Bulgaria registered stable indicators and increased financial results in the conditions of sustainable deposit growth and yet low investment activity. Effect on banks activity had the unstable external environment, absorbing the challenges from the cross-border economical and migration processes, as well as from the political situation: internal and external. The slow recovery of economic growth in the EU together with transfer of conducting interest rate and other banking policies and processes from the Euro Area also reflected on the banking activity in Bulgaria. An important factor in the development of banking policies had the wide regulatory framework and the continuing integration with the European financial infrastructure.

During the period, the Bulgarian National Bank conducted Asset Quality Review (AQR) and Stress Test for the banks in Bulgaria under a methodology of the ECB and EBA practices. The review was performed by external for the banks experts with significant foreign participation. The results from the overall assessment (AQR and Stress Test) confirmed the stability of the banks in Bulgaria. They reported the presence of solid capital buffers, the application of responsible policies and practices for risk assessment as well as sustainability to potential shocks.

| in % / change in p.p | 2016 | 2015 | 2014 | % | % |
|---|---|---|---|---|---|
| Capital adequacy ratio | 22.15 | 22.18 | 21.95 | (0.03) | 0.33 |
| Tier 1 capital ratio | 20.88 | 20.46 | 19.97 | 0.42 | 0.53 |
| Leverage ratio | 11.49[1] | 10.85 | 11.53 | 0.64 | (0.68) |
| Liquid assets ratio | 38.24 | 36.71 | 30.12 | 1.53 | 6.59 |
| Loan/deposit ratio (net) | 66.37 | 69.93 | 78.71 | (3.56) | (8.78) |
| Return-on-equity (ROE) | 11.72[1] | 9.53 | 7.51 | 2.19 | 2.02 |
| Return-on-assets (ROA) | 1.59[1] | 1.03 | 0.89 | 0.56 | 0.14 |
| Problem loans (90 days past due) | 12.83 | 15.35 | 16.75 | (2.52) | (1.40) |

Source: Bulgarian National Bank

The level of total capital adequacy ratio of the system amounted to 22.15% at the end of 2016 (2015: 22.18%), while the tier 1 capital ratio grew to 20.88% compared to 20.46% at end-2015, as the indicators were significantly above the regulatory requirements. A contributor to the increase was mainly the growth in common equity tier 1, incl. retained profit, which increased at a larger scale compared to risk-weighted assets. Leverage ratio used as an additional indicator comparing tier 1 capital with total exposure of the banks' balance and off-balance positions, also grew to 11.49% at September 2016 against 10.85% as at 31.12.2015.

In 2016 liquidity remained at high levels in accordance with the continuing trend in deposit growth in the banks from one hand, and the limited loan demand from another, which together with the cautious policies were prerecuisites for maintaining high liquid assets ratio at 38.24% at the end of 2016 compared to 36.71% a year earlier. Loan/deposit ratio decreased to 66.37% (2015: 69.93%), reflecting the conservative assessment in managing credit risk as well as the banking sector potential for lending growth.

[1] Data as at 30.09.2016

| BGN million /change in % | 2016 | 2015 | 2014 | % | % |
|---|---|---|---|---|---|
| Net interest income | 2,805 | 2,771 | 2,632 | 1.2 | 5.3 |
| Net fee and commission income | 921 | 890 | 828 | 3.5 | 7.5 |
| Administrative expenses | 1,587 | 1,850 | 1,738 | (14.2) | 6.4 |
| Impairment on loans | 807 | 1,090 | 1,128 | (25.3) | (3.4) |
| Net profit | 1,262 | 898 | 746 | 40.5 | 20.4 |

Source: Bulgarian National Bank

In 2016 the banking system reported net profit in the amount of BGN 1,262 million or 40.5% more compared to 2015, which positively reflected its profitability indicators. Net interest income grew by 1.2% compared to year earlier and reached BGN 2,805 million (2015: BGN 2,771 million), as a main contributor for the increase was the continuing decreasing trend in interest expenses resulting from the decreasing price in attracted funds. Net fee and commission income also grew to BGN 921 million (2015: BGN 890 million), further contributing to profit by forming 22.6% of the total operating income of the system. For 2016 the reported results ensured higher return-on-assets (ROA) at 1.59% at end-September 2016 (2015: 1.03%) and return-on-equity (ROE) at 11.72% (2015: 9.53%), which reflected the banking sector ability to generate good profitability in accordance with the development and the conditions of the environment.

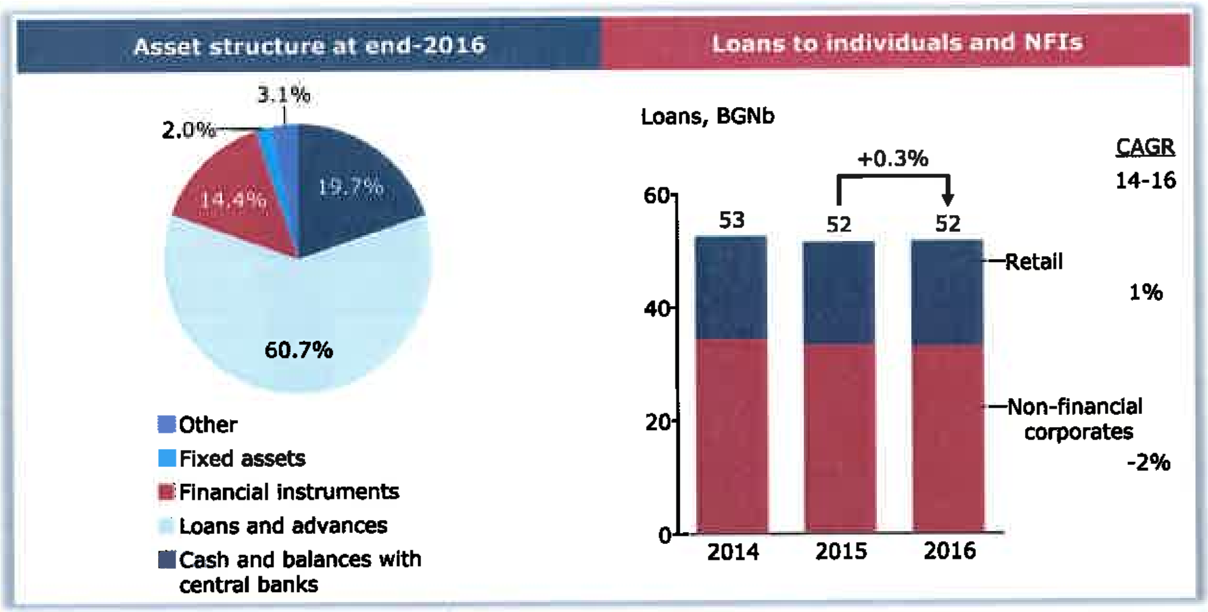
| BGN million /change in % | 2016 | 2015 | 2014 | % | % |
|---|---|---|---|---|---|
| Assets | 92,095 | 87,524 | 85,135 | 5.2 | 2.8 |
| Loans to non-financial corporates | 33,180 | 33,285 | 34,319 | (0.3) | (3.0) |
| Loans to individuals | 18,575 | 18,312 | 18,290 | 1.4 | 0.1 |
| Deposits from business clients[2] | 26,933 | 24,869 | 22,707 | 8.3 | 9.5 |
| Deposits from individuals | 47,196 | 44,407 | 41,003 | 6.3 | 8.3 |

Source: Bulgarian National Bank

Total balance-sheet assets grew by 5.2% y/o/y to BGN 92,095 million (2015: BGN 87,524 million), as the changes in the structure of the balance of the system included decrease in the share of loans to 60.7% of total assets (2015: 61.8%) and the cash and balances at Central banks to 15.7% (2015: 16.9%), at the expense of increase in the portfolios of financial instruments, incl. financial assets available for sale, which formed 10.3% (2015: 8.2%) of total assets. Effect on the dynamics had also the regulatory changes in effect from the beginning of 2016, with which the BNB started to apply negative interest rate (in accordance with the ECB deposit facility) on the maintained excess reserves by the banks in the central bank.

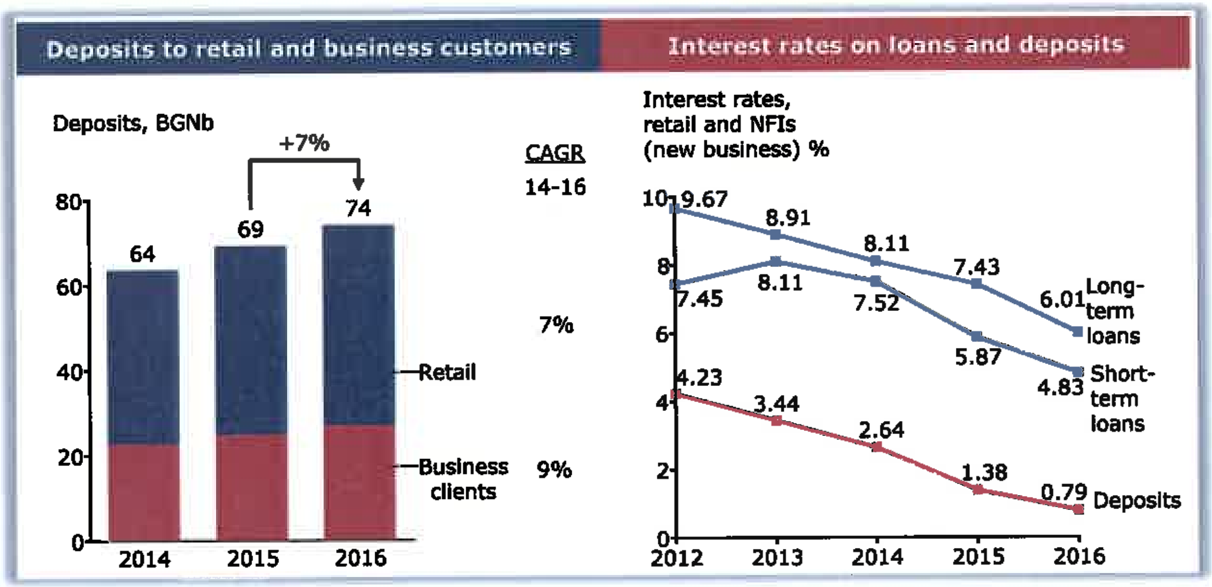
Gross loan portfolio (without credit instituions and central banks) increased by 0.6% to BGN 54,467 million (2015: BGN 54,121 million), as the decrease in loans to non-financial companies was compensated by an increase in the loans to individuals, which grew their share to 34.1% of total portfolio. Mortgage loans increased to BGN 8,772 million (2015: BGN 8,764 million), at the expense of consumer loans, which decreased to BGN 8,677 million (2015: BGN 8,718 million) at end-period. Loans to non-financial companies remained structure-determining with 60.9% of total loans to customers and amounted to BGN 33,180 million compared to BGN 33,285 million y/o/y.

[2] In order to be comparable to information from previous periods, deposits from non-financial corporates, other financial institutions and central government are included




The share of non-performing loans past due over 90 days decreased and amounted to 12.83% of the gross loan portfolio (2015: 15.35%). Non-performing loans were adequately covered by impairment and the additionally accumulated buffers by the system. In the structure of non-performing loans (past due over 90 days) loans to non-financial corporations occupied the highest share (71.9%), followed by households (26.7%) and other financial institutions (1.4%).

In 2016, the borrowed funds in the banking system (excluding credit institutions and central banks) continued their growing trend by 7.0% and reached BGN 74,129 million (2015: BGN 69,276 million). An increase was registered in corporate deposits (by 8.3% to BGN 26,933 million), as well as in retail deposits (by 6.3% to BGN 47,196 million), which remained structure-determining with a relative share of 60.1% of the attracted funds. In the currency structure of deposits, the share of BGN deposits decreased to 55.7% (2015: 57.3%), while EUR deposits grew to 35.4% (2015: 33.8%). Those in other currencies remained unchanged at 8.9% (2015: 8.9%).




During the year, the downward trend in interest rates continued, according to 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, 27 credit institutions operated in the country including 5 branches of foreign banks. Subsidiaries of EU banks formed 73.0%[3] of the system's assets, local banks at 23.3%, branches of banks from the EU at 2.5%, and banks and branches outside the EU 1.2% and 0.1% of the banking assets respectively.

In 2016, main focus in legislative initiatives in the banking sphere was implementing the requirements of the European regulatory rules through transposing into regulatory acts in the national legislation.

Significant amnedments were made in the Law on payments services and payment systems and thereto ordinances. With them were implemented the requirements for comparability of fees on payment accounts, the opportunity for switching of payment accounts, as well as the access for consumers to payment accounts for basic features, coming from Directive 2014/92/EC of the EP and of the Council.

In accordance with the new legal framework of EU, amended were the Law on public offering of securities and its implementing act – Ordinance №2 of FSC on the prospects in case of public offering and admitting to trade on a regulated market of securities and for disclosure of information. Supplemented were the texts with regards to the structure and format of prospects, as well as to the content of the annual and semi-annual financial activity reports. Extended was also the exemplary list of facts and circumstances subject to disclosure.

With a view to synchronizing with the requirements of Directive 2014/17/EC of the EP and of the Council regarding the contract for mortgage loans to consumers and creating a more transparent and competitive market for mortage loans, a new Law on mortgage loans for consumers. An important part of it regulates the ensurance of better information to consumers, by implementing a requirement for provision of general information for the offered loan products, thus giving opportunity for easier comparison of the loan conditions.

During the year a new Law for applying the measures against market abuse with financial instruments was adopted, which introduced the requirements of Regulation (EC) № 596/2014 on market abuse (the Regulation) with respect to submitting notifications for violations of the Regulation to the competent authorities and the needed legal delegations were introduced for handling the ways for protection of the identity of the senders of such notifications and the given information.

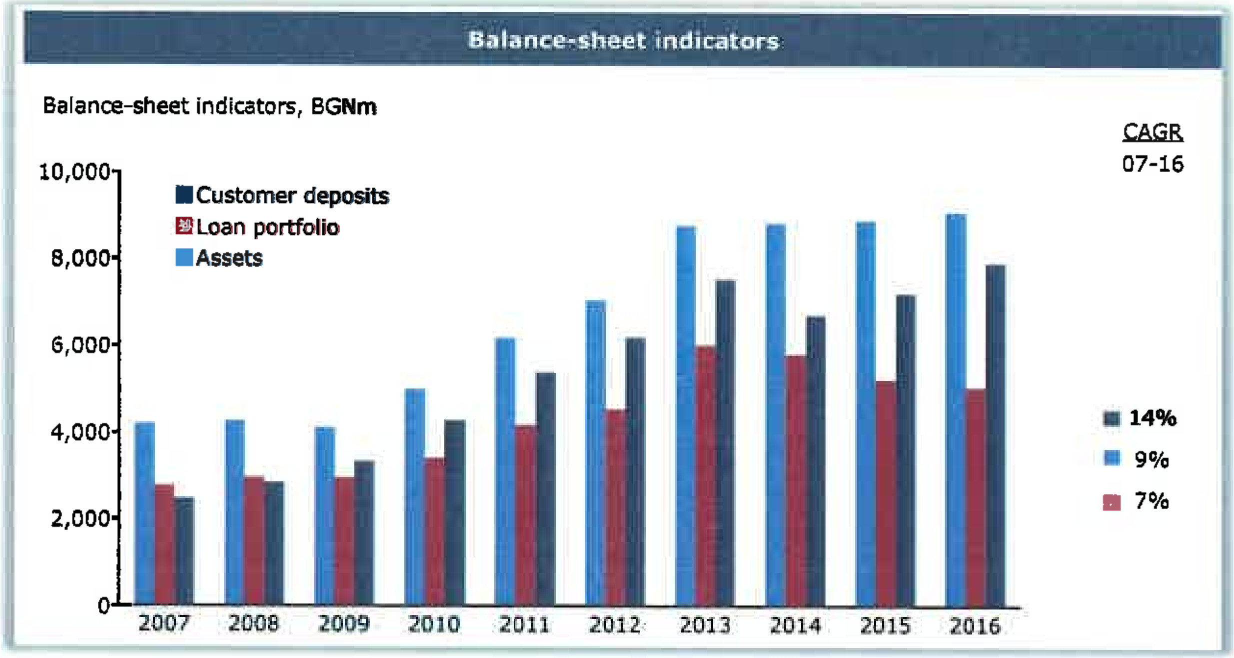
From the subordinated legislative framework regulating the banking activity, importance had Ordinance № 12 of the BNB on the Register of bank accounts and safes, which created a centralized register maintained by the BNB with information on the IBANs of the bank accounts and their titleholders, as well as of the lessees of safes in banks and their warrants. Regulated was also the access to information from the register.

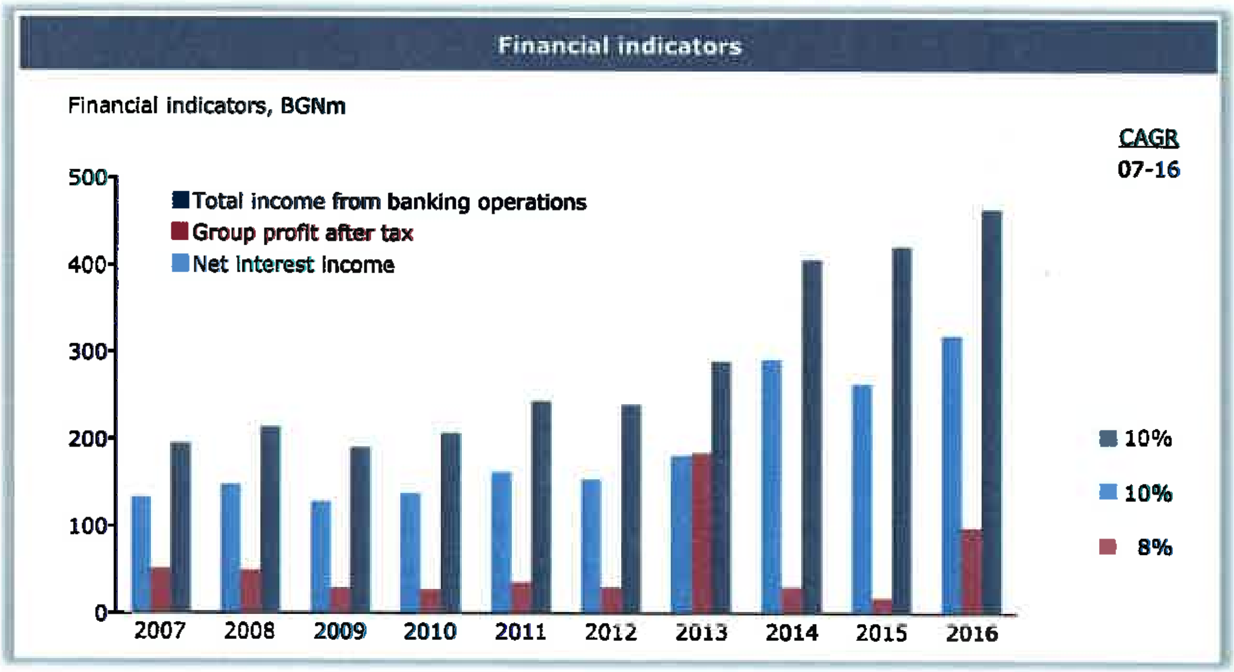
[3] Data as at the end of the third quarter of 2016.

# 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.

# GROWTH POTENTIAL




## OVERALL ASSESSMENT

In 2016, the Bulgarian National Bank conducted an overall assessment of banks in Bulgaria, including an asset quality review (AQR) and a stress test, which covered 22 banks including First Investment Bank.

Fibank, along with the other banks, successfully passed the AQR and the stress tests. The good organization and the specialized teams that were in place for the purpose of continuity of the usual processes and business activities, contributed to that successful outcome. The conducted AQR had positive impact in terms the of standards and methodology, consistent with those applied by the European Central Bank, many of which were introduced in the internal rules and policies of the Bank in the course of implementation of the recommendations made.

During the year, First Investment Bank took a number of steps for realization of capital levers aimed at further increase of its potential for solid and sustainable growth, including non-distribution of profits, reducing the risk exposures (de-risking) and diversification of the loan portfolio, as well as accelerating the process of disposal of acquired assets. The Bank continued to develop and expand its risk management activities with a view to further enhancing its safeguard mechanisms, as well as maintaining an effective control environment with respect to existing business processes.

# 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 – Bankservice AD
- MasterCard International
- VISA Inc
- S.W.I.F.T.

## MARKET POSITION[4]

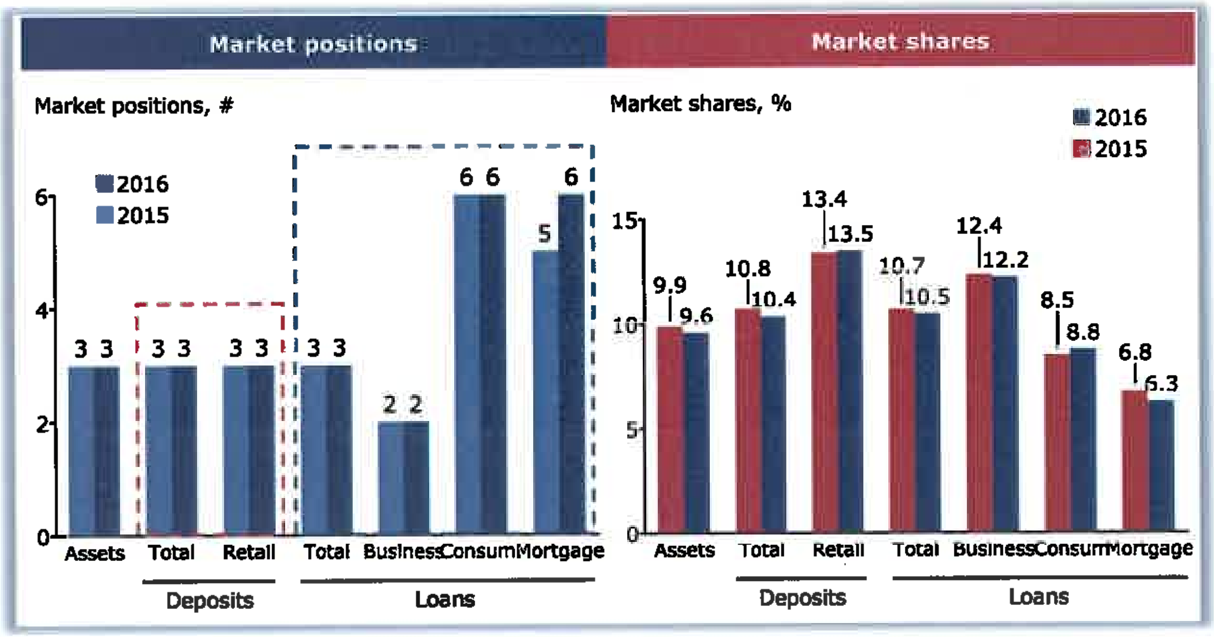
- Third in assets
- Third in lending
  - Second in corporate lending
  - Sixth in mortgage loans
  - Sixth in consumer loans

[4] Market positions are based on unconsolidated data from the BNB and Borica – Bankservice AD.

- 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

## MARKET SHARE[5]

- 9.61% of bank assets in Bulgaria
- 10.49% of loans in the country
  - 12.23% of corporate lending
  - 8.78% of consumer lending
  - 6.28% of mortgage lending
- 10.38% of deposits in the country
  - 13.51% 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.

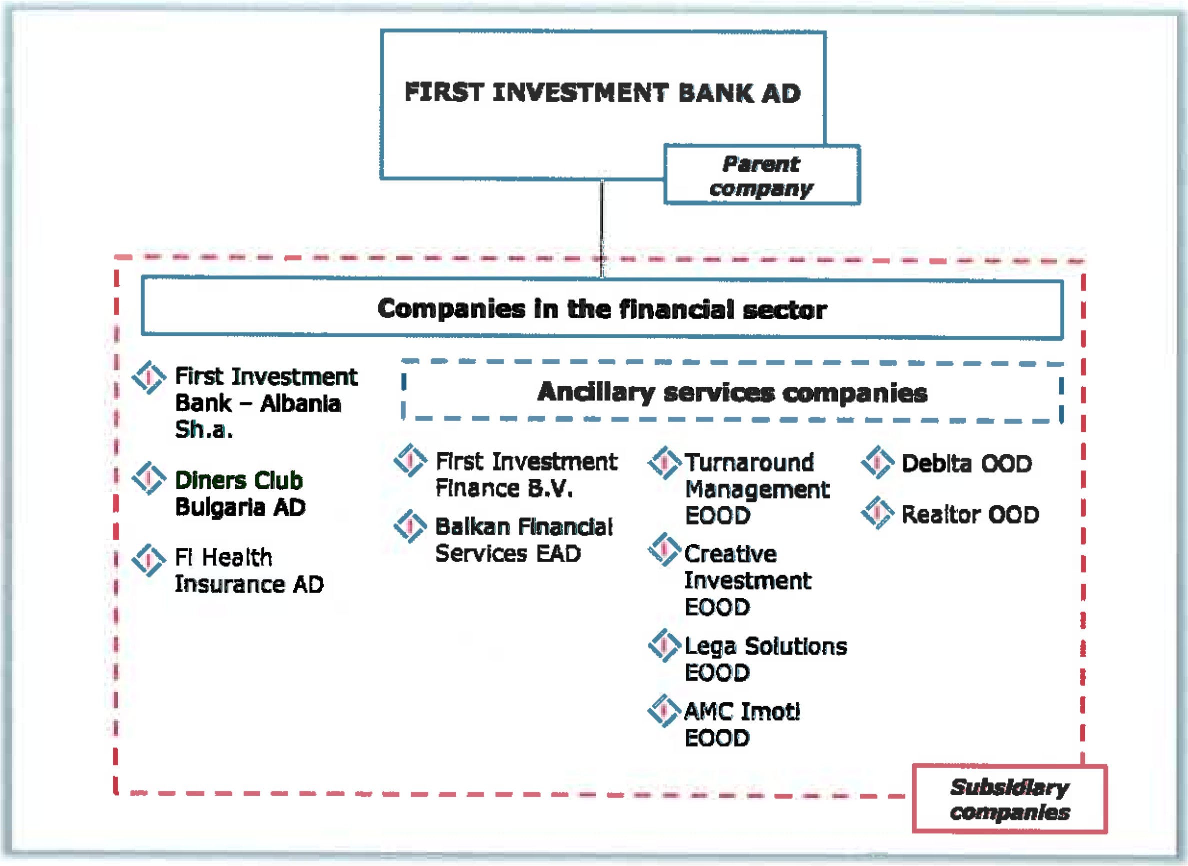
Fibank is a respected, reliable and fair partner, which has built over the years a good reputation among international financial institutions and gained valuable experience and know-how from its numerous business partners, investors, customers and counterparties.

[5] Market shares are based on unconsolidated data from the BNB and Borica – Bankservice AD.

## BRANCH NETWORK

As at 31 December 2016 the Group of First Investment Bank has a total of 168 branches and offices: 157 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.

## SUBSIDIARIES




First Investment Bank AD had eleven subsidiary companies as at 31 December 2016: 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 37 "Subsidiaries" of the Consolidated Financial Statements as at 31 December 2016.*

# AWARDS 2016

- First Investment Bank was awarded the Golden Heart prize at the annual awards for charity and corporate social responsibility of the Business Lady magazine.
- Fibank received a certificate of gratitude for love for the children of Bulgaria and investment in a digitally literate and civil society by the DigitalKidZ foundation.
- First Investment Bank ranked among the most recognizable brands according to the Progress Consult representative survey on the business sector in Bulgaria. The survey explores the indicator of marketing power of the brand, including criteria such as brand recognition, meeting the customers' expectations, trust, and choice as a bank of preference.
- Fibank was distinguished with a honorary diploma and a Good Heart prize for its support and contribution to the national donation campaign Easter for Everyone - Give a Holiday to Grandma and Grandpa, organized under the auspices of the National Ombudsman of the Republic of Bulgaria.

# FIRST INVESTMENT BANK: DATES AND FACTS

| | |
|---|---|
| 1993 | First Investment Bank was established on 8 October 1993 in Sofia.<br>Fibank was granted a full banking licence for carrying out operations in Bulgaria and abroad. |
| 1994-95 | The Bank developed and specialised in servicing corporate clients. |
| 1996 | First Investment Bank was the first in Bulgaria to offer services enabling banking from home or from the office.<br>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.<br>Thompson Bankwatch awarded Fibank its first credit rating.<br>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.<br>First Investment Bank received a midium-term loan for EUR 6.6 million from a German government organization for financing of Bulgarian companies.<br>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.<br>The Bank was awarded the prize "Bank of the Year" by 'Pari' ('Money') daily.<br>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.<br>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.<br>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.<br>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.<br>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.<br>First Investment Bank received a syndicated loan, to the amount of EUR 185 million, organised by Bayerische Landesbank, in which 33 banks participated.<br>The Bank's share capital was increased from BGN 20 million to BGN 100 million by transforming retained profits into 8 million new shares with a nominal value of BGN 10 each. |
| 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 from BGN 100 million to BGN 110 million.<br>„Fibank Mobile" – the first banking mobile portal created by the Bank with useful financial information for its customers, started functioning.<br>The Albanian Central Bank issued a full banking licence to First Investment Bank – Albania Sh.a.<br>Fibank is among the first banks in Bulgaria to implement new chip technology by issuing debit and credit cards. |
| 2008 | Fibank successfully implemented new centralized and integrated core banking information system FlexCube.<br>First Investment Bank received a syndicated loan to the amount of EUR 65 million from 11 leading banks all over the world.<br>Fibank became the first bank in Bulgaria with its own corporate blog.<br>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.<br>First Investment Bank offered a new Internet service "My FIBank" – part of the Bank's Ecological program, which provides e-statements on customers' current and deposit accounts and credit cards. |
| 2010 | Fibank welcomed its one millionth client.<br>First Investment Bank signed an agreement with IFC for cooperation in the field of trade finance.<br>Fibank was the first Bank in Bulgaria to offer contactless payments based on PayPass technology.<br>Fibank acquired 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.<br>New Executive Directors of the Bank were appointed – Dimitar Kostov, Vassil Christov, Svetoslav Moldovansky.<br>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.<br>The Bank signed an agreement with the European Investment Fund for the financing of SME under the JEREMIE initiative.<br>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.<br>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.<br>Clients were provided with the opportunity to purchase online products of investment gold and other precious metals.<br>Maya Oyfalosh was elected Executive Director of First Investment Bank AD. |
| **2014** | The merger of Union Bank EAD into First Investment Bank AD was successfully implemented, incl. the processes of integration of operational accounting systems, procedures, infrastructure, human resources, products and services.<br>First Investment Bank successfully overcame the pressure on the banking system thanks to existing high liquidity, good organization, high corporate spirit and professionalism, as well as to the liquidity support pursuant to EC Decision C(2014) 4554/29.06.2014.<br>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.<br>A new independent member of the Supervisory Board was elected: Mr. Jyrki Koskelo, an accomplished professional with extensive experience in the IFC.<br>Fibank repaid a perpetual debt instrument with an original principal amount of EUR 27 million after approval from the BNB and EC.<br>A new organizational structure of the Bank was adopted, further elaborating the control functions and introducing new positions, including those of Chief Executive Officer, Chief Risk Officer and Chief Compliance Officer.<br>In an effort to maintain an open line of communication with investors and enhance dialogue with minority shareholders, a Club of investors was created.<br>For a second consecutive year, First Investment Bank was distinguished as the favorite brand among financial institutions in Bulgaria by the global organization Superbrands. |

# HIGHLIGHTS 2016

## JANUARY

- A new loan product for farmers was developed, financing up to 100% of the expected subsidy under schemes and measures of the Common Agricultural Policy.
- Fibank signed an agreement with the National Guarantee Fund for the issuance of a BGN 20 million portfolio guarantee to secure the Bank's loans to small and medium enterprises.
- The "Together We Can do More" program was launched: a new initiative for encouragement of Fibank employees and appreciation of their personal contribution and work performance.
- A new Forex Plus deposit product was launched, featuring the option of receiving additional bonus tied to the US dollar exchange rate.

## FEBRUARY

- An initiative was started to hold regular meetings with minority shareholders, aimed at further transparency and feedback between them and senior management of the Bank.
- A new savings product was introduced: the Champion 4-4-2 deposit, offered in BGN and euro, with increasing interest and a 10-month term, structured in two periods of four months and one period of two months.
- Fibank awarded scholarships to students from the Sofia Mathematics High School.

## MARCH

- First Investment Bank repaid a hybrid debt instrument with original principal amount of EUR 21 million.
- New lending programs were introduced for private banking customers, structured according to their income, creditworthiness and risk.
- Jointly with the Swiss refinery PAMP and the JVP Berlin company, the distribution of a new silver coin was started, featuring an icon of St. Nikolay the Miracleworker, partial coloring and gilding.

## APRIL

- Fibank was the first among banks in the country to launch an innovative platform for electronic payments via mobile devices, with contactless (NFC) function and use of digital bank cards.
- First Investment Bank presented the current trends and the latest technologies in the sphere of financial services at the Webit festival, held in Sofia Tech Park.

## MAY

- The international rating agency Fitch Ratings confirmed the ratings of First Investment Bank with a stable outlook.
- The Bank repaid in full the liquidity support according to decision C(2014)8959 of 25.11.2014 of the European Commission.
- New Deposit from Fibank was launched: a product with maturity of 3 or 6 months, and minimum required balance of BGN 500 on the deposit account.
- The regular Annual General Meeting of Shareholders of First Investment Bank decided that the entire net profit of the Bank for 2015 shall be capitalized, and no dividend payments or other deductions from the 2016 profit for shall be made


## JUNE

- New banking programs Digital Me and Digital Me+ were developed, aimed at young individuals aged between 18 and 30.
- Preferential conditions were offered under the "Super SME loan" and "Super Micro loan" products, aimed at financing micro, small and medium-sized companies up to 90% of the value of collateral provided.
- Fibank refurbished its website https://my.fibank.bg/GoldShop for selling investment gold and precious metals.

## JULY

- A new loan was developed for gasification of households in line with the project of the Ministry of Energy to accelerate household gasification in Bulgaria.
- The design of the My Fibank service was updated, and new features were added.
- New business debit cards of the brands VISA Business Debit and MasterCard Business Debit were offered, tailored to the needs of corporate customers and the competitive market conditions.
- The employees of Fibank participated in a specially organized campaign for free and voluntary blood donation.

## AUGUST

- First Investment Bank successfully passed the asset quality review and the stress test of the banking system conducted in the country, and took additional actions with a view to implementing the recommendations made.
- New functionalities were added to the Fibank mobile application.

- Fibank launched a training project for its employees in order to improve their professional and social competencies, maintain and further increase customer satisfaction, and upgrade the standards of service.
- Fibank and the Higher School of Insurance and Finance started a joint master's program where proven professionals from the Bank's team shall participate as lecturers-practitioners with experience in real banking business.

## SEPTEMBER

- A new agreement with the NGF was signed in support of agricultural producers, for issuance of loan guarantees to enterprises approved for assistance under the Program for Rural Development 2014-2020.
- Fibank launched a joint initiative with the international online booking portal Booking.com, whereby cardholders can enjoy discounts when booking or making payments with credit or debit cards issued by the Bank.
- Together with New Zealand Mint, a new silver coin was designed dedicated to the Year of the Rooster, which is exclusively offered at the offices of Fibank.

## OCTOBER


- First Investment Bank started offering new contactless debit cards especially designed for children and teenagers aged 7 to 18.
- A new lending program was developed for students and postgraduates using state financial support, featuring loans for covering of tuition fees and living expenses.

## NOVEMBER


- First Investment Bank further developed its processes and procedures for monitoring of credit exposures, including by improving its early warning and monitoring systems.
- Fibank hosted the CFA Institute Research Challenge 2017: a university competition in financial analysis organized by the Bulgarian CFA Association (association of the Chartered Financial Analysts).

## DECEMBER

- First Investment Bank enabled fully online applications for consumer loans on its website at www.credit.fibank.bg.
- 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.
- Fibank created a charity calendar with artistic photographs of prominent Bulgarian actors.

# FINANCIAL REVIEW

## KEY INDICATORS

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Financial indicators (BGN thousand)** | | | | | |
| Net interest income | 319,179 | 263,546 | 291,911 | 181,711 | 154,235 |
| Net fee and commission income | 91,486 | 84,217 | 87,425 | 86,691 | 74,304 |
| Net trading income | 13,937 | 11,017 | 11,997 | 9,381 | 8,539 |
| Total income from banking operations | 464,717 | 421,582 | 406,647 | 284,445 | 239,897 |
| Administrative expenses | (192,307) | (180,827) | (190,981) | (156,239) | (160,022) |
| Impairment | (156,120) | (329,137) | (299,621) | (70,305) | (36,709) |
| Group profit after tax | 98,811 | 17,851 | 30,764 | 184,904 | 30,573 |
| Earnings per share (BGN) | 0.90 | 0.16 | 0.28 | 1.68 | 0.28 |
| **Balance-sheet indicators (BGN thousand)** | | | | | |
| Assets | 9,089,855 | 8,885,364 | 8,827,882 | 8,777,993 | 7,050,448 |
| Loans and advances to customers | 5,044,850 | 5,221,360 | 5,810,328 | 6,020,792 | 4,540,389 |
| Loans and advances to banks and fin.inst. | 51,863 | 109,455 | 112,078 | 120,126 | 45,939 |
| Due to other customers | 7,911,911 | 7,203,969 | 6,699,677 | 7,535,756 | 6,189,721 |
| Liabilities evidenced by paper | 70,367 | 135,726 | 177,544 | 196,444 | 62,420 |
| Total Group equity | 856,836 | 749,846 | 726,897 | 692,515 | 505,267 |
| **Key ratios (in %)** | | | | | |
| Capital adequacy ratio[6] | 15.13 | 14.72 | 14.89 | 14.26 | 13.10 |
| Tier 1 capital ratio[6] | 15.10 | 14.23 | 13.64 | 13.31 | 11.39 |
| Liquid assets ratio | 28.12 | 25.37 | 26.25 | 22.66 | 29.17 |
| Net loans/deposits ratio | 63.76 | 72.48 | 86.73 | 79.90 | 73.35 |
| Provisioning coverage ratio | 14.19 | 12.32 | 8.74 | 4.12 | 3.99 |
| Return-on-equity (after tax) | 12.17 | 2.43 | 4.33 | 33.34 | 6.29 |
| Return-on-assets (after tax) | 1.12 | 0.20 | 0.35 | 2.47 | 0.46 |
| Net interest income/total income from banking operations | 68.68 | 62.51 | 71.78 | 63.88 | 64.29 |
| Cost/income ratio | 41.38 | 42.89 | 46.96 | 54.93 | 66.70 |
| **Resources (in numbers)** | | | | | |
| Branches and offices | 168 | 173 | 179 | 221 | 162 |
| Staff | 3,322 | 3,234 | 3,291 | 3,554 | 2,859 |

[6] Values for 2014-2016 were calculated as per Regulation (EU) №575/2013 requirements.

## CREDIT RATING

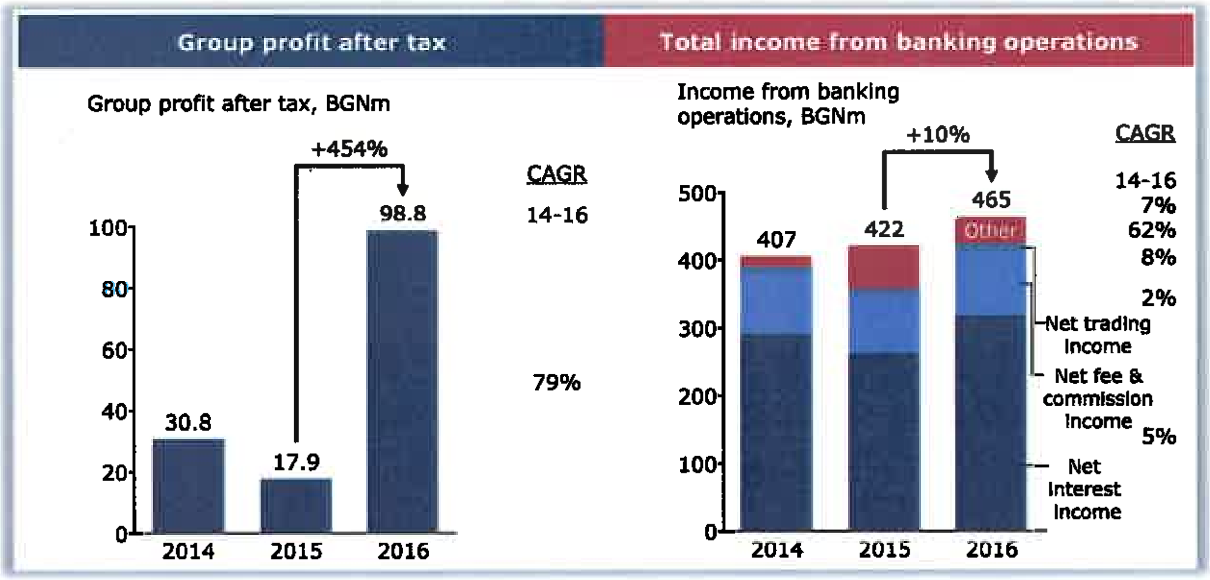
First Investment Bank has credit ratings from the international agency for credit rating Fitch Ratings.

| Fitch Ratings | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Long-term rating | B- | B- | BB- | BB- | BB- |
| Short-term rating | B | B | B | B | B |
| Viability rating | b- | b- | b- | b- | b- |
| Support rating | 5 | 5 | 3 | 3 | 3 |
| Support rating floor | NF | NF | BB- | BB- | BB- |
| Outlook | Stable | Stable | Negative | Stable | Stable |

In May and July 2016 Fitch Ratings fully confirmed the ratings of First Investment Bank with stable outlook, as follows: long-term rating „B-", short-term rating „B", viability rating „b-", support rating „5" and support rating floor „NF (No Floor)".

# FINANCIAL RESULTS

In 2016 the Group of First Investment Bank reported good financial results, as the profit after tax increased and reached BGN 98,811 thousand compared to BGN 17,851 thousand a year earlier, a contributor being the higher revenues from main operations including from interest, fees and commissions and trading operations. This positively influenced the profitability indicators, as the return-on-equity (after tax) reached 12.17% (2015: 2.43%), the return-on-assets (after tax) at 1.12% (2015: 0.20%), while the earnings per share at BGN 0.90 (2015: BGN 0.16).

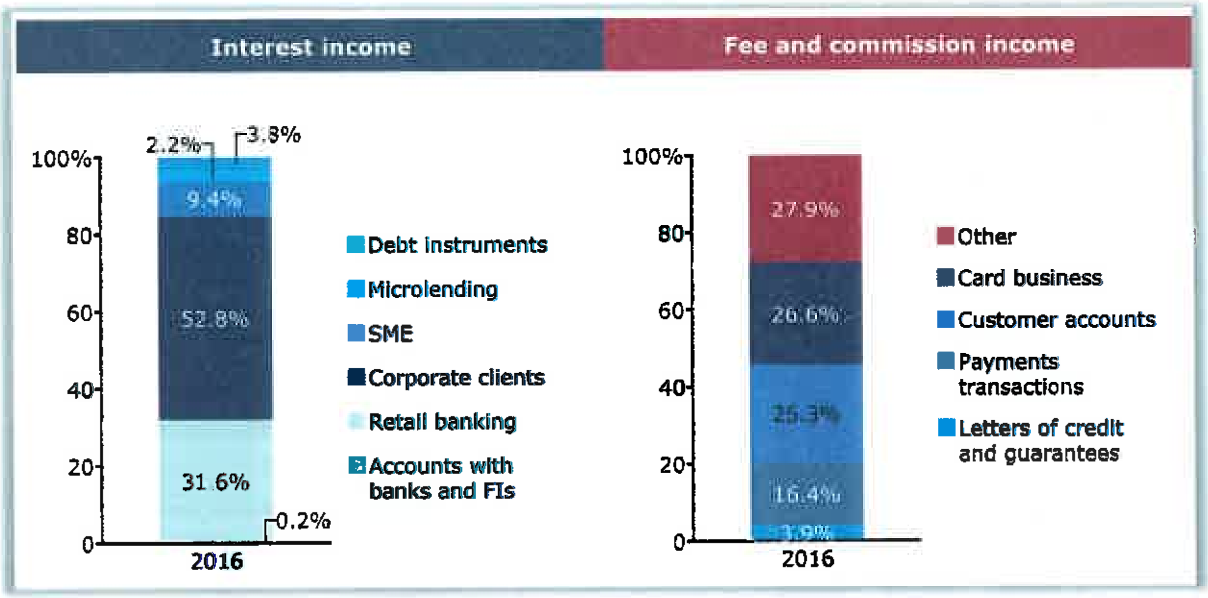



Total income from banking operations increased by 10.2% to BGN 464,717 thousand (2015: BGN 421,582), as growth was registered in all major lines of income, with a major contribution of net interest income, influenced by the continuing reduction in interest expenses of the Group in accordance with external market conditions.

For 2016, net interest income amounted to BGN 319,179 thousand or 21.1% more than the previous year (2015: BGN 263,546 thousand) and increased its contribution as a major source of income for the Group, constituting 68.7% of total operating income (2015: 62.5%). Fibank's operations abroad decreased, as part of the policy to reduce the portfolio of loans of the Cyprus branch to foreign legal entities (non-residents), and formed only 4.0% of net interest income of the Group (2015: 11.1%).

For the reporting period, interest income decreased to BGN 441,225 thousand (2015: BGN 485,026 thousand), reflecting the market trend for reduction in interest rates, as well as the competitive conditions offered by the Bank. A decrease was recorded in interest income related to corporate customers (2016: BGN 232,886 thousand; 2015: BGN 279,820 thousand) and small and medium-sized enterprises (2016: BGN 41,366 thousand; 2015: BGN 42,806 thousand), while an increase was recorded in the retail segment, including retail banking (2016: BGN 139,464 thousand; 2015: BGN 136,997 thousand) and microlending (2016: BGN 9,541 thousand; 2015: BGN 7,050 thousand). The Interest income related to debt instruments amounted to BGN 16,975 thousand compared to BGN 17,859 thousand a year earlier.

The trend in interest expenses remained, decreasing to BGN 122,046 thousand (2015: BGN 221,480 thousand) mainly due to a reduction in the expenses on customer deposits, which reached BGN 112,425 thousand against BGN 203,400 thousand a year earlier and formed 92.1% 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, while maintaining high levels of liquidity. A decrease was also recorded in interest expense related to other borrowed funds (2016: BGN 588 thousand; 2015: BGN 2,534 thousand) and perpetual debt instruments (2016: BGN 1,184 thousand; 2015: BGN 8,847 thousand), due to instruments and matured financings repaid during the period. As a result, the net interest margin of the Bank increased to 5.04% for the period.

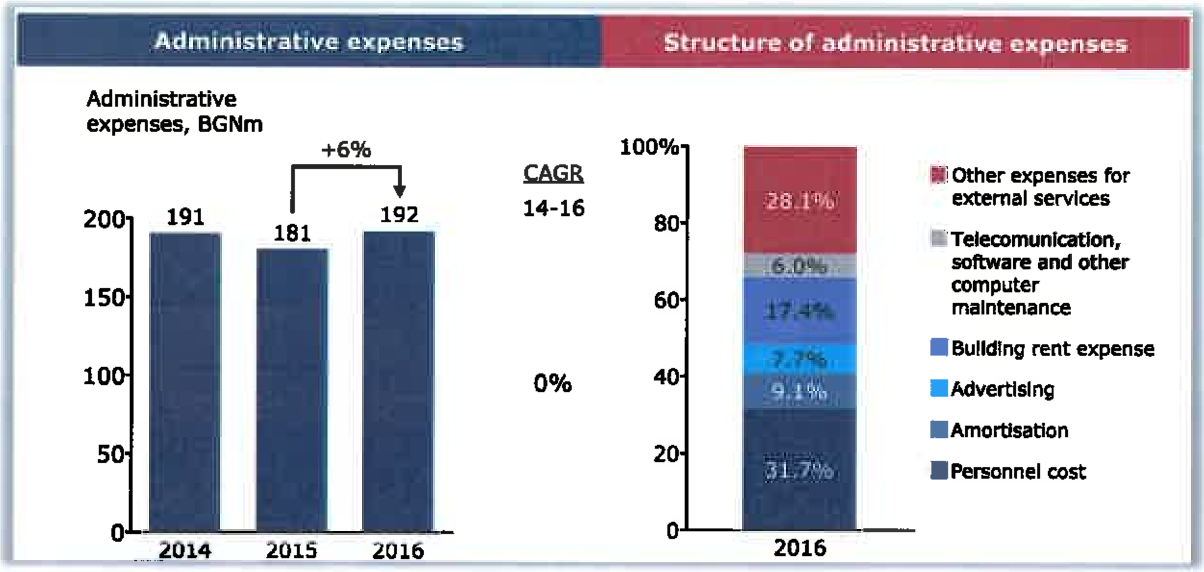



Net fee and commission income increased by 8.6% to BGN 91,486 thousand compared to BGN 84,217 thousand the previous year. Growth was recorded in the income from fees and commissions arising from customer accounts (2016: BGN 28,064 thousand; 2015: BGN 23,554 thousand) and payment transactions (2016: BGN 18,210 thousand; 2015: BGN 14,727 thousand) and other services (2016: BGN 30,933 thousand; 2015: BGN 27,980 thousand), including those related to lending. In the card business income remained at levels close to the previous year and amounted to BGN 29,544 thousand (2015: BGN 30,351 thousand). For 2016, net fee and commission income formed 19.7% of total income from banking operations (2015: 20.0%), while continuing to add value to the operating profit. Fibank's operations abroad formed 3.9% of net fee and commission income (2015: 3.8%).

For 2016, net trading income grew by 26.5% and amounted to BGN 13,937 thousand (2015: BGN 11,017 thousand). The increase reflected higher income arising from foreign exchange operations (2016: BGN 13,121 thousand; 2015: BGN 10,919 thousand) and from equity instruments (2016: BGN 777 thousand; 2015: BGN -59 thousand). Income arising from debt instruments amounted to BGN 39 thousand to BGN 157 thousand a year earlier. The share of net trading income remained insignificant at 3.0% of total income from banking operations (2015: 2.6%).

Other operating income reported a decrease for the period to BGN 40,115 thousand (2015: BGN 62,802 thousand), which was mainly influenced by lower income from the management of assigned receivables (2016: BGN 3,855 thousand; 2015: BGN 50,456 thousand). During the year, Fibank reported additional income that amounted to BGN 24,930 thousand, arising from the Bank's membership in VISA Europe and its acquisition in June 2016 by VISA Inc., as a result of which the Bank received cash payment and convertable preferred shares of the acquiring company.

For the year, the administrative expenses increased to BGN 192,307 thousand against BGN 180,827 thousand a year earlier, mainly driven by higher costs for external services (2016: BGN 53,975 thousand; 2015: BGN 43,796 thousand) that took into account one-off effects from consultancy expenses in connection with the conducted during the year asset quality review and stress tests of the banks in Bulgaria. The other major expenditure groups remained at levels close to previous year, including expenses related to personnel (2016: BGN 61,034 thousand; 2015: BGN 60,436 thousand), advertising (2016: BGN 14,788 thousand; 2015: BGN 14,266 thousand) and telecommunications, software and other computer maintainance (2016: BGN 11,511 thousand; 2015: BGN 10,826 thousand). Decrease was recorded in amortization expenses (2016: BGN 17,553 thousand; 2015: BGN 17,976 thousand) and building rent expenses (2016: BGN 33,446 thousand; 2015: BGN 33,527 thousand). For the period, cost/income ratio amounted to 41.38% on a consolidated basis (2015: 42.89%).



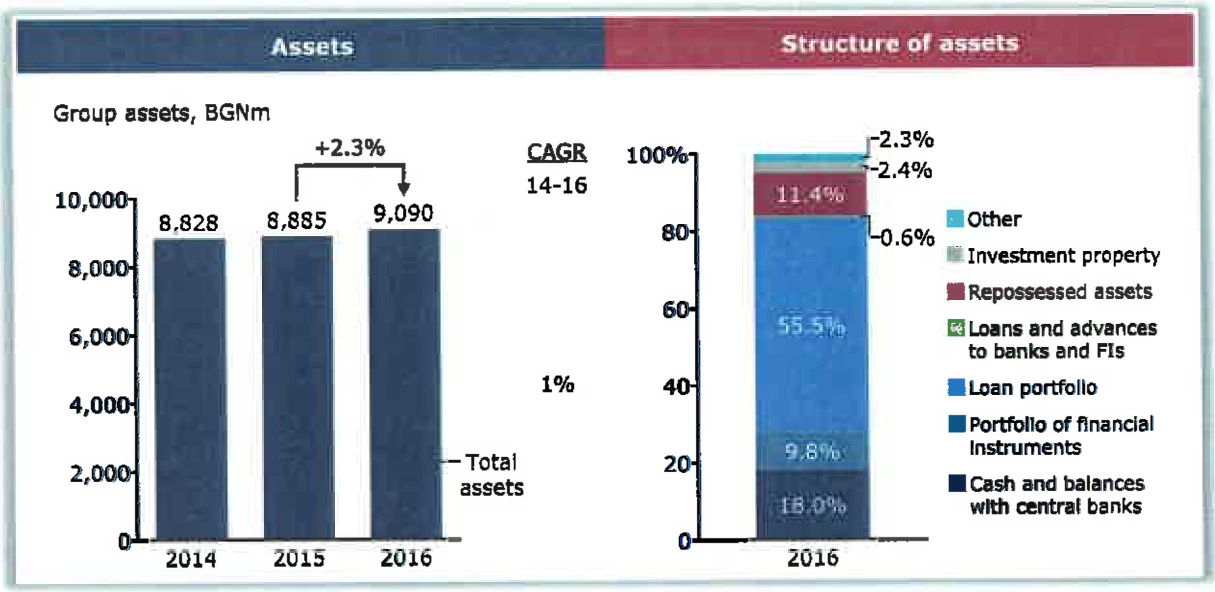

During the year, with a view to the activities undertaken for further enhancing capital buffers, additional write-downs were made in the amount of BGN 262,768 thousand, while the revesal of write-downs were BGN 106,648 thousand, as a result of which net impairment losses on loan exposures for 2016 amounted to BGN 156,120 thousand (2015: BGN 329,137 thousand).

For the reporting period the Group of First Investment Bank reported other net costs of BGN 6,177 thousand, which included mainly expenses for contributions made to deposit insurance schemes and the Bank Restructuring Fund, as well as other income, including rental income, sale of assets and revaluation of investment property.

*For further information see the Consolidated financial statements for the year ended December 31, 2016.*

## BALANCE

In 2016, total assets of the Group of First Investment Bank continued to grow gradually in line with its objectives for development, reaching BGN 9,089,855 thousand or 2.3% more than the previous period (2015: BGN 8,885,364 thousand). For a fifth consecutive year, Fibank was ranked third in terms of assets among banks in the country with a market share of 9.61% on an unconsolidated basis (2015: 9.92%).



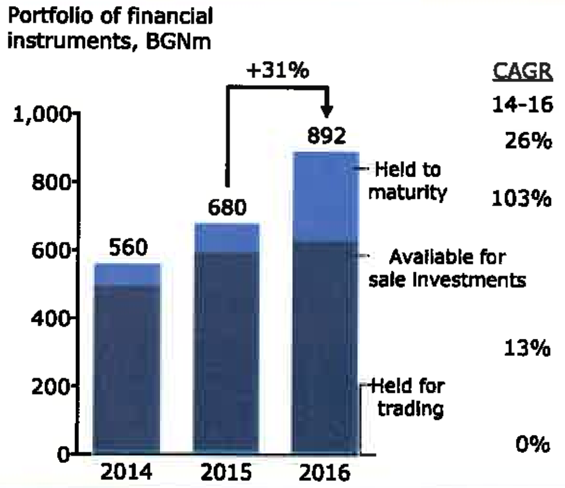

In 2016, the changes in the structure of the Group's assets reflected its policy for diversification of the loan portfolio and reduction in risk exposures (de-risking), while maintaining high levels of liquidity. Loans and advances to customers decreased their share and remained structure-determining with 55.5% of total assets (2015: 58.8%), while cash and balances with central banks rose to 18.0% (2015: 17.1%) and the portfolio of financial instruments (financial assets held for trading, investments available for sale and financial assets held to maturity) to 9.8% (2015: 7.6%). Repossessed sssets formed 11.4% (2015 10.5%) and investment property, which the Group holds in order to generate additional income and return, formed 2.4% (2015: 2.3%) of total assets. Net loan/deposit ratio amounted to 63.76% compared to 72.48% the previous year, reflecting the conservative approach to credit risk management.

Cash and balances with central banks amounted to BGN 1,639,888 thousand or 7.7% more than the end of 2015 at BGN 1,522,374 thousand. The dynamics reported mainly an increase in the receivables from central banks, which reached BGN 1,157,101 thousand at the end of the period (2015: BGN 849,402 thousand) and reflected the activities for minimizing risk and additional caution in funds management. First Investment Bank manages the cash funds in accordance with customer needs and security requirements, as well as optimal return from the available resources. At the end of 2016 cash on hand amounted to BGN 159,869 thousand compared to BGN 163,887 thousand a year earlier.

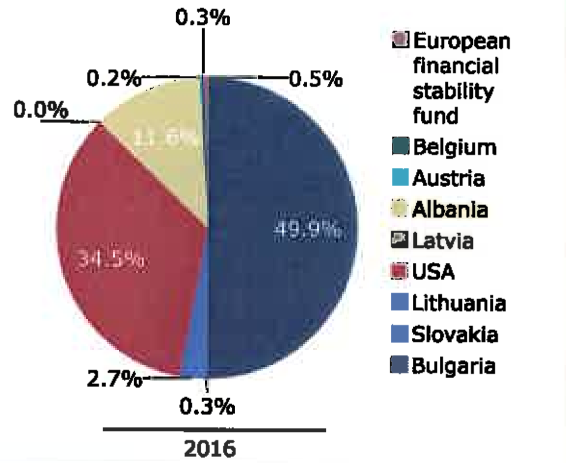
Loans and advances to banks and financial institutions decreased during the year to BGN 51,863 thousand at period-end (2015: BGN 109,455 thousand), mainly due to reduction in the deposits from foreign banks. Receivables from current accounts with them also decreased to BGN 322,899 thousand, compared to BGN 509,068 thousand at the end of the previous year.

Available for sale investments increased by 6.1% and reached BGN 619,836 thousand as at 31 December 2016. The increase reflected mainly the increase in treasury bills issued by foreign governments, which amounted to BGN 100,334 thousand. The bonds issued by the Bulgarian government remained structure-determining, forming 64.3% of the available for sale portfolio and amounted to BGN 398,551 thousand (2015: BGN 420,333 thousand). The received preferred shares in connection with the acquisition of VISA Europe by VISA Inc. formed the increase in the equity instruments, which reached BGN 14,461 thousand at end-2016, compared to BGN 6,288 thousand a year earlier.

**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, increased to BGN 262,437 thousand (2015: BGN 84,244 thousand), due to acquired securities issued by foreign governments, which amounted to BGN 241,475 thousand against BGN 63,674 thousand a year earlier. Financial assets held for trading amounted to BGN 9,562 thousand at the end of 2016 (2015: BGN 10,886 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 and other securities issued by foreign banks.

As of 31 December 2016, Fibank's operations abroad decreased their share and formed 3.1%of the Group's assets or BGN 281,987 thousand (2015: 3,4% or BGN 300,408 thousand) in line with the policy of focusing the Cyprus branch's activities on the segments of micro, small business and retail banking.

Repossessed assets amounted to BGN 1,034,501 thousand at the end of the period (2015: BGN 931,555 thousand), while investment property was BGN 222,267 thousand (2015: BGN 206,244 thousand). The other assets of the Group amounted to BGN 95,082 thousand (2015: BGN 92,375 thousand) and mainly included deferred expenses, tax receivables and other receivables.

*For further information see the Consolidated financial statements for the year ended December 31, 2016.*

# LOAN PORTFOLIO

## LOANS

In 2016, the loan portfolio of the Group before impairment decreased to BGN 5,879,189 thousand (2015: BGN 5,954,855 thousand), mainly due to the segment of corporate clients, which declined in accordance with the external environment and the continuing downward trend in corporate loans of the banking system over the past three years. They reduced their share in the Group's portfolio to 63.0% at end-period.

| In BGN thousand / % of total | 2016 | % | 2015 | % | 2014 | % |
|---|---|---|---|---|---|---|
| Retail customers | 1,453,502 | 24.7 | 1,497,181 | 25.1 | 1,312,617 | 20.7 |
| Microlending | 108,561 | 1.9 | 102,218 | 1.7 | 88,984 | 1.4 |
| Small and medium enterprises | 612,093 | 10.4 | 570,490 | 9.6 | 557,681 | 8.8 |
| Corporate customers | 3,705,033 | 63.0 | 3,784,966 | 63.6 | 4,374,648 | 69.1 |
| **Gross loan portfolio** | **5,879,189** | **100** | **5,954,855** | **100** | **6,333,930** | **100** |
| Impairment | (834,339) | | (733,495) | | (523,602) | |
| **Net loan portfolio** | **5,044,850** | | **5,221,360** | | **5,810,328** | |

An increase was registered in the SME and microlending as a reflection of the Bank's policy for developing these segments, as their share increased to 10.4% (2015: 9.6 %) and to 1.9% (2015: 1.7 %) at the end of the period. The gross amount of loans to retail customers remained at levels close to 2015, in accordance with the continuing caution of individuals in the loan demand. The share of this segment amounted to 24.7 % (2015: 25.1%), taking into account Fibank's objectives for accelerated growth in 2017.

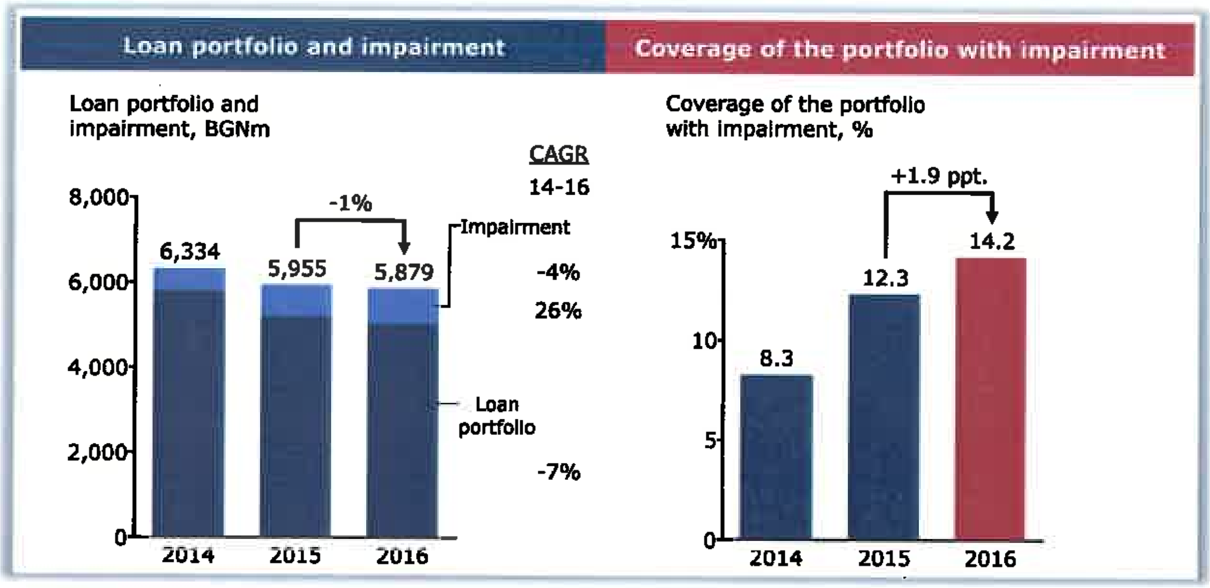
As of 31 December 2016, First Investment Bank for a fourth consecutive year was ranked third in terms of loans among banks in the country with a market share of 10,49% on an unconsolidated basis (2015: 10,72%).

| In BGN thousand / % of total | 2016 | % | 2015 | % | 2014 | % |
|---|---|---|---|---|---|---|
| Loans in BGN | 2,167,709 | 36.9 | 2,108,965 | 35.4 | 1,811,006 | 28.6 |
| Loans in EUR | 3,466,313 | 58.9 | 3,591,628 | 60.3 | 4,213,292 | 66.5 |
| Loans in other currency | 245,167 | 4.2 | 254,262 | 4.3 | 309,632 | 4.9 |
| **Gross loan portfolio** | **5,879,189** | **100** | **5,954,855** | **100** | **6,333,930** | **100** |
| Impairment | (834,339) | | (733,495) | | (523,602) | |
| **Net loan portfolio** | **5,044,850** | | **5,221,360** | | **5,810,328** | |

In the currency structure of the loan portfolio, loans in EUR had a predominant share of 58.9% (2015: 60.3%) and amounted to BGN 3,466,313 thousand at the end of the period (2015: BGN 3,591,628 thousand), influenced by the effective Currency Board Arrangement in the country, which minimizes currency risk - BGN/EUR.

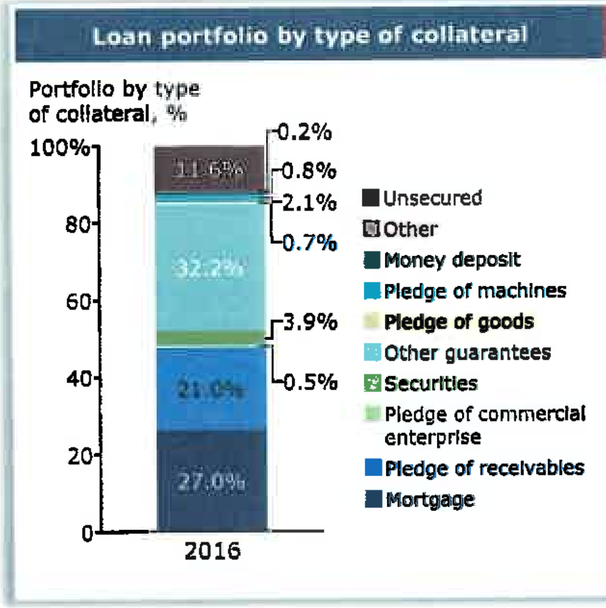
Loans in BGN increased to BGN 2,167,709 thousand (2015: BGN 2,108,965 thousand) or 36.9% of the total portfolio (2015: 35.4%) at the expense of loans in other currencies, which decreased as a relative share to 4.2% of total loans (2015: 4.3%) and amounted to BGN 245,167 thousand (2015: BGN 254,262 thousand).

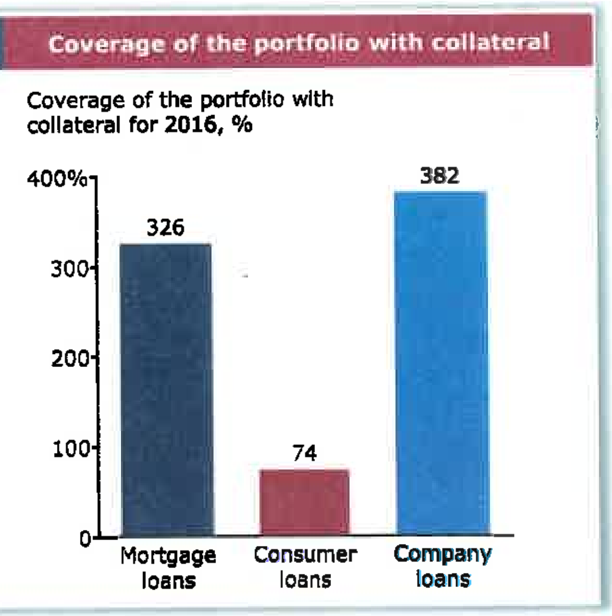
Loans granted by First Investment Bank's units abroad amounted to BGN 122,981 thousand before allowances compared to BGN 156,871 thousand a year earlier, and continued to decrease in line with the policy for development of the activities of the Cyprus branch.




In 2016 Fibank continued to proactively manage the credit risk, focusing on asset quality and maintaining a conservative approach to assessing risks. The impairment for calculating potential losses from credit risk reached BGN 834,339 thousand at the end of the period (2015: BGN 733,495 thousand), as the loan provisioning ratio (coverage of the loan portfolio with impairment) increased to 14.2% compared to 12.3% in 2015 (2014: 8.3%). During the year write-offs on loans to customers amounted to BGN 57,148 thousand, which are recorded off-balance and the Bank continues its actions for fully or partially collection of the debt.

The Bank's policy is to require customers to provide adequate collateral before granting loans. In this respect it accepts all types of collateral permitted by law and applies discount rates depending on the expected realizable value. At the end of 2016 collaterals with the largest share in the portfolio of the Group were other guarantees at 32.2%, followed by mortgages at 27.0%, pledges of receivables at 21.0% and securities at 3.9%.




*For further information on credit risk, see Note 3 "Risk Management" of the Consolidated Financial Statements for the year ended December 31, 2016.*

## 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.

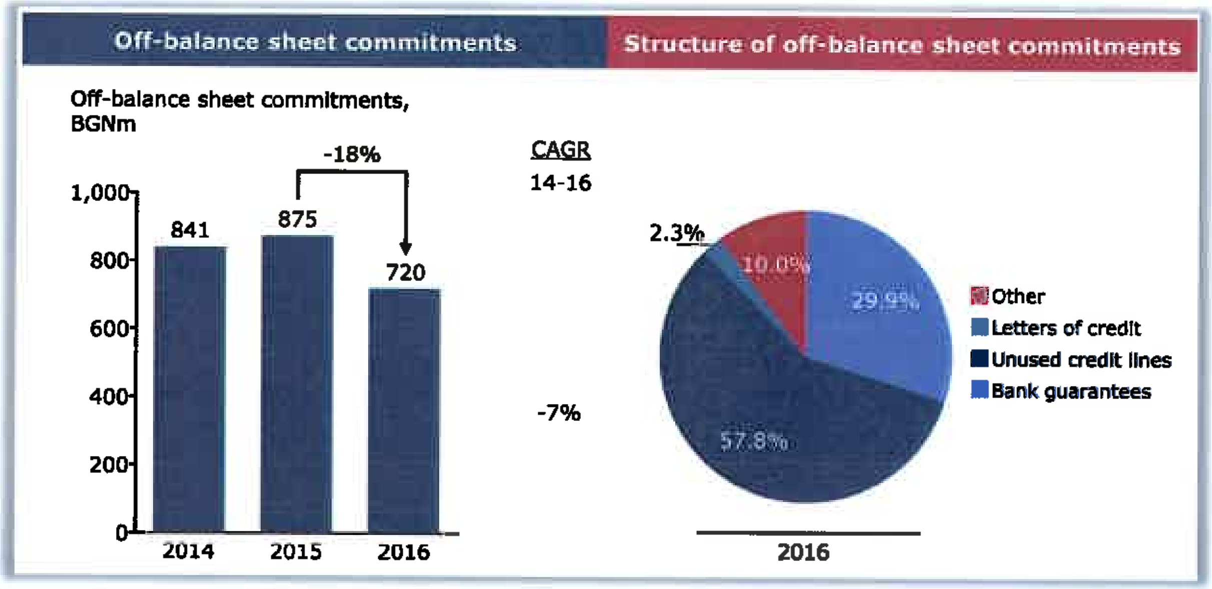
| In BGN thousand | 2016 | 2015 | 2014 |
|---|---|---|---|
| **Loans** | | | |
| Parties that control or manage the Bank | 1,363 | 1,500 | 765 |
| Enterprises under common control | 1,554 | 16,137 | 17,149 |
| **Off-balance sheet commitments** | | | |
| Parties that control or manage the Bank | 2,259 | 2,484 | 2,117 |
| Enterprises under common control | 464 | 838 | 968 |

*For more information regarding related party transactions, see Note 36 "Related party transactions" of the Consolidated financial statements for the year ended December 31, 2016.*

## 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, as with respect to the offered documentary operations the Bank applies also 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.




At the end of the reporting period the total amount of off-balance sheet commitments amounted to BGN 720,381 thousand compared to BGN 874,562 thousand a year earlier. The decrease resulted mainly from a decrease in bank guarantees to BGN 215,258 thousand (2015: BGN 302,475 thousand) and in particular those in BGN, as well as in the unused credit lines to BGN 416,566 thousand (2015: BGN 480,548 thousand). Letters of credit amounted to BGN 16,315 thousand compared to BGN 16,351 thousand a year earlier. As of 31 December 2016 the other contingent liabilities amounted to BGN 72,242 thousand (2015: BGN 75,188 thousand).

*For more information on off-balance sheet commitments, see Note 33 "Commitments and contingent liabilities" from the Consolidated financial statements for the year ended December 31, 2016.*

# ATTRACTED FUNDS

In 2016, attracted funds from customers increased by 9.8% (BGN 707,942 thousand) and reached BGN 7,911,911 thousand (2015: BGN 7,203,969 thousand), thus remaining the main source of funding for the Bank with 96.1% of total liabilities (2015: 88.6%). The upward trend was preserved, a contributor being the various deposit and savings products, as well as package programs offered by Fibank. The continuing trend of growth of the attracted funds was proof of the trust and customer satisfaction with the development and services offered by the Bank.

The funds attracted from individuals increased by 7.3% (BGN 447,532 thousand) and amounted to BGN 6,593,972 thousand at the end of period compared to BGN 6,146,440 thousand a year earlier. They retained their structure-defining share in the total deposits due from customers at 83.3% (2015: 85.3%). In the currency structure of attracted funds from individuals, funds in BGN formed the majority at 42.7% of total deposits from customers (2015: 42.3%), followed by those in EUR at 32.5% (2015: 34.8%) and in other currencies at 8.1 % (2015: 8.3%).

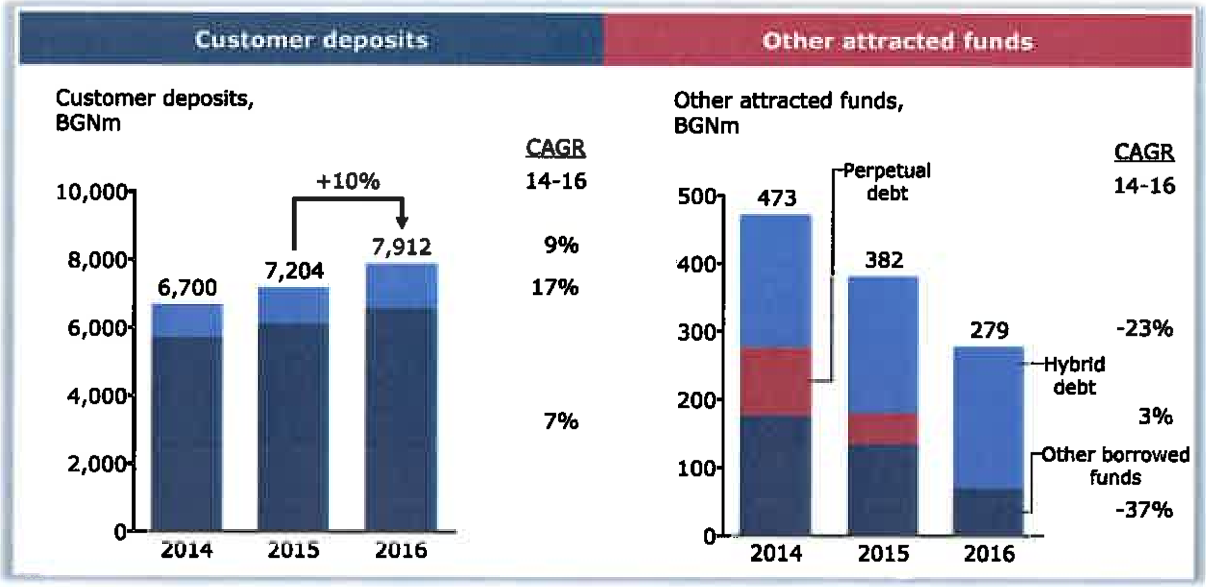
As at 31 December 2016, First Investment Bank maintained its third place in terms of deposits from individuals among banks in Bulgaria (2015: third). The market share of Fibank increased to 13.51% on an unconsolidated basis (2015: 13.41%) at the end of the period.

| In BGN thousand / % of total | 2016 | % | 2015 | % | 2014 | % |
|---|---|---|---|---|---|---|
| **Attracted funds from individuals** | **6,593,972** | **83.3** | **6,146,440** | **85.3** | **5,728,991** | **85.5** |
| In BGN | 3,382,026 | 42.7 | 3,044,936 | 42.3 | 2,706,892 | 40.4 |
| In EUR | 2,568,645 | 32.5 | 2,506,032 | 34.8 | 2,483,478 | 37.1 |
| In other currency | 643,301 | 8.1 | 595,472 | 8.3 | 538,621 | 8.0 |
| **Attracted funds from corporate, state-owned and public institutions** | **1,317,939** | **16.7** | **1,057,529** | **14.7** | **970,686** | **14.5** |
| In BGN | 670,174 | 8.5 | 659,299 | 9.2 | 585,166 | 8.7 |
| In EUR | 291,756 | 3.7 | 261,272 | 3.6 | 283,743 | 4.2 |
| In other currency | 356,009 | 4.5 | 136,958 | 1.9 | 101,777 | 1.5 |
| **Total attracted funds from customers** | **7,911,911** | **100** | **7,203,969** | **100** | **6,699,677** | **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 increased by 24.6% (BGN 260,410 thousand) to BGN 1,317,939 thousand (2015: BGN 1,057,529 thousand) at the end of the year, influenced by the offered various current accounts and savings products, as well as the attracted during the year new business customers for service in First Investment Bank. At the end of 2016 their share increased to 16.7% of total deposits from customers (2015: 14.7%). In the currency structure of attracted funds from corporates and institutions, funds in BGN formed 8.5% of total deposits from customers (2015: 9.2%), those in EUR at 3.7% (2015: 3.6%), while those in other currencies at 4.5% (2015: 1.9%).

In 2016 First Investment Bank fulfilled all of the commitments undertaken in connection with the support received under decision C(2014)8959 of 25.11.2014 of the European Commission, as by the end of May 2016 the Bank repaid the outstanding BGN 450 million in principal and BGN 3.2 million in interest due, thus confirming the stability of the established business model.

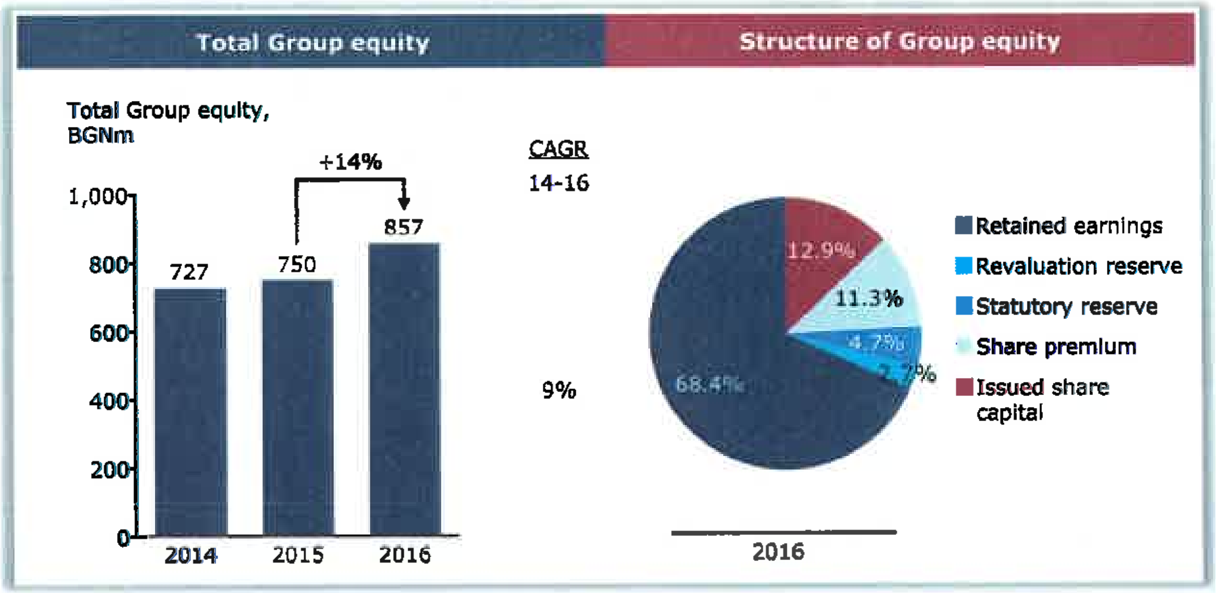



Other borrowed funds amounted to BGN 70,367 thousand as at 31 December 2016 compared to BGN 135,726 thousand a year earlier, mainly due to the decrease in the financing from financial institutions. They reached BGN 48,765 thousand at the end of the period (2015: BGN 80,615 thousand) and included attracted funds from the European Investment Fund under the JEREMIE initiative at BGN 42,050 thousand (2015: BGN 68,097 thousand), from the Bulgarian Development Bank AD at BGN 6,025 thousand (2015: BGN 8,436 thousand) and from the Agriculture State Fund at BGN 690 thousand (2015: 4,082 thousand). A decrease was registered also in the acceptances under letters of credit to BGN 21,602 thousand compared to BGN 26,255 thousand a year earlier. At the end of the year the Group has no additional funds attracted in the form of liabilities under repurchase agreements (2015: BGN 28,826 thousand).

*For more information on borrowings see the Consolidated Financial Statements for the year ended December 31, 2016.*

# CAPITAL

Shareholders' equity of the Group of First Investment Bank increased throughout the year by 14.3% to BGN 856,836 thousand (2015: BGN 749,846 thousand), due primarily to the increase in retained earnings which reached BGN 584,513 thousand at the end of the period (2015: BGN 485,805 thousand), as well as in the revaluation reserve on the available for sale investments – up to BGN 20,543 thousand, compared to BGN 12,737 thousand a year earlier.



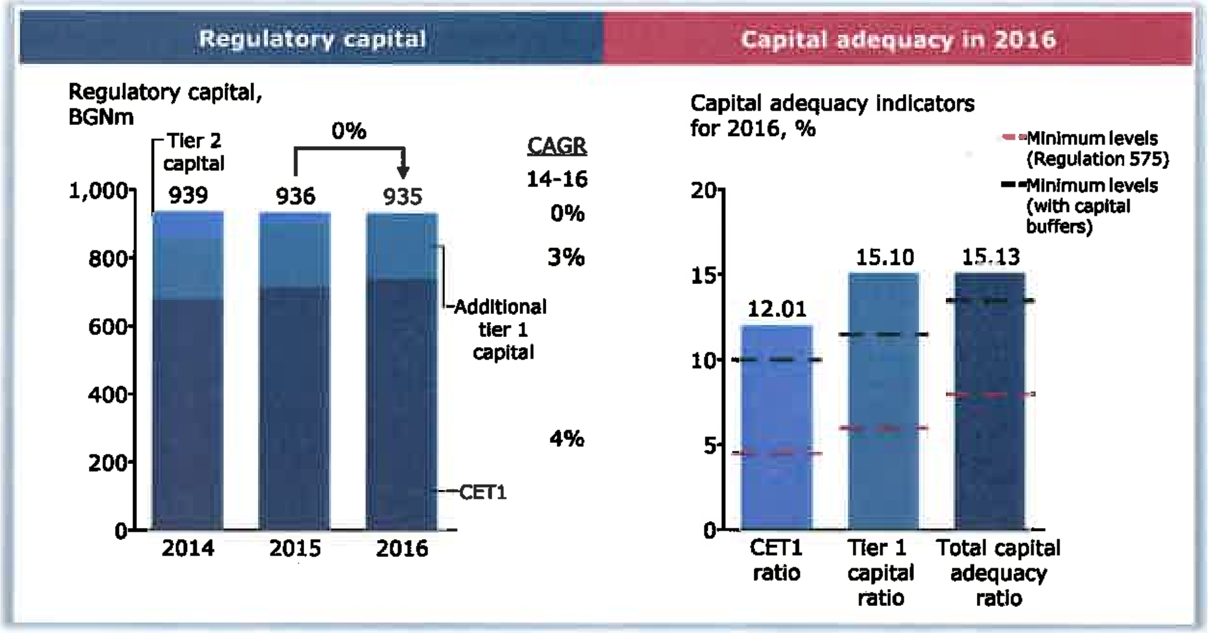

The issued share capital of First Investment Bank amounted to BGN 110,000 thousand, divided into 110,000,000 ordinary, registered, dematerialized, voting shares in the General Meeting of Shareholders, with a nominal value of BGN 1 each. The issued share capital is fully paid.

## 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 2016, 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 3.5% to BGN 741,802 thousand (2015: 716,850 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 933,095 thousand (2015: BGN 904,427 thousand) at the end of the period. The total own funds amounted to BGN 934,895 thousand compared to BGN 935,878 thousand a year earlier, influenced by perpetual debt repaid during the year with an original principal of EUR 21 million.

As at 31 December 2016, 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 208,740 thousand compared to 202,044 thousand a year earlier. Both hybrid bond issues are admitted to trade on a regulated market at the Luxembourg Stock Exchange.




For purpose of reporting of 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 under the transitional treatment in 2016 cannot exceed 50% of tier 1 capital. As at 31 December 2016, 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 934,895 thousand.

## CAPITAL REQUIREMENTS

At the end of 2016 the capital indicators of First Investment Bank were as follows: the common equity tier 1 ratio was 12.01%, the tier 1 capital ratio was 15.10% and the total capital adequacy ratio was 15.13%.

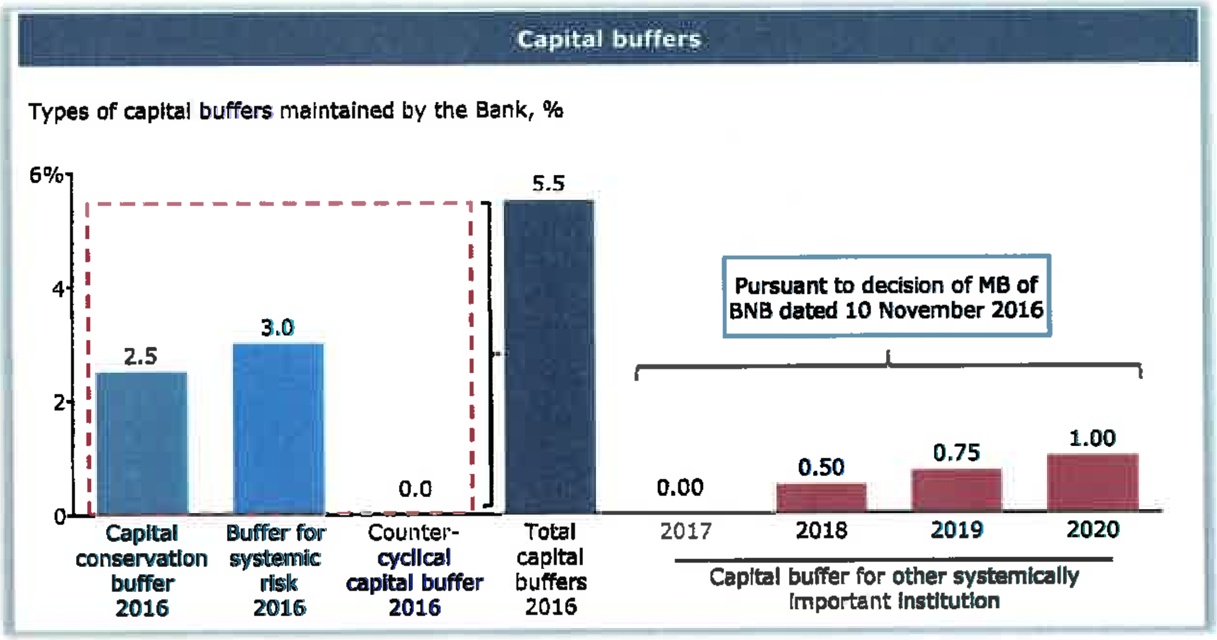
| In BGNth/% of risk exposures | 2016 | % | 2015 | % | 2014 | % |
|---|---|---|---|---|---|---|
| CET 1 capital | 741,802 | 12.01 | 716,850 | 11.28 | 681,237 | 10.80 |
| Tier 1 capital | 933,095 | 15.10 | 904,427 | 14.23 | 860,348 | 13.64 |
| Own funds | 934,895 | 15.13 | 935,878 | 14.72 | 939,052 | 14.89 |
| **Total risk exposures** | **6,178,635** | | **6,355,988** | | **6,306,376** | |

In execution of the policy for further upgrading capital buffers, in 2016 a number of initiatives were undertaken for realizing capital levers in key areas, including through profit retention, de-risking of exposures and diversification of the loan portfolio, as well as maintaining high discipline with regards to risk management and increasing profitability and income from banking operations. The internal rules of the Bank were also updated in compliance with the applied by the European Central Bank standarts and methodologies, as well as the recommendations in this field.

## CAPITAL BUFFERS

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

The 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, as well as a buffer for systemic risk amounting to 3% of the Bank's total risk exposures in Bulgaria, which is covered by common equity tier 1 capital. Fibank also maintains countercyclical capital buffer, applicable to credit risk exposures in the Republic of Bulgaria, the level of which is determined by the Bulgarian National Bank each quarter, as the during the whole 2016 and for the first quarter of 2017, it was defined at 0%.



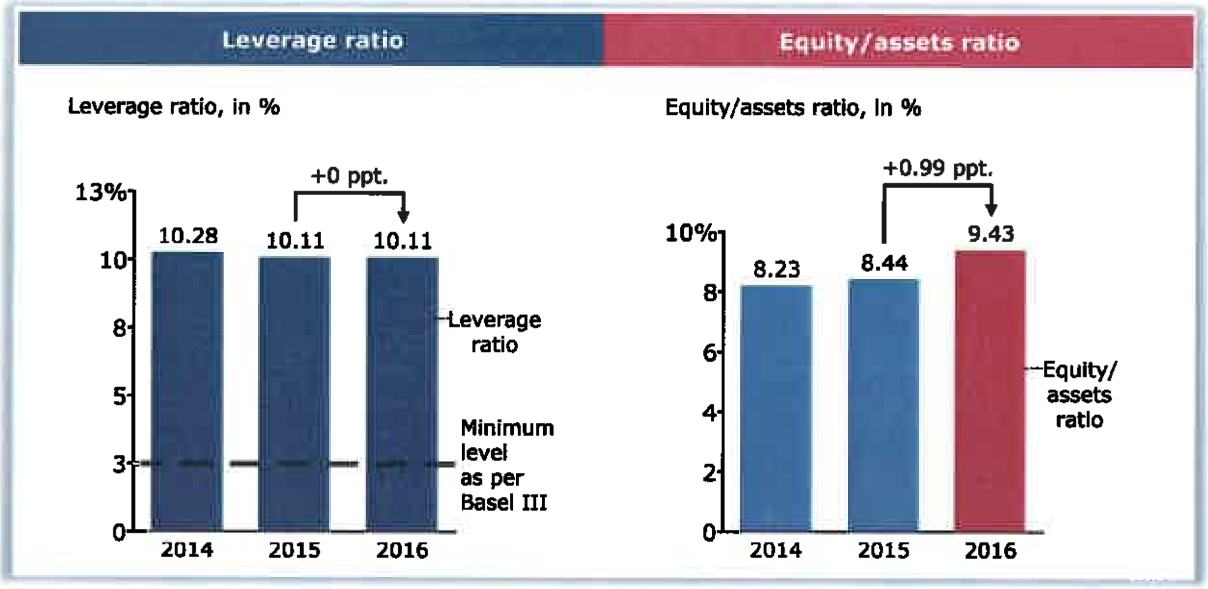

In addition, with a decision dated 10 November 2016, the BNB determined ten banks in Bulgaria as other systematically important institutions (O-SII), among which First Investment Bank AD. The applicable for Fibank buffer for O-SII on an individual and consolidated basis, determined as a share of the total value of the risk exposures, is in the amount of 0% for 2017 and it shall gradually grow from 0.5% in 2018 to 1% in 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 2018 as a mandatory requirement after an appropriate review and calibration by the regulatory authorities.

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 2016, the leverage ratio amounted to 10.11% on a consolidated basis compared to 10.11% for the previous period.

During the year, the Bank implemented the new requirements regarding the models and guidelines for supervisory reporting related to the leverage ratio in accordance with Commission Implementing Regulation (EU) 2016/428 of 23 March 2016 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards the reporting 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 of specific indicators, which include the leverage ratio, calculated in accordance with applicable regulatory requirements, as well as the 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 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 2016.*

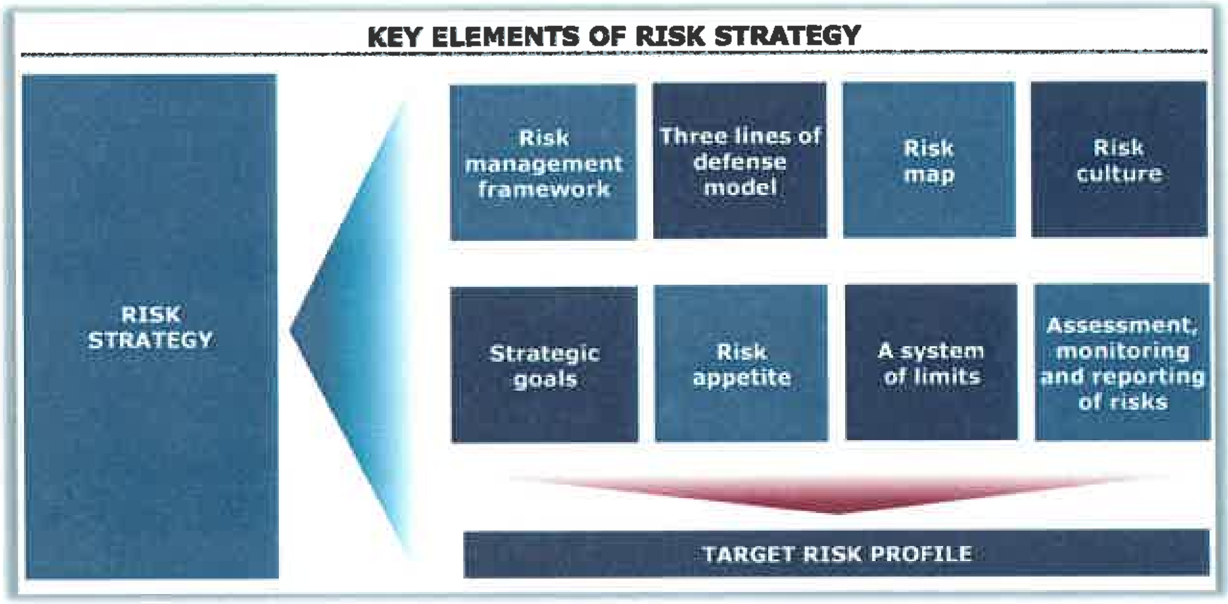
# RISK MANAGEMENT

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

During 2016 First Investment Bank continued to perform its activity in line with 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, incl. maintaining an effective control environment with respect to the current business processes.

## RISK MANAGEMENT STRATEGY

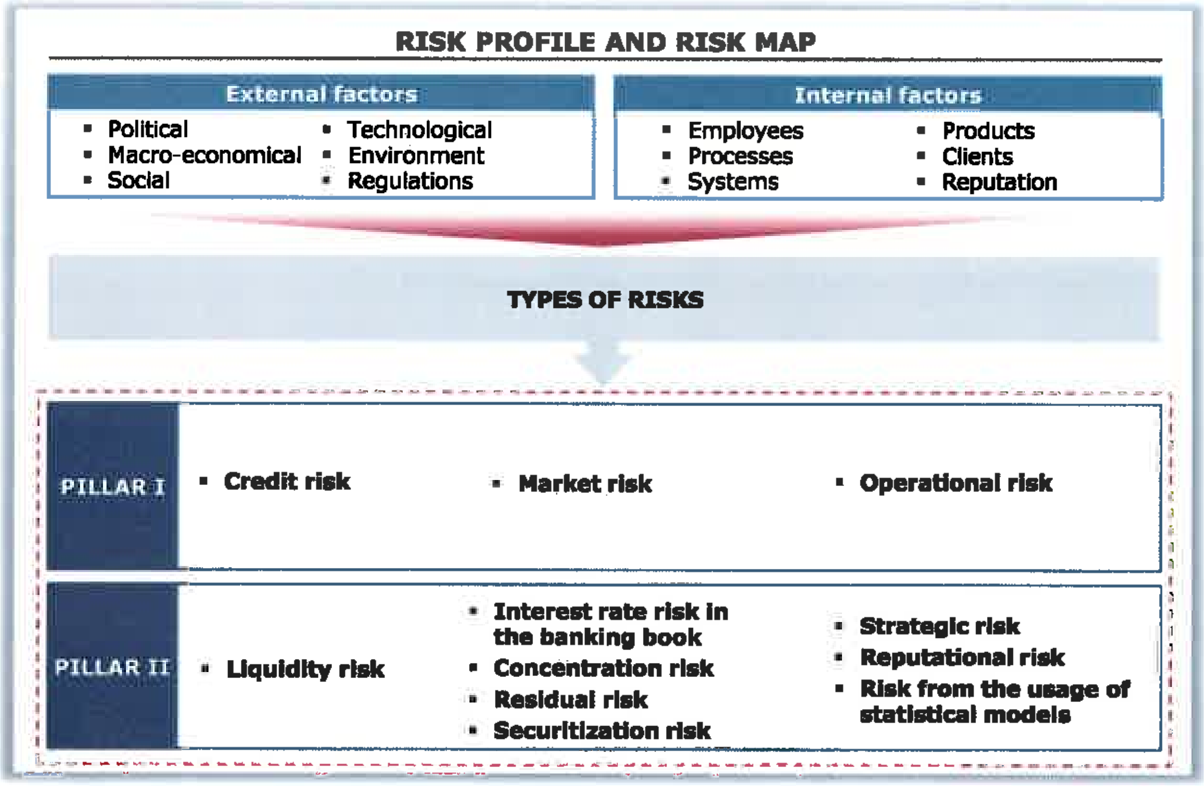
The risk management strategy of First Investment Bank is an integral part of its business strategy. The main objective in managing the overall risk profile of the Bank is to achieve a balance between risk, return and capital. The risk profile is relevant to the product policy of the Bank and is determined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




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




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

The 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 at 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.

## RISK MANAGEMENT FRAMEWORK

The risk management framework of First Investment Bank includes automated systems, written policies, rules and procedures, mechanisms for 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, effective mechanisms for internal audit and control. The Bank meets the requirements of current legislation to 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 developed also 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** is responsible for the broad strategic and tactical oversight over the risk management function of the Bank, including with regard to the formation of risk exposures, and also supports the Supervisory Board in determining the policy concerning the overall current and future risk strategy, and the Bank's risk-taking propensity. As at 31 December 2016, 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. The Credit Council consists of members elected by the Managing Board, representatives of the following departments: Credit Risk Management, Monitoring and Provisioning; Corporate Banking; SME Lending; Legal; Branch Network. The Chairperson of the Credit Council is 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, the Chief Financial Officer, 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 deputy director of the Impaired Assets department, while the rest of its members include: the Chief Accountant and representatives from Credit Risk Management, Monitoring and Provisioning;

Corporate Banking; SME Lending; 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 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.

## 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 2016, as part of its annual review process, First Investment Bank further developed and updated its recovery plan in line with the new requirements applicable to banks in the country, including those of the Commission Delegated Regulation (EU) 2016/1075 of 23 March 2016 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 plan details the process of escalation and decision-making, and also specifies the units and bodies in the Bank responsible for its updating and implementation. New early warning indicators have been added, as well as justification of the trigger thresholds which are in compliance with the regulatory requirements, the risk profile of the activity, and the processes of internal analysis of capital adequacy and liquidity. The quantitative and qualitative early warning and recovery indicators include 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

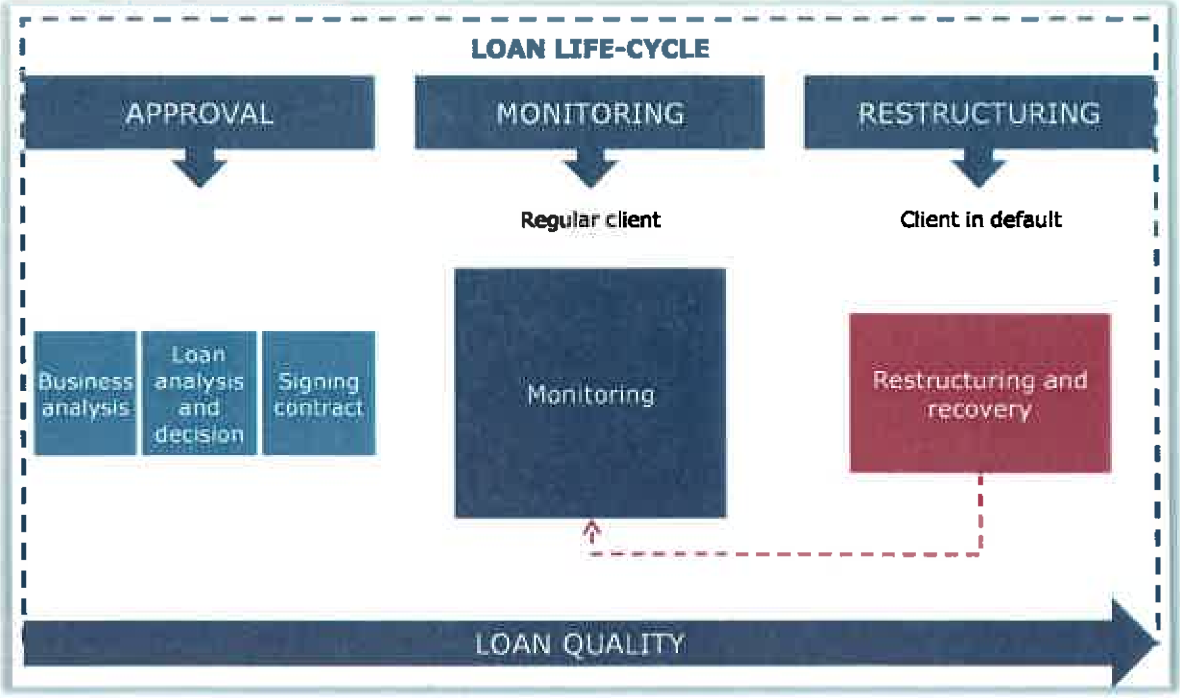
Credit risk is the risk arising from the debtor's inability to meet the requirements of a contract with the bank or inability to act in accordance with the agreed terms. The different types of credit risk include concentration risk, residual risk, dilution risk, counterparty risk, settlement risk. Credit 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.



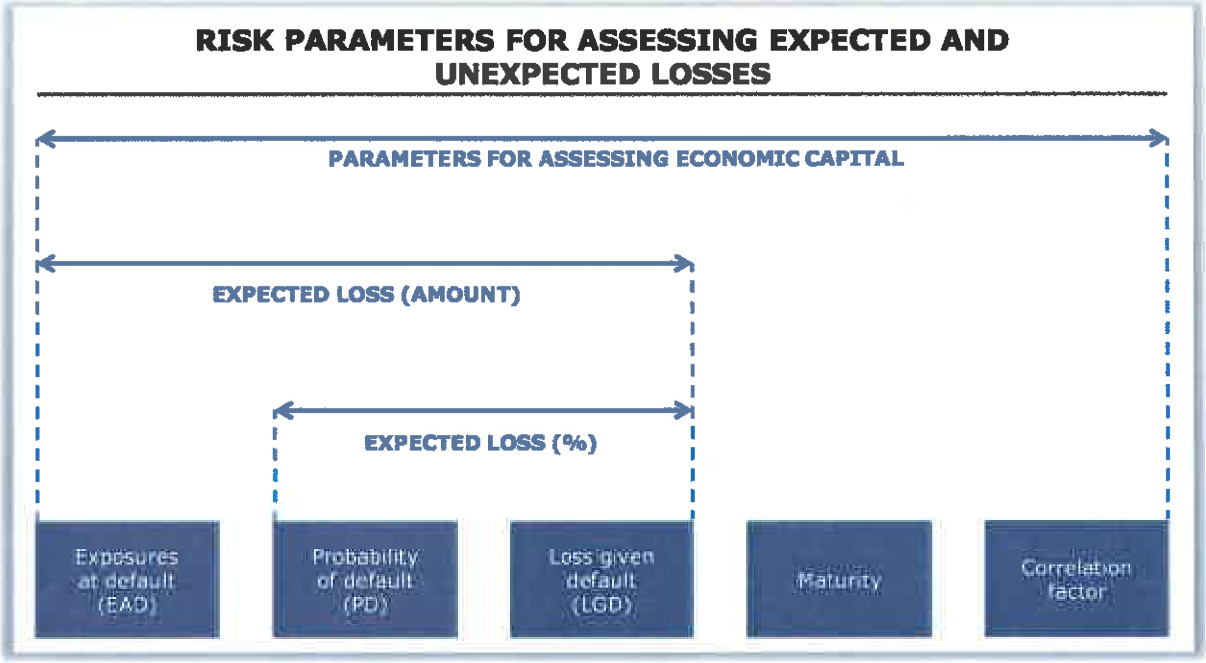

First Investment Bank maintains systems for the ongoing administering and monitoring of different portfolios and exposures to credit risk, including aiming at recognizing and managing exposures in default and performing adequate value adjustments for credit risk. Considering the impact of the economic 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 2016, the Bank further developed its procedures for monitoring of credit exposures, enhancing its early warning systems and refining the analysis and frequency of monitoring based on the materiality and classification groups, including for exposures with forbearance measures.

## 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.




*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. Every corporate client is assigned a credit rating. The credit risk assessment derived from the model 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 2016, the rules and processes existing in the Bank with respect to the acceptance, evaluation and management of collaterals were developed and expanded. The basic methods for valuation of various types of assets were upgraded, including the relative weights used, in line with the internationally recognized valuation approaches and also with regard to the specifics of project financing.

## 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, incl. 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 continued to actively manage the credit risk in line with the risk strategy and external environment, with a view to on-time diagnostic and taking measures in accordance with the customers' capabilities and the Bank's policy on risk taking. Additional activities were undertaken for further enhancing the internal regulatory framework aiming more efficient process management, incl with regards to enforced collection, management, administration and restructuring of problem exposures, as well as acquiring and realization of collaterals through public sale.

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.

In 2016, the Bank refined its processes related to impairment and provisioning of exposures by introducing additional quantifiers for determining significant financial difficulty of the debtor, setting new criteria for impaired credit exposures, and detailing the models, formulas and assumptions for collective provisioning by type of exposure.

## 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 intetrnal 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 amd scenarios are used.

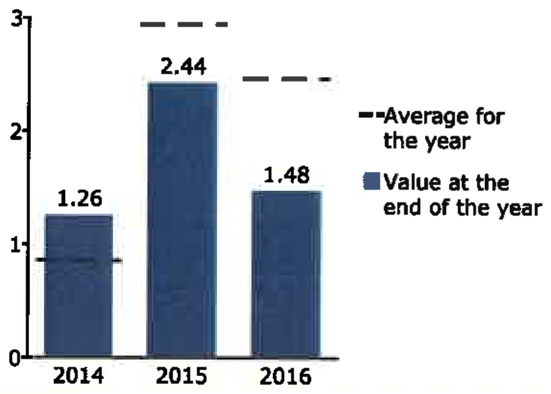
### INTEREST RATE RISK

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 1-day horizon and 99% confidence level, which means that there is 1% probability for the trading portfolio to depretiate within 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.

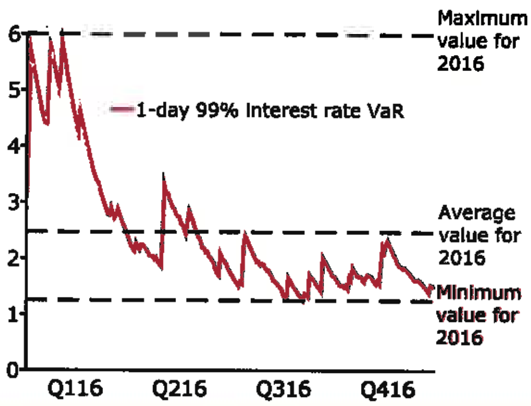
**Interest rate VaR for the portfolio of debt instruments**

Interest rate VaR, BGNm




**Interest rate VaR for the portfolio of debt instruments during 2016**

Interest rate VaR for 2016, BGNm

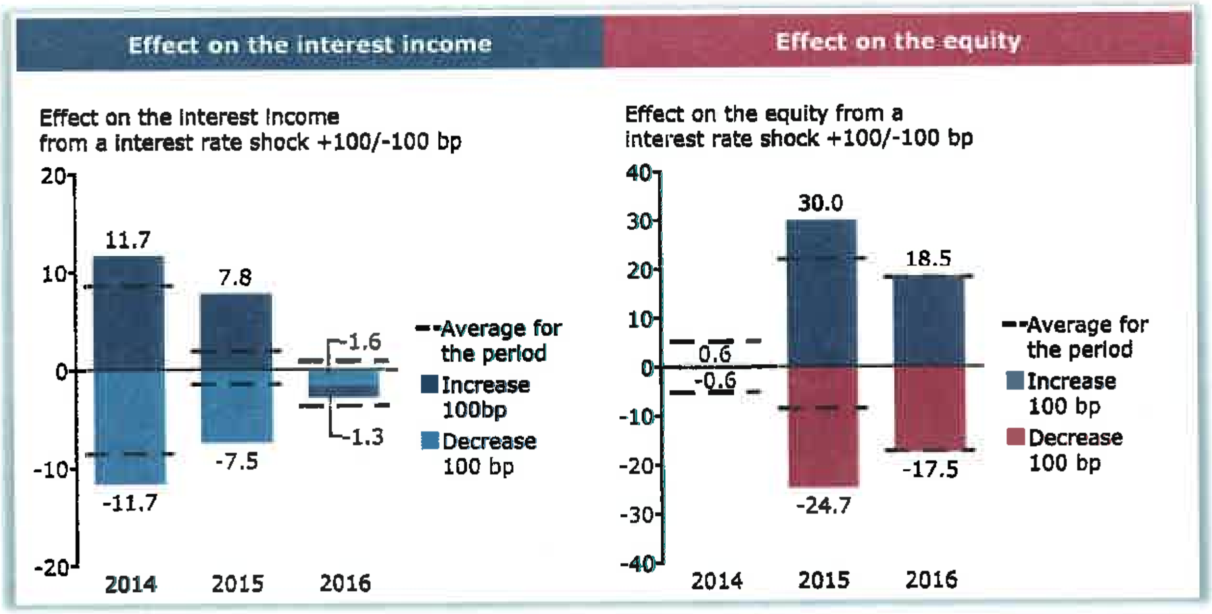



In compliance with the European Banking Authority guidelines, the Bank measures stressed value at risk (sVaR) of the debt securities portfolio, where model inputs are calibrated so as to reflect an extended period of significant stress at the international financial markets.

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 2016 the interest rate risk on the economic value of the Bank following a standardized shock of +100/-100 bp was BGN +18,5/-17,5 million, while on the net interest income one year forward was BGN -1,3/-1,6 million.




## 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 2016.*

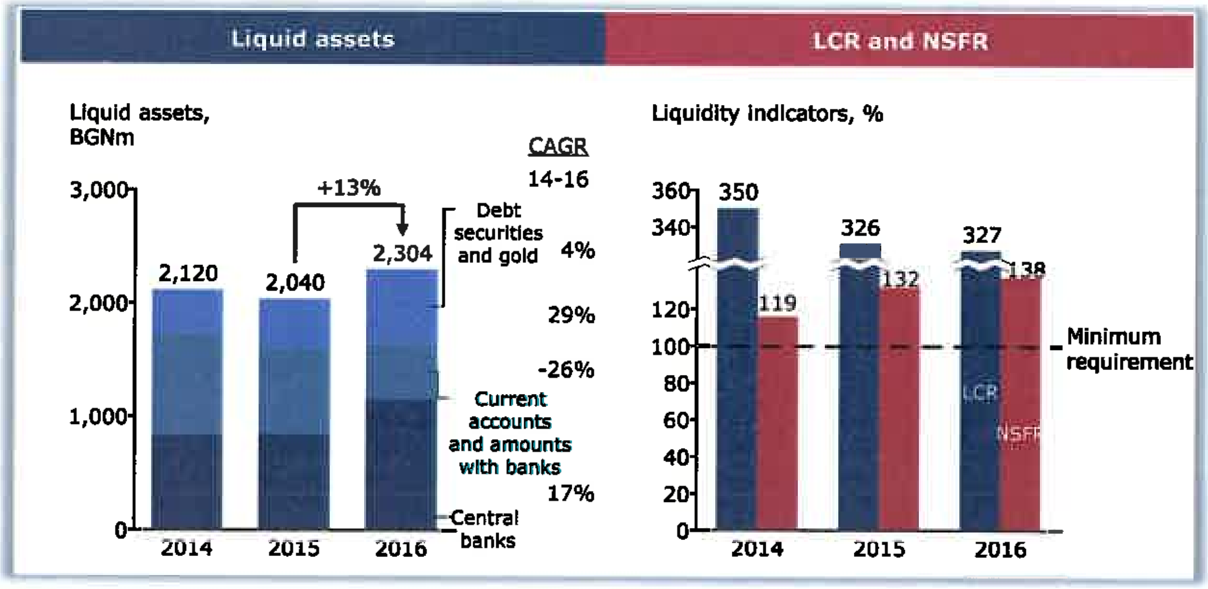
## LIQUIDITY RISK

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 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 2016 the Bank further developed and specified its policies for asset, liability and liquidity management in compliance with the applicable regulations and good practices in this sphere, incl. with respect to the criteria for classification of financial assets in the Bank portfolios, as well as for the treatment of embedded derivatives and the reporting in cases of hedging.




During the reporting year, Fibank continued to maintain an adequate amount of liquid assets, as at 31 December 2016 the ratio of liquid assets to total borrowings was 28.12% (2015: 25.37%). 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. At the end of the period, the liquidity coverage ratio (LCR) amounted to 327.37% on a consolidated basis. (2015: 325.61%).

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 137.61% on a consolidated basis (2015: 132.25%).

## INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS

In 2016, in accordance with the applicable requirements for banks in the country, First Investment Bank AD started preparing 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.

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 analyzes. 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 2016.*

## 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 further 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. Self assessment is 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.

## 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.

The 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.

# RISK EXPOSURES

As at 31 December 2016 First Investment Bank applies the standardized approach for the calculation of the 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 | 2016 | % | 2015 | % | 2014 | % |
|---|---|---|---|---|---|---|
| For credit risk | 5,594,622 | 90.5 | 5,836,275 | 91.8 | 5,865,325 | 93.0 |
| For market risk | 5,625 | 0.1 | 6,300 | 0.1 | 6,902 | 0.1 |
| For operational risk | 578,388 | 9.4 | 513,413 | 8.1 | 434,149 | 6.9 |
| **Total risk exposures** | **6,178,635** | **100** | **6,355,988** | **100** | **6,306,376** | **100** |

In 2016 First Investment Bank continued its conservative approach in managing and assessing risks, incl with respect to redit risk, which formed 90.5% of the total risk exposures. During the year the Bank undertook activities, related to de-risking of exposures, which resulted in a decrease in the risk-weighted assets for credit risk by 4.1% (BGN 241,653 thousand) to BGN 5,594,622 thousand at the end of the period, and in the total risk exposures to BGN 6,178,635 thousand (2015: BGN 6,355,988 thousand).

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 fully and precisely 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 2016 the ICAAP report was further developed in compliance with the actual regulatory requirements, as well with the operating environment, incl. the results from the asset quality review and stress tests of the banking system, which were performed in Bulgaria during the year. 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 correlation matrix, which takes into account the connection between the separate risk categories, aiming at more realistic and more enhanced approach for measuring 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 one year horizon, at 96% 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 96%.

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, incl. 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, incl. 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 96% 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.

# DISTRIBUTION CHANNELS

## 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 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.

In 2016, 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, eight offices were closed (one in Sofia and seven in the rest of the country) and three new offices were opened in the cities of Sliven, Kameno and Dolni Chiflik. As at 31 December 2016, the branch network of the Group of First Investment Bank comprised a total of 168 branches and offices on a consolidated basis (2015: 173), located in more than 60 cities in Bulgaria: 53 offices in Sofia, 104 branches and offices in the remaining part of the country, one foreign branch in Nicosia, Cyprus, as well as a subsidiary bank in Albania, which operated a Head Office and 9 branches in Albania. *For further information on the branch network of First Investment Bank – Albania Sh.a. see section "Business overview of subsidiary companies".*

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.

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.

**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 | ✓ | ✓ |

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 2016, Fibank's contact center continued to function as an effective channel for communication and active selling of target products and services.

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. In this respect in 2016, a new opportunity is established for customers to apply for a consumer loan. Customers could turn to the contact center in order to apply for a credit or debit card, for a debit card overdraft, 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 25 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. Over 150 thousand outgoing calls were made, with nearly 75% of respondents reached.

## CORPORATE BLOG

The corporate blog of First Investment Bank has functioned for eight 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 2016, the Bank continued to widen the information presented by the corporate blog, in line with the modern trends of online communication and carried out new initiatives, aimed at encouraging the good business ideas and successful practices. The Bank continued to present analyses and studies for traking the tendencies in the various market segments. First Investment Bank maintains real-time communication with customers and stakeholders through all leading social networks: Facebook, Twitter, Google+, Youtube, 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 2016, 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 receive direct feedback about the products and services of the Bank.

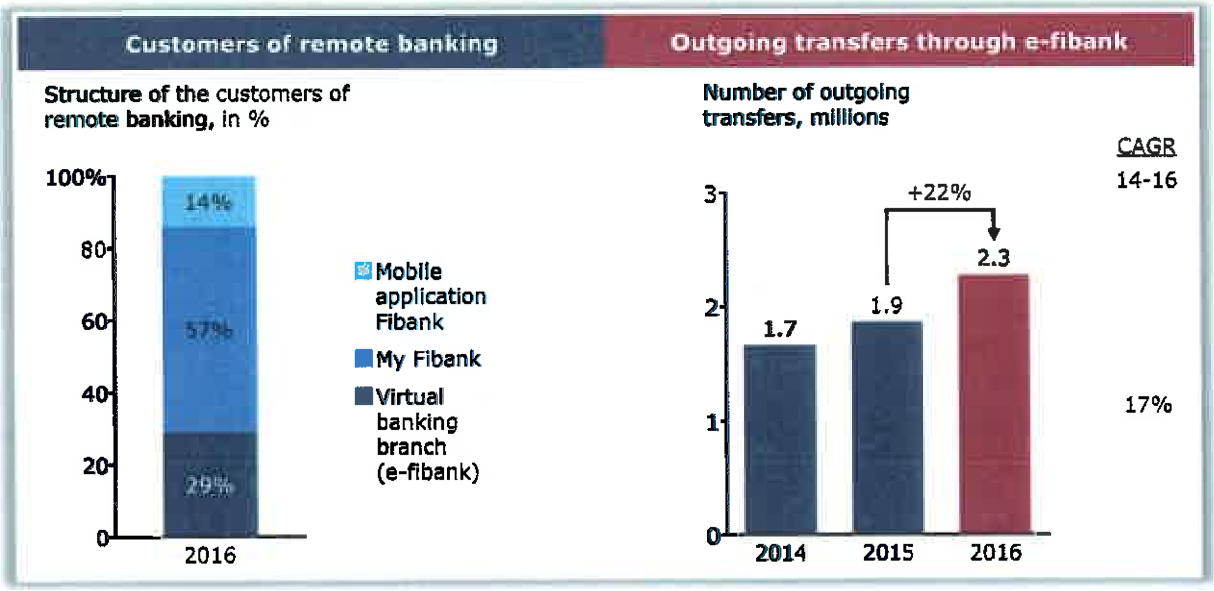
The Bank has considerable experience in the servicing of budget spending units, state and municipal enterprises.

# REMOTE BANKING

## ELECTRONIC BANKING (VIRTUAL BANKING BRANCH)

First Investment Bank has successfully offered electronic banking since 2001, being a pioneer in this area. It provides customers with a modern, fast, inexpensive and secure way to use a wide range of banking products and services. In 2016, First Investment Bank continued to develop its services related to electronic banking, as well as for introducing an integrated platform for internet banking, which is to unify the existing remote services with the aim for more efficient administration and providing greater convenience, flexibility and new functionalities for the customers.

An increase in the number of customers of the Virtual Banking Branch was observed during the period, which were 14% more compared to the previous year. The rise was assisted by the promotional campaigns conducted by the Bank – both general ones and others aimed at promoting specific packages of products and services of Fibank, incl. the new banking programs Digital Me и Digital Me+, aimed for individuals of ages between 18 and 30 years.




There was also an increase in transfers performed through e-fibank, reaching 55% of the number (2015: 50%) of all outgoing transfers performed by the Bank.

## MOBILE APPLICATION (Fibank)

In order to expand the possibilities for making mobile payments based on innovative approaches, in 2016 First Investment Bank continued to develop its Fibank mobile application in accordance with the modern trends and technologies.

During the year, Fibank was the first among banks in the country to launch an innovative electronic payment platform allowing customers to use their mobile devices (smart phones) supporting NFC technology for fast and secure payments at terminals with contactless function. In this connection, the Bank developed its own service: Digital Payments, which allows customers to manage their digital bank card through the mobile application on their phones and thus make digital payments. The successfully implemented project strengthened the position of First Investment Bank among the pioneers in the development cloud-based contactless payments, and the introduction of new and innovative solutions and services.

In addition, a number of updates of mobile application were carried out during the year in order to improve the quality of remote services. New features were added, including the option to perform one-off or automated utility payments. The mobile application now allows Fibank customers to perform active banking operations (for individuals), including transfers in local and foreign currency, as well as passive banking operations (for individuals and legal entities), including information about balances and transactions on bank accounts and/or payment cards (account statements and/or other reporting information). Through the application, information can also be obtained on the Bank's branches and ATMs, including the ones nearest to the current location of the mobile device, the Bank's exchange rates, current news and promotions.

In 2016, as a result of the new and innovative projects and campaigns to promote mobile payments, a 132% growth was reported in the number of customers using the Fibank mobile application compared to a year earlier.

## My Fibank

First Investment Bank has successfully offered its customers electronic banking services through My Fibank for more than seven years. During 2016, the Bank further developed the existing functionalities, as well as updated the design of the system towards integration into a uniform channel for development of the digital services and inclusion of intuitively menus and comfort navigation.

My Fibank provides customers with electronic statements from their current and deposit accounts and credit cards, and enables them to make payments of utility bills, tax payments and other obligations from their accounts or cards with Fibank. They are provided with information about the sent and received interbank transfers in foreign currency, as well as the option for registration with 3D Card Security which aims at increasing the security of payments over the Internet.

In 2017 the Bank will continue to develop the remote banking services, incl. through integrated management and with the aim at enhancing and upgrading the new functionalities and intiatives for attracting new customers, as well as starting a uniform channel for electronic banking My Fibank.

# INFORMATION TECHNOLOGY

In 2016, First Investment Bank strengthened its position as one of the most technologically advanced and innovative institutions on the Bulgarian banking market. For Fibank, IT development and maintaining a modern infrastructural, information and technological environment has always been among the strategic priorities. 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.

It is the aim of the Bank to provide first class service, high level of security when executing banking transactions, as well as to maintain reliable databases, networks and systems in order to ensure continuity of service and of the key processes in the Bank. In this regard, Fibank has developed a centralized and integrated IT infrastructure, built upon the underlying principles of risk management, including the principle of dual control which is applied in everyday banking business. The core banking information system, FlexCube, includes both modules for retail, corporate and investment banking, and the integrated documentary information system Workflow, which is used for processing and approval of loan applications, acceptance and registration of currency transfers, and authorization of other payment transactions.

First Investment Bank continually strives to develop its information infrastructure and systems in order to further increase the level of system security, optimize the business processes, and increase productivity. In 2016, the Bank launched a project to migrate the core banking information system to a new and higher version for the purpose of improvement of processes and system performance, adding new functionalities, and ensuring faster and easier parameterization of products and services.

During the year, the technical development and implementation was completed of projects aimed at upgrading or introducing new and innovative services and functionalities: a platform for electronic payments via mobile devices supporting NFC technology by using digital bank cards; new features in the Fibank mobile application and the My Fibank e-service platform; new interface for online consumer loan applications; technical implementation of the new credit and savings products launched during the year, of banking programs and packages, as well as of other projects related to introduction of new regulations.


In April 2016, in the context of the increasing importance of digitization in the field of banking, Fibank presented at the Webit festival, held in Sofia Tech Park, the latest technological trends and innovations in financial services and their importance for public life in the country, including the innovative digital payment cards and cloud-based services developed by the Bank.

In connection with the development of payment systems and the regulations governing this area, technical support was provided during the period for realization of activities related to the submission of information to the Register of bank accounts and safe deposit boxes, the automatic exchange of financial information for tax purposes, as well as the new services in the field of payments.

In fulfillment of its mission for 2017, First Investment Bank plans to provide customers with new opportunities for electronic banking, to implement high-tech solutions providing enabling customers to do their banking 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 country.

# CORPORATE GOVERNANCE

## CORPORATE GOVERNANCE FRAMEWORK

For First Investment Bank AD good corporate governance is a key element for ensuirng long-term and sustainable development, and 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 increased capacity and importance of First Investment Bank in the financial market of the country.

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.

## CORPORATE GOVERNANCE CODE

First Investment Bank AD functions in accordance with adopted by the Managing Board and approved by the Supervisory Board, Corporate Governance Code. 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 law 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 National Corporate Governance Code.

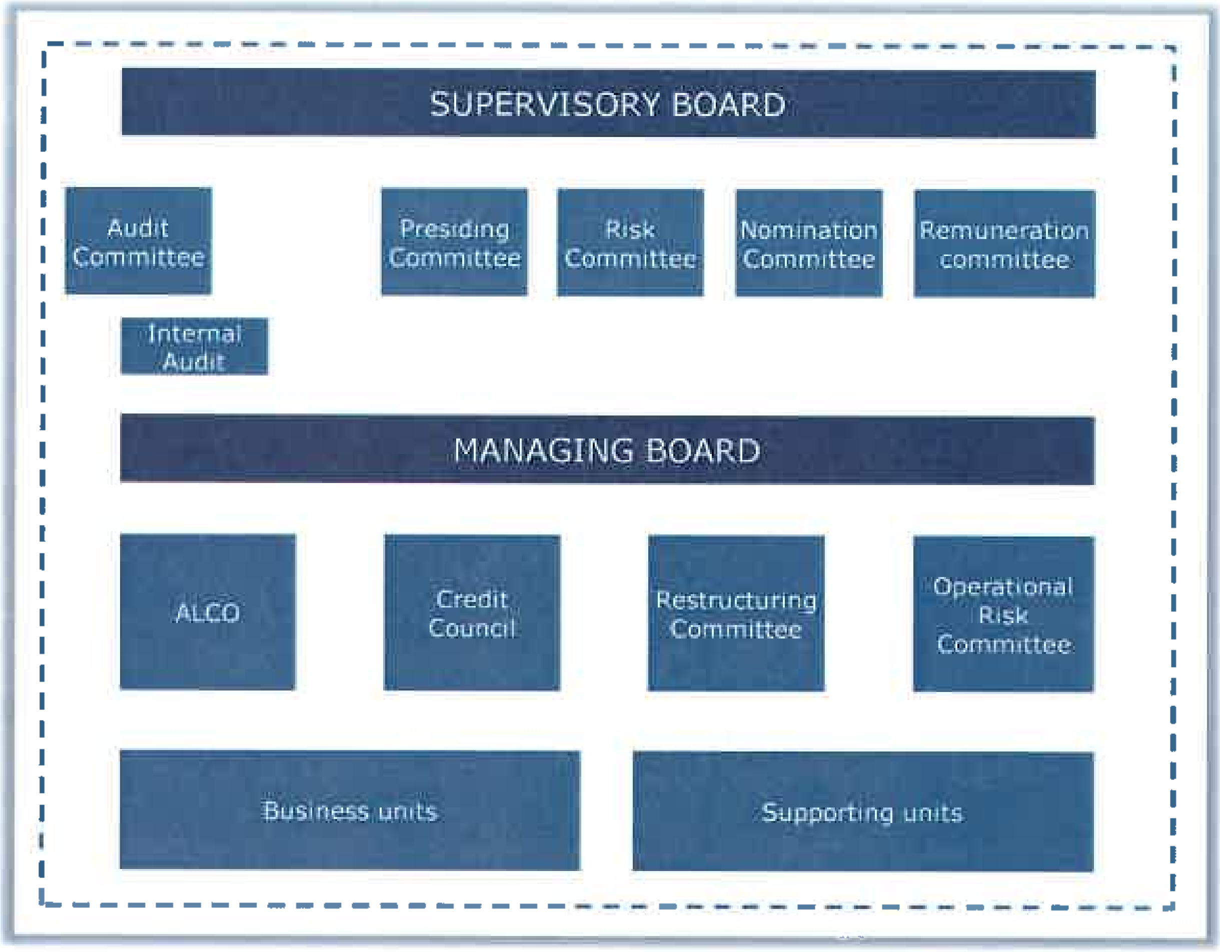
The Code sets out the basic principles and requirements for maintaining and improving the organization and methods of governance at the Bank, aimed at:

- 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 addition to the Corporate Governance Code, First Investment Bank appies a Disclosure Policy, as both documents are publicly available at the corporate website of the Bank (http://www.fibank.bg/bg/korporativno-upravlenie/page/3589). In 2016, the requirements for disclosure of regulated information and information under the financial calendar of the Bank for 2016 were met. Pursuant to the National Code of corporate governance, the Bank annually discloses to the public, along with its annual report and financial statements, a corporate governance assessment scorecard.

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.

## MANAGEMENT STRUCTURE



# SUPERVISORY BOARD

## STRUCTURE AND COMPETENCES

In 2016 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, 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 2016, 33% of the Supervisory Board members were women, which exceeded the recommended levels according to the 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, incl. IFC recommendations, 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 2016 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 | 2016 | % |
|---|---|---|
| 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, incl. risk appetite, internal governance and 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 annual activity plan. In 2016 the Supervisory Board addressed issues of its competence at 18 meetings.

The activity of the Supervisory Board is supported organizationally by a Secretary. Except for organizing the meetings of the Supervisory Board and the mimutes, 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 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. Such assessment of the activity in 2016 was performed under the guidance of the Chairman of the Supervisory Board at a meeting at the end of the year.

## 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 the course of its activity, the Presiding Committee held 7 meetings in 2016.

**The Risk Committee** assists the supervision over the risk management activities of the Managing Board, as well as the broad strategic and tactical supervision of the risk management function in the Bank. The Committee advises the Supervisory Board in relation to the overall current and future strategy regarding compliance with risk policy and risk limits, the Bank's risk propensity, and the control of its implementation by senior management. Chair of the Risk Committee is Mr. Evgeni Lukanov. During the reporting period, the Risk Committee addressed issues of its competence at 17 meetings.

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. The Remuneration Committee has held 2 meetings in 2016.

**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 2 meetings.

As a company of public interest and according to the Law on the Independent Financial Audit, 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 of a registered external auditor to perform the independent financial audit of the Bank and monitors its independence in accordance with the legal requirements and the Code of Ethics for Professional Accountants. Chair of the Audit Committee is Ms. Radina Beneva, a member of the committee who is independent from the Supervisory Board. In 2016, 8 meetings of the Audit Committee were held, including regular meetings with the Chief Financial Officer, the Director of Internal Audit, as well as with representatives of the independent external auditor of the Bank.

# MANAGING BOARD

## STRUCTURE AND COMPETENCES

In 2016 the composition of the Manging Board of first Investment Bank AD remained unchanged, as follows:

| | |
|---|---|
| Vassil Christov Christov | Chief Executive Officer (CEO), Chairman of the Managing Board |
| Dimitar Kostov Kostov | 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 |
| Maya Ivanova Oyfalosh | Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director |
| Nadia Vasileva Koshinska | Chief Retail Banking Officer (CRBO) and Member of the Managing Board |
| Jivko Ivanov Todorov | Chief Financial Officer (CFO) and Member of the Managing Board |

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

The Managing Board consists 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 selection of senior management personnel. The Management Board members are elected for period of up to 5 years and can be re-elected for next mandates without limitation

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

As at 31 December 2016 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, as 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 2016 the members of the Managing Board held a total of 24,260 shares of Fibank and none of them owned more than 1% of the issued share capital.

| Number of shares / % of issued share capital | 2016 | % |
|---|---|---|
| Vassil Christov Christov | 21,676 | 0.02 |
| Dimitar Kostov Kostov | 0 | 0 |
| Svetoslav Stoyanov Moldovansky | 0 | 0 |
| Maya Ivanova Oyfalosh | 2,350 | 0.00 |
| Nadia Vasileva Koshinska | 234 | 0.00 |
| Jivko Ivanov Todorov | 0 | 0 |
| **Total** | **24,260** | **0.02** |

## 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 the regular reports on 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 Manging 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 2016, an annual General Meeting of Shareholders was held, with represented 87.46% of the share capital and voting rights, at which a decision was taken that the entire net profit of the Bank for 2015 shall be capitalized, and no dividends shall be paid or other deductions made from the profit for 2016. BDO Bulgaria OOD was selected as the specialized audit firm to perform an independent financial audit of the annual financial statements of the Bank for 2016. The company was selected after preliminary approval by the Bulgarian National Bank and recommendation by the Audit Committee of the Bank.

The General Meeting adopted also changes in the Statute of First Investment Bank, refining certain texts on the mandate, functions and powers of the control and management bodies of the Bank.

With the amendments, within 5 years as from 16.06.2016, the Management Board, subject to approval by the Supervisory Board, was empowered to decide on 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.

## 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 conmpliance 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 economical and efficient use of resources, adequate control of various risks, protection of assets, reliability and integrity of the financial and management information, compliance of the activity with current legislation and the existing policies, plans, internal rules and procedures.

The 2016 General Meeting of Shareholders of First Investment Bank decided to re-elect Ms. Ralitsa Bogoeva as Director of Internal Audit of the Bank, and approved the 2015 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.

### EXTERNAL AUDITOR

The annual financial statements of First Investment Bank are audited by an external auditor in accordance with the Independent Financial Audit Act and 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 external auditor is 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 external auditor is an audit firm independent from the Bank, and its choice is also agreed in advance with the Bulgarian National Bank.

In its capacity of a company of public interest in accordance with the Law on the Indepndent 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 regading 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 further 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 this direction, aiming at further upgrading and development, in 2016 the Bank started a new initiative for organizing and holding 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.

For fulfilling this, during the year 4 meetings with minority shareholders of the Bank were held, respectively on 01.02.2016, 22.06.2016, 25.08.2016 and 11.11.2016. 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 to them 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 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, Fibank discloses to the public (through www.x3news.com) periodic information, including independently audited annual financial reports, as well as interim financial and activity reports.

First Investment Bank prepares this Annual Report in Bulgarian and English, subject to examination by an independent auditor, 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.

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.

The scope of information disclosed by First Investment Bank exceeds the requirements of national legislation. 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 establish an effective relation between First Investment Bank and its shareholders and persons that have interest in investing in financial instruments issued by the Bank, an Investor Relation Director is appointed within First Investment Bank.

| | |
|---|---|
| Vassilka Momchilova Stamatova | Investor Relations Director |

The Investor Relations Director of First Investment Bank has the necessary qualification and professional experience for performing its obligations and responsibilities. The director is responsible for the timely diswclosure of all needed reports, notifications and information the Bank is supposed 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 2016 the Investor Relations director of the Bank reported her activity during 2015 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

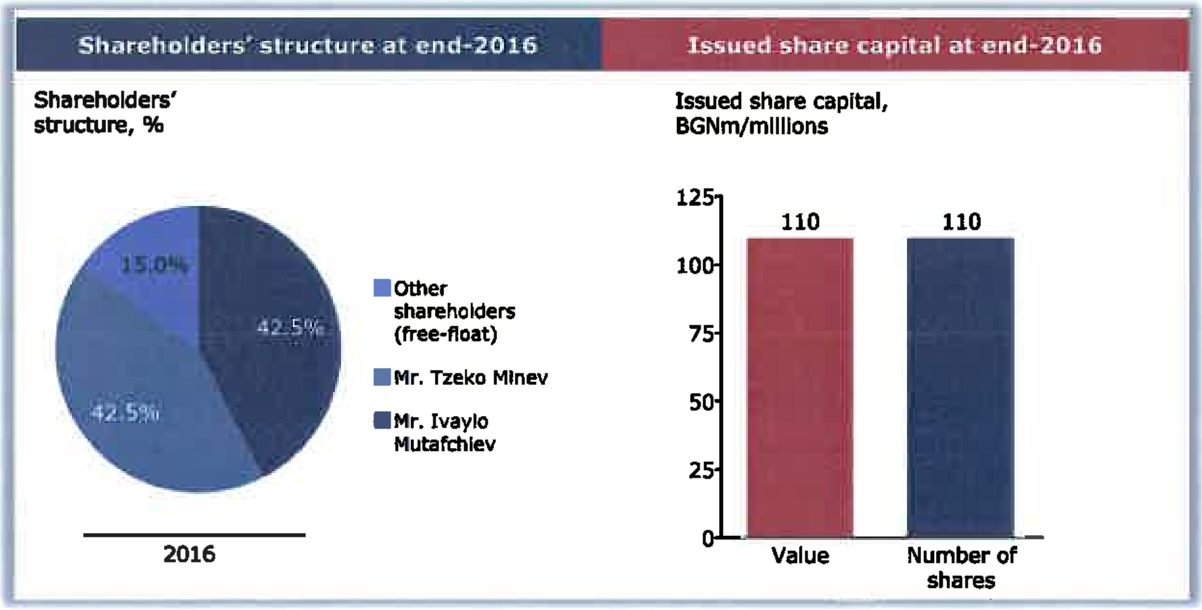
First Investment Bank applies a policy of providing information to stakeholders about its activity. Those include persons who are not shareholders but are interested in the economic development of the company, such as creditors, bondholders, customers, employees, the general public, and others.

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 eight 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

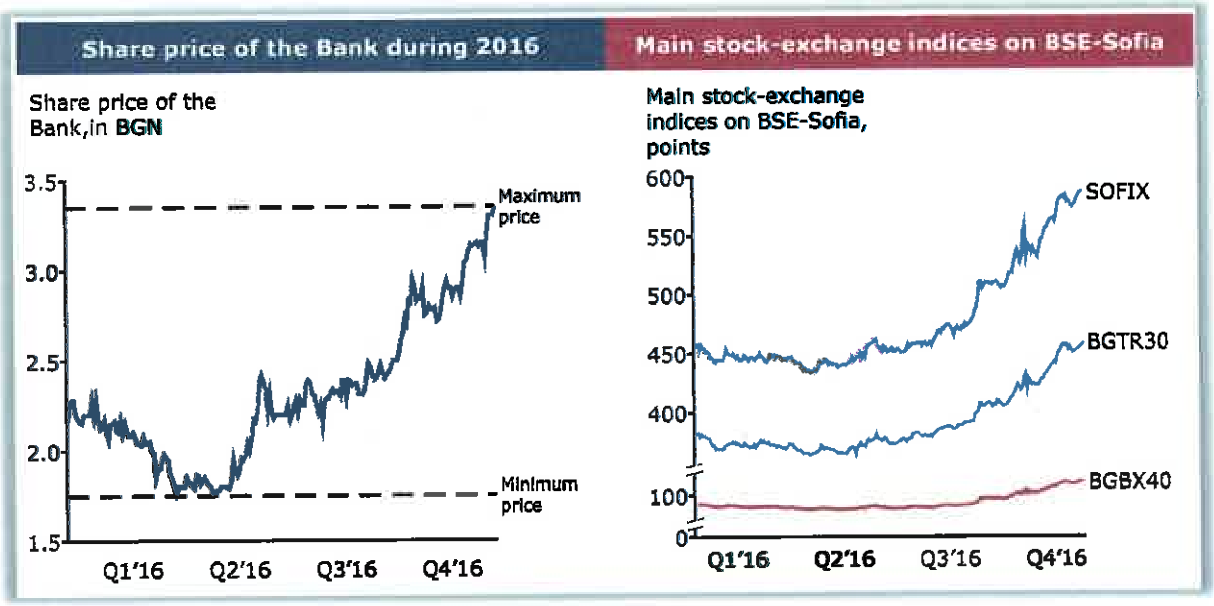
As at 31 December 2016 the major shareholders of First Investment Bank were Mr. Tzeko Minev (42.5%) and Mr. Ivailo Mutafchiev (42.5%). The remaining 15% of the Bank's issued share capital (BGN 16.5 million) was owned by other shareholders, holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia (free-float). The total number of shareholders exceeded 3,000 which include both individuals and legal entities, incl. institutional investors.




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 2016, the share price of the Bank fluctuated in the range between BGN 1.76 to BGN 3.35. The last price of the shares of First Investment Bank for the reporting period was BGN 3,350 (2015: BGN 2,161) and the market capitalization of the Bank, calculated on this basis amounted to BGN 368,500 thousand. (2015: BGN 237,710 thousand). A total of 2,118 transactions were concluded with the shares of the Bank on the regulated market BSE, amounting to a turnover of BGN 7,570 thousand, compared to 1666 transactions and BGN 4,439 thousand turnover a year earlier.




As at 31 December 2016, 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.

# HUMAN CAPITAL

In 2016 First Investment Bank continued to successfully develop its activities related to development and management of human capital. During the year, initiatives and projects were implemented along the key priorities of the Bank aimed at active support of the business, and increasing the motivation, involvement, and satisfaction of employees.

During the period the Bank launched several long-term, large-scale projects focused on distinguishing and promoting the team and individual potential of employees, and on developing internal communication:

- **A Master's program jointly developed and implemented with the Higher School of Insurance and Finance (HSIF):** a project aimed at integration of business and education, which enables employees of the Bank to increase their qualification, giving them potential for development and successful career. Besides the academic professors from HSIF, directors and managers of key departments in the Bank are also involved as trainers in the program;


- **Design and implementation of an Employee Satisfaction survey:** a survey of all employees of the Bank to assess their attitudes regarding key satisfaction factors of the organizational and motivational environment. Based on the results of the survey, measures were planned for development of the internal communication and providing support to the Bank's managers in building productive relationships of trust, team spirit, and interaction between the various departments;

- **Realization of the Recognition Program "Together we can do more":** a project aimed at motivating and encouraging employees to higher achievements by giving recognition and respect to their personal contribution and inspiring performance, as well as distinguishing and promoting job behaviors that are important for the success of the Bank. Under the program, employees and customers have the opportunity to nominate staff members for awards, as well as to determine winners in different categories by their vote.

First Investment Bank continued to invest in activities aimed at optimization and development of key personnel management processes, including in change and optimization of the processes of selection, remuneration, as well as in introducing a system for electronic management of leaves. Since the beginning of the year, a process has been under way for planned development of front office remuneration, based on the experience of employees with the Bank and on assessment of their individual contribution and job performance. A benefits package for employees was introduced regarding products and services of the Bank, in line with the management's vision and long-term priorities for consistent investment in employees' involvement and satisfaction.

In 2016, Fibank provided an active and dynamic training process for its employees. Using the e-learning platform introduced in 2015, over 2,000 employees received training on topics related to the internal and information security, as well as to the introduction of new processes, rules, products and services. Several major training initiatives were successfully implemented:

- Training on **"Sales through effective interaction with the customer"** for more than 130 employees from Sofia and the country involved in lending to individuals;
- Socio-psychological training **"Emotional intelligence when interacting with customers in the process of service and sales"** for over 500 front office staff: an innovative training project emphasizing on the development of attitudes and skills of employees for customer-oriented communication, empathic approach to interaction, and creating an emotionally comfortable environment according to customers' expectations and needs.

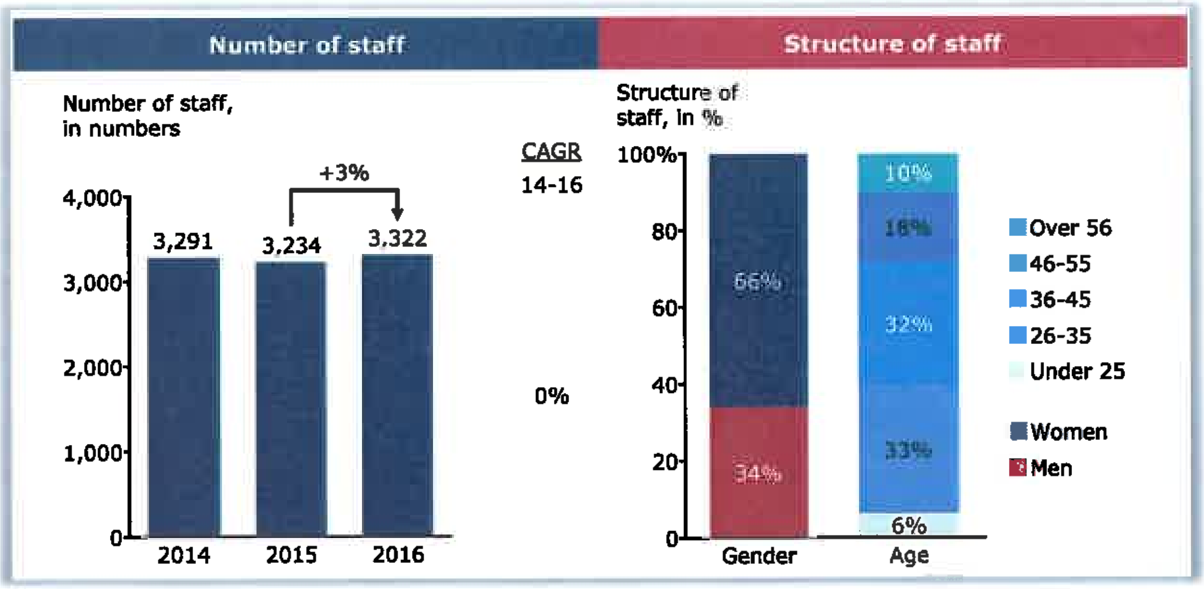
The training program was developed by Human Capital Management Department of the Bank, in partnership with a leading external consulting firm specializing in the provision of consultancy services in the field of human resource development.

The design of the program mainly focuses on interactivity and diversity in the approaches of presenting information, practical role plays, active involvement of employees in discussions, and sharing of successful experience.

To create real working situations, popular Bulgarian actors participated in the project in the role of customers, and video materials of the results were presented.

The training projects realized are proof of the aspiration of Fibank to be a leader in customer service, and its willingness to support and motivate employees using innovative and practically oriented models and methods of training and development. In 2016, a total of 3,518 employees participated in various forms of training, or 116% of the number of staff (some passed more than 1 training).

As at 31.12.2016, the personnel of First Investment Bank on a consolidated basis totaled 3,322 employees, compared to 3,234 a year earlier. 40% of the staff were under 35, and 72% - under 45 years of age. In line with the general trends 66% of the staff were women.




In 2017 First Investment Bank will continue its targeted and consistent work in the human capital management field, the key priorities remaining providing support to the business towards achieving the planned annual goals and objectives, ensuring high added value, and strengthening the position of the Bank as a good and preferred employer.

## 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, 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 of the Bank for 2016 amounted to BGN 7,397 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 2016 First Investment Bank fulfilled its social responsibility program supporting a number of socially significant projects and initiatives, actively participating in the public life of the country, and promoting the Bulgarian education, culture and sport.

As the largest bank with Bulgarian capital, Fibank continued its efforts in contributing to the preservation and development of Bulgarian traditions and education, with an emphasis on increasing the financial culture and literacy among young people. During the year, it provided assistance for the repair of a study hall in the Faculty of Economics of the Sofia University St. Kliment Ohridski, and supported the AISEC student organization in its initiative YouthSpeak Forum, Sofia 2016.

Fibank provided scholarships for talented Bulgarian youths from the Sofia Mathematics High School in connection with their excellent performance at the International Olympiad in Mathematics, Physics and Informatics in Kazakhstan, and launched a long-term initiative of training courses for students from the high school in the areas of business, management, presentation skills, and real banking environment practice. In April 2016 Fibank provided financial assistance for holding the National Olympiad in Informatics in the town of Haskovo, and for the second consecutive year supported Sofia's First English Language School in sending delegates to the International session of the Model European Parliament in the city of Budapest.

In pursuance of its policy to support significant cultural projects, Fibank continued its cooperation with the Union of Actors in Bulgaria aimed at ensuring decent retirement for deserving Bulgarian actors and supporting talented students in the field of theatrical art. In this connection, during the year First Investment Bank created the charity calendar "Actors with good hearts" featuring artistic photographs of prominent Bulgarian actors, winners of the prestigious Icarus award. The Bank undertook to double the funds collected from this charity initiative.

To contribute to the development of initiatives in the field of music, in 2016 Fibank supported the music reality show "The Big Rock Break", aimed at promoting the future professional development of young musical talents. For yet another year, the organization of the international jazz festival in the town of Bansko was also sponsored.

In 2016, First Investment Bank jointly with the National Centre for Transfusion Haematology (NCTH) and the National Television launched a campaign for free and voluntary blood donation. The campaign aimed not only to support the NCTH activity, but also to promote the act of voluntary blood donation which is vital to saving thousands of people. The initiative was supported by a number of celebrities, and many of the Bank's employees participated in the blood donation.

During the year Fibank continued to support the development of sports in the country as a socially responsible cause. In May 2016, on the occasion of the farewell match of Hristo Stoichkov "50 years Number 8", First Investment Bank and the football legend organized a charity auction in support of the Bulgarian sports federation for children deprived of parental care. The auction collected a total of BGN 25,700, which was donated for support of the children and development of sports in the country.

As partner of the Bulgarian Rhythmic Gymnastics Federation and general sponsor of the Bulgarian Olympic Committee, the Bulgarian Tennis Federation and the Bulgarian Ski Federation, First Investment Bank continued to support Bulgarian athletes at events on the local and international scene. During the year, Fibank awarded the Olympic vice-champion in the high jump Mirela Demireva and the Bulgarian rhythmic gymnastics team for their achievements and the medals won at the Olympic Games in Rio de Janeiro, Brazil. Also awarded were the talented Bulgarian tennis player Tsvetana Pironkova for her good ranking at the Roland Garros tennis tournament, and the snowboarder Radoslav Yankov for his success in the snowboard parallel disciplines at the 2015/2016 World Cup season.

During the reporting period, First Investment Bank launched for the fifth consecutive year 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.

# BUSINESS REVIEW

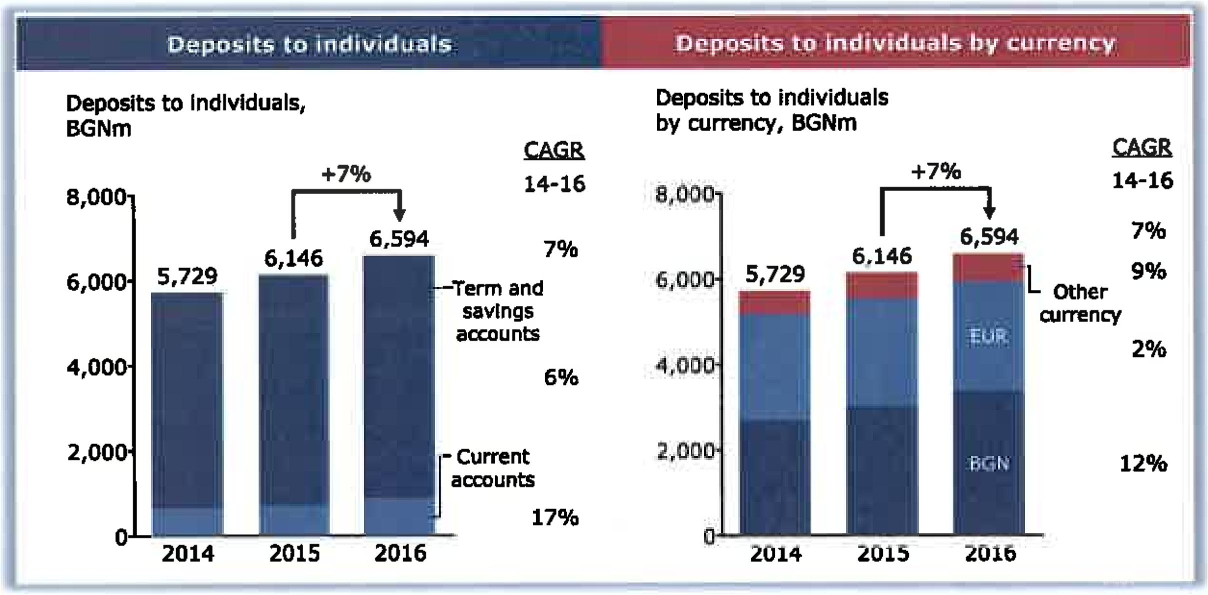
## RETAIL BANKING

### DEPOSITS

In 2016 the attracted funds from individuals grew more compared to the average for the banking system or by 7.3%, reaching BGN 6,593,972 thousand (2015: BGN 6,146,440 thousand). The increase was a result mainly of the growth in term and saving accounts, which reached BGN 5,723,396 thousand at the end of the period (2015: BGN 5,451,553 thousand) or 5,0% (BGN 271,843 thousand) more than the previous year. They kept their structure-determined share in attracted funds from individuals at 86.8% (2015: 88.7%).

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

In 2016 Fibank continued to optimize the conditions of deposit products, as developed new ones, aiming upmost satisfaction of clients' demand and offering competitive conditions in accordance with the market environment. During the year started the offering of a new deposit product „Forex Plus", with an option for receiving an extra bonus, related to the exchange rate of the US dollar, as well as new deposit „Champion 4-4-2" with increasing interest and a term of 10 months, structured into two periods consisting of four months each and one two-month period. In April 2016, a "New deposit from Fibank" was developed with maturity of 3 and 6 months and a minimum required account balance on the deposit in the amount of BGN 500.




Current accounts at the end of 2016 also increased, as they reached BGN 870,576 thousand compared to BGN 694,887 thousand for the previous year. During the year new package services and programs were developed, including new youth bank programs „Digital Me" and „Digital Me+", targeting individuals between the age of 18 and 30. Fibank offers a wide range of accounts with current character, 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 (2015: third). As at the end of 2016 the market share of the Bank increased to 13.51% on an unconsolidated basis (2015: 13.41%).

## LOANS

Loan portfolio of individuals was in the amount of BGN 1,453,502 thousand, as it stayed close to the previous year levels (2015: 1,497,181 thousand). It included consumer and mortgage loans, credit cards, as well as other programs and secured financing.

| In BGNth / % of total | 2016 | % | 2015 | % | 2014 | % |
|---|---|---|---|---|---|---|
| Consumer loans | 497,524 | 34.2 | 478,485 | 32.0 | 412,250 | 31.4 |
| Mortgage loans | 570,543 | 39.3 | 615,117 | 41.1 | 654,449 | 49.9 |
| Credit cards | 254,867 | 17.5 | 262,435 | 17.5 | 245,918 | 18.7 |
| Other programs and secured financing | 130,568 | 9.0 | 141,144 | 9.4 | - | - |
| **Total retail loans** | **1,453,502** | **100** | **1,497,181** | **100** | **1,312,617** | **100** |

### *CONSUMER LOANS*

Consumer loans increased by 4.0% to BGN 497,524 thousand (2015: BGN 478,485 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.

During the year, the product range was supplemented by a new loan for gasification of households, developed under the Desiree Gas project of the Ministry of Energy aimed at accelerating household gasification in Bulgaria. A new lending program was developed for students and postgraduates using state financial support, featuring loans for covering of tuition fees and living expenses provided under the Law for lending to students and postgraduates. Borrowers under the program are exempt from fees related to the loan product (including for processing, disbursement, early repayment, renegotiation), as well as to the cash transactions and use of the loan bank account.

At the end of 2016 First Investment Bank enabled fully online applications 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 documents required under the Bank's internal regulations and the applicable legislation.

First Investment Bank's market share in this segment increased to 8.78% (2015: 8.52%) at the end of the year, as Fibank kept its market position – sixth place (2015: sixth) in terms of consumer loans among banks in the country on an unconsolidated basis.

### *CREDIT CARDS*

The utilized limits on credit cards were in the amount of BGN 254,867 thousand at the end of the period (2015: BGN 262,435 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 17.5% (2015: 17.5%).

### *MORTGAGE LOANS*

As at the end of December 2016, mortgage loans amounted to BGN 570,543 thousand compared to BGN 615,117 thousand a year earlier. Mortgage loans retained their structure-determined share in the portfolio of loans to individuals at 39.3% at the end of the period (2015: 41.1%).

As at 31 December 2016 the market share of the Bank in this segment was 6.28% (2015: 6.79%), as Fibank was placed sixth among banks in the country on an unconsolidated basis (2015: fifth).

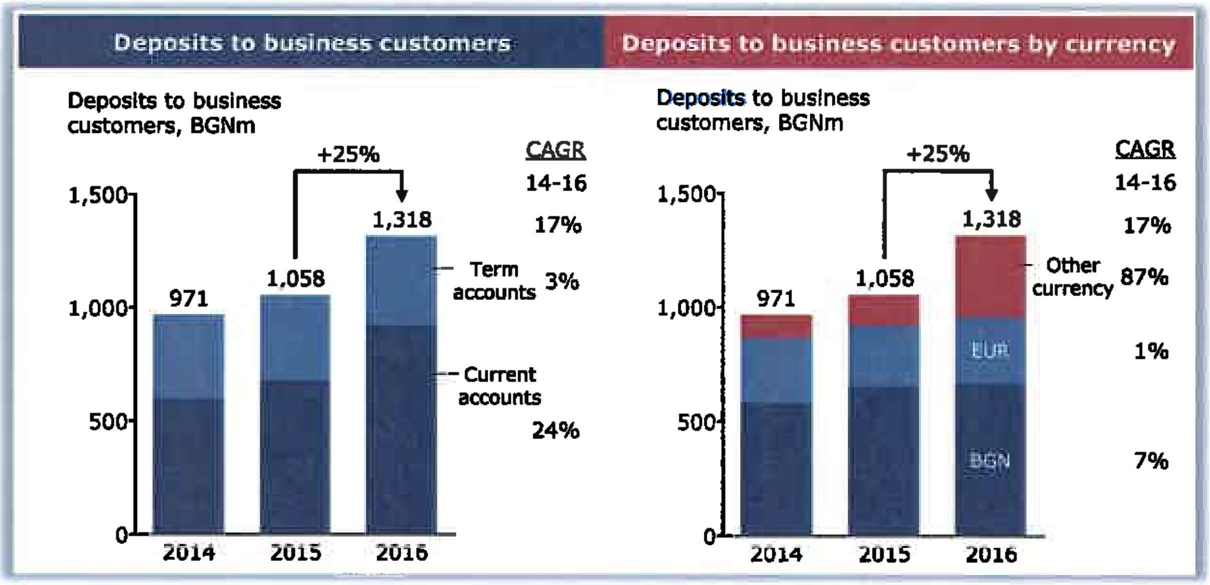
Throughout the year in implementation of its strategy for development of retail banking segment, Fibank continued to offer mortgage loans under competitive conditions, as well as to enlarge its product variety through new credit products, including credit for purchase of real estate in a building which construction was being financed through a business loan by the Bank.

## CORPORATE BANKING

### DEPOSITS

Attracted funds from corporates and institutions in 2016 grew at a larger pace compared to the average for the banking system, amounting to BGN 1,317,939 thousand (2015: BGN 1,057,529 thousand). The increase in volume reflected growth in both the current accounts and the fixed-term accounts.

Current accounts increased to BGN 926,679 thousand at the end of 2016 compared to BGN 681,812 thousand a year earlier, forming 70.3% of the attracted funds from corporates and institutions (2015: 64.5%).




In 2016 Fibank updated the terms on the combined packages of bank products and services for business clients – "Fibank Business", "Fibank Business Class", "Fibank Business Class +" and "Fibank Business Class Premium", aiming to be in line with the market environment and to secure maximum satisfaction of customer needs. These give opportunity for optimizing the expenses and the procedures for using different types of bank services.

Term accounts amounted to BGN 391,260 thousand compared to BGN 375,717 thousand at the end of previous year and formed 29.7% of attracted funds from corporate and public institutions (2015:

35.5%). The growth continued to be influenced by the cautious policies of companies in terms of costs, as well as by newly attracted business clients of Fibank during the year.

As at 31 December 2016 funds attracted by the thirty biggest non-banking clients represented 5.88% of the total amount due to other customers (2015: 3.65%).

## LOANS

### *CORPORATE LENDING*

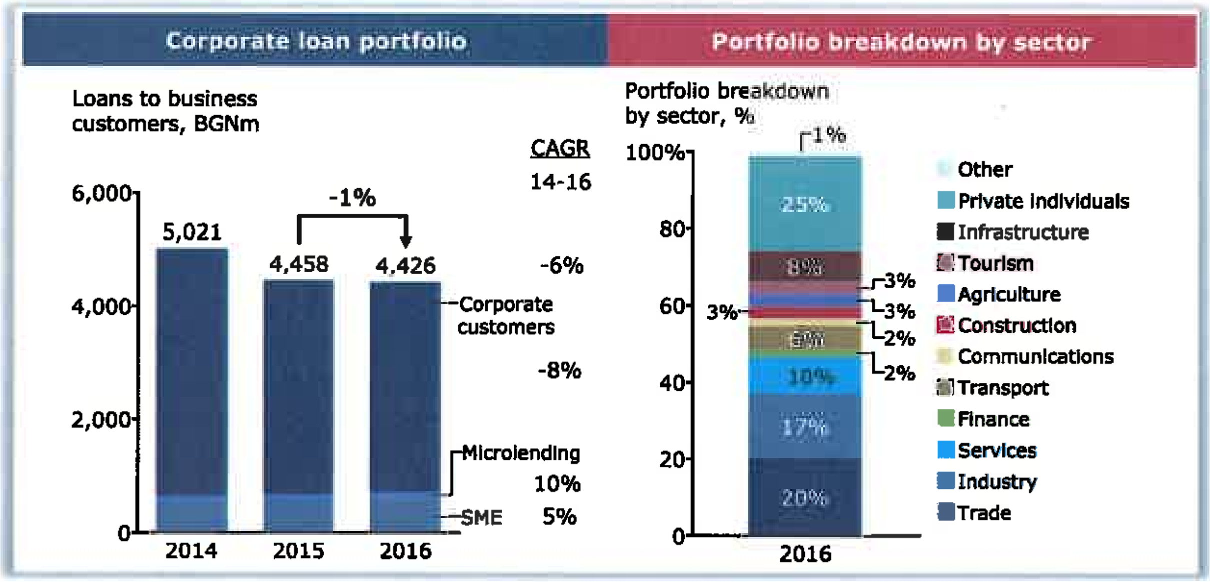
The portfolio of loans to corporates amounted to BGN 4,425,687 thousand at the end of 2016 compared to BGN 4,457,674 thousand a year earlier. The segment of the corporate customers decreased its share in the corporate portfolio to 83.7% at the end of the year (2015: 84.9%). The loans of the other business lines – to small and medium enterprises and microlending grew, as they increased their share in the structure of loans to companies to 13.8% (2015: 12.8%) and to 2.5% (2015: 2.3%) respectively.

| In BGNth/ % of total | 2016 | % | 2015 | % | 2014 | % |
|---|---|---|---|---|---|---|
| Corporate customers | 3,705,033 | 83.7 | 3,784,966 | 84.9 | 4,374,648 | 87.1 |
| Small and medium customers | 612,093 | 13.8 | 570,490 | 12.8 | 557,681 | 11.1 |
| Microlending | 108,561 | 2.5 | 102,218 | 2.3 | 88,984 | 1.8 |
| **Total loans to corporates** | **4,425,687** | **100** | **4,457,674** | **100** | **5,021,313** | **100** |

First Investment Bank continued to provide 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 12.23% of loans to enterprises in the banking system (2015: 12.38%). Fibank retained its second place (2015: second) among banks in the country on an unconsolidated basis.

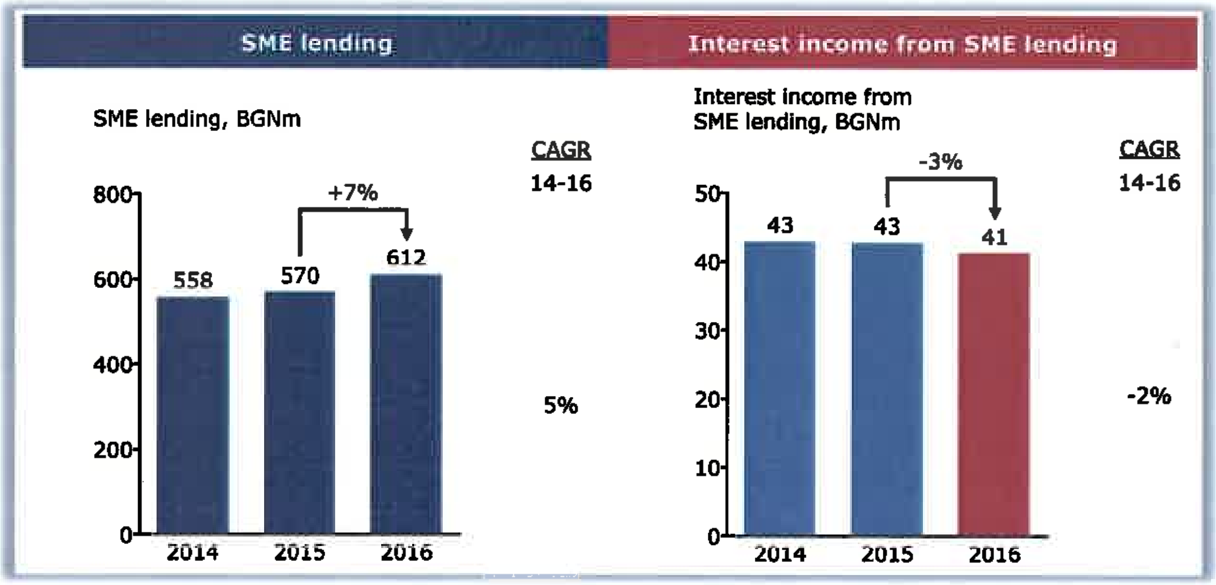
As at 31.12.2016 a leading share in the portfolio structure had the loans to the trade sector, which amounted to BGN 1,186,684 thousand or 20.2% of the total loans, followed by the industry sector (2016: BGN 987,724 thousand or 16.8%) and the services (2016: BGN 558,738 thousand or 9.5%). In line with the development of the economic activity in the country, growth was registered in the loans for agriculture, which reached BGN 189,228 thousand compared to BGN 128,393 thousand a year earlier, as well as in the field of communications (2016: BGN 115,489 thousand; 2015: BGN 94,254 thousand), which reflected the contribution of the information and communication technologies to the growth of the services sector in the country. Loans to construction sector decreased, amounting to BGN 186,541 thousand (2015: BGN 238,275 thousand) in line with the slow recovery of the sector and its contribution to the added value in the economy throughout 2016.




During the period the Bank affirmed its successful cooperation with the Bulgarian Export Insurance Agency (BAEZ), including through a newly concluded agreement for portfolio insurance with the agency, as part of the techniques for mitigating credit risk.

### *SME LENDING*

In 2016 loans to small and medium enterprises increased to BGN 612,093 thousand compared to BGN 570,490 thousand a year earlier in implementation of the Bank's plans for development of this business segment. The increase was influenced by the competitive terms, offered to the products for SME clients, including the "Super SME Loan", as well as the various options related to the programs and funds of EU and the other guarantee schemes and financing.

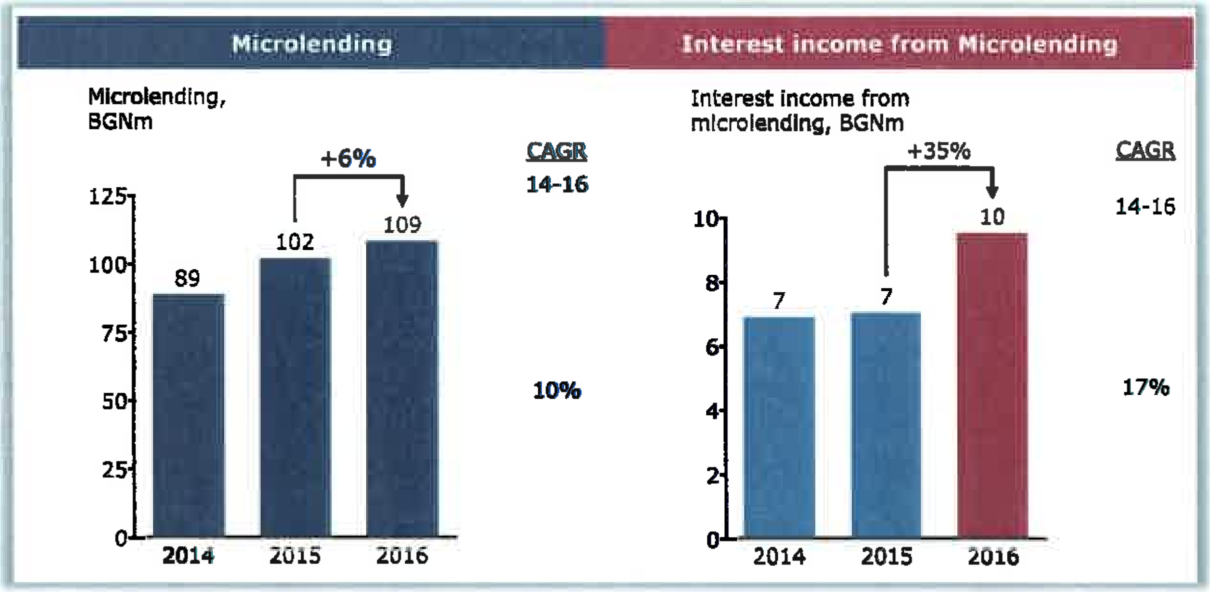



During the period the Bank continued to maintain joint cooperation with the National Guarantee Fund, by offering investment loans and working capital loans for SME under preferential terms, in accordance with Guarantee Agreement signed with the NGF in January 2016. In support of the agricultural producers a new agreement with NGF was signed for the issuance of guarantees on loans to companies, approved for support under the Program for rural development 2014-2020 – *for more information see section „Europrograms".*

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

### *MICROLENDING*

In 2016 the microlending portfolio grew by 6.2% and reached BGN 108,561 thousand compared to BGN 102,218 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.

During the reporting period, for microenterprises, the parameters on "Mortgage Business Loan", "Super Micro Loan" and "Ovedraft Account" were updated in compliance with the market conditions and external environment, as well as facilitations were implemented concerning the approval process, and new competitive conditions were implemented. During the year started the offering of a new loan to farmers against pledge of claims under the schemes and measures of the General agricultural policy of the EU, which provides up to 100% financing of the expected subsidies.

# 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 2016 Fibank mainly supported beneficiaries of programs aimed at the private sector, including of 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.

First Investment Bank continued its successful cooperation with the National Guarantee Fund (NGF). In September 2016, a new agreement with the Fund was signed for issuance of loan guarantees to complement the collateral of enterprises approved for assistance under the Program for Rural Development 2014 -2020, as well as enterprises from the livestock and agricultural sectors. Under the agreement, investment and working capital loans will be granted, and bank guarantees issued by the Fund to secure up to 50% of the loan amount. In addition, the Bank will continue to implement the activities and commitments under the agreement with NGF signed in January 2016 for the issuance of a EUR 20 million portfolio guarantee to secure the Bank's loans to micro, small and medium enterprises in Bulgaria.

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.

During the year, First Investment Bank became a member of the Bulgarian Association of Consultants in European Programs (BAKEP) 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. In this way, Fibank continues to build lasting relationships in support of the Bulgarian business.

## PAYMENT SERVICES

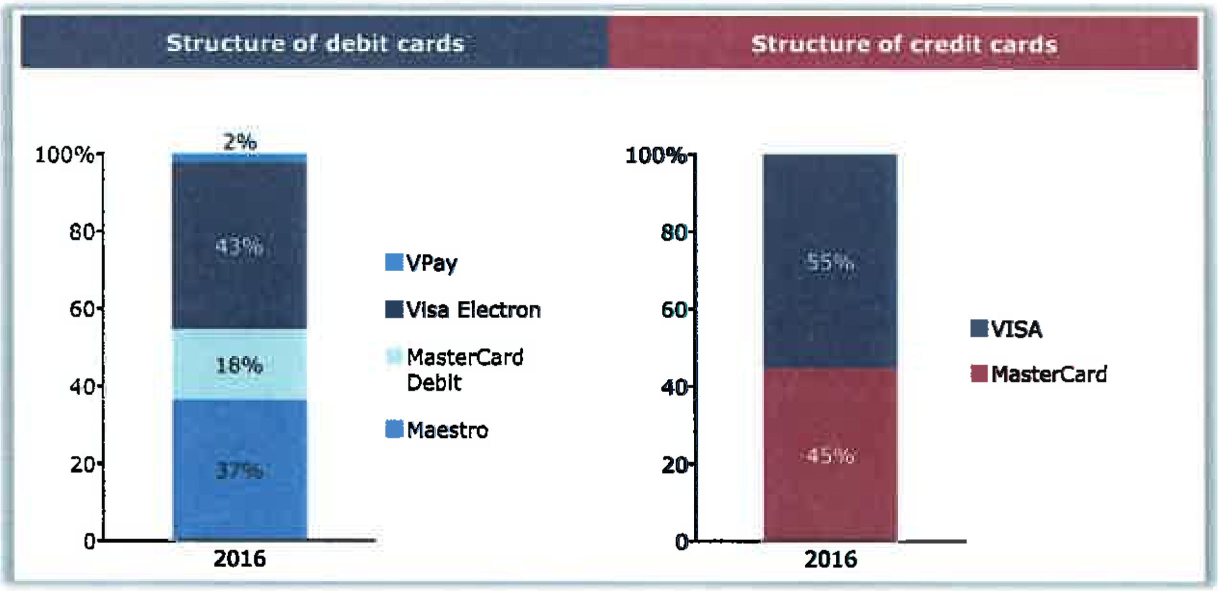
In 2016 First Investment Bank was a member and participant in the payment systems as follows:

- 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);
- Bank Organisation for Payments Initiated by Cards (BORICA).

### CARD PAYMENTS

In 2016, First Investment Bank continued to develop its card business in line with the 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.

As at 31 December 2016, the number of cards issued by Fibank increased by 6.7% compared to the previous year. The most significant growth was observed in the issuance of the Debit MasterCard which features innovative functionality for contactless payments, internet payment options, and is included in the YES loyalty program of Fibank.




The structure of payment cards over the period remained relatively unchanged. At year-end, the ratio in credit cards was 45% for MasterCard against 55% for VISA, and in debit cards 55% for Maestro and Debit MasterCard compared to 45% for VISA electron and VPay.

During the year, Fibank developed an innovative service: Digital Payments which allows customers to manage digital bank cards through the mobile application on their smart phones supporting NFC technology for contactless payments. A joint initiative was also launched with the international online booking portal Booking.com, whereby cardholders can enjoy discounts when booking or making payments with credit or debit cards issued by the Bank.

First Investment Bank started offering new contactless debit cards especially designed for children and teenagers aged 7 to 18, aimed at building and enhancing the financial literacy among adolescents and young people. The cards are tailored for two age groups: Debit MasterCard PayPass

Kids (7 to 14 years), and Debit MasterCard PayPass Teen (14 to 18 years), and combine the lowest possible risk with a high degree of parental control. Limits can be set that are consistent with the personal needs of the young cardholders and the family budget, and the cards are exempt from fees for issuance, ATM withdrawals and POS payments, and cannot be used for payments over the Internet. In order to keep parents informed, additional services are offered such as email notification and registration for the My Fibank service, whereby transactions and expenses made with the cards can be tracked.

Card products were diversified with the new business debit cards VISA Business Debit and MasterCard Business Debit, tailored to the needs of corporate customers and the competitive market conditions. With a view to stimulating card payments, including contactless payments, various promotional and product campaigns were organized during the period and. 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.

The ATM terminal network serviced by the Bank totaled 624 devices, compared to 630 a year earlier, driven by maintaining optimal efficiency of the terminal network according to the specific locations, workload, and volume of transactions. In addition, the subsidiary bank in Albania maintains its own network of ATM terminals. *For further information on the card business of First Investment Bank – Albania Sh.a. see section "Business overview of subsidiary companies".*

As at 31 December 2016, the POS terminal network of First Investment Bank reached 10,212 units, increasing by 1.1% compared to the previous year. The Bank aims to continually offer competitive terms to both merchants and users of card services, in order to stimulate this type of payments.

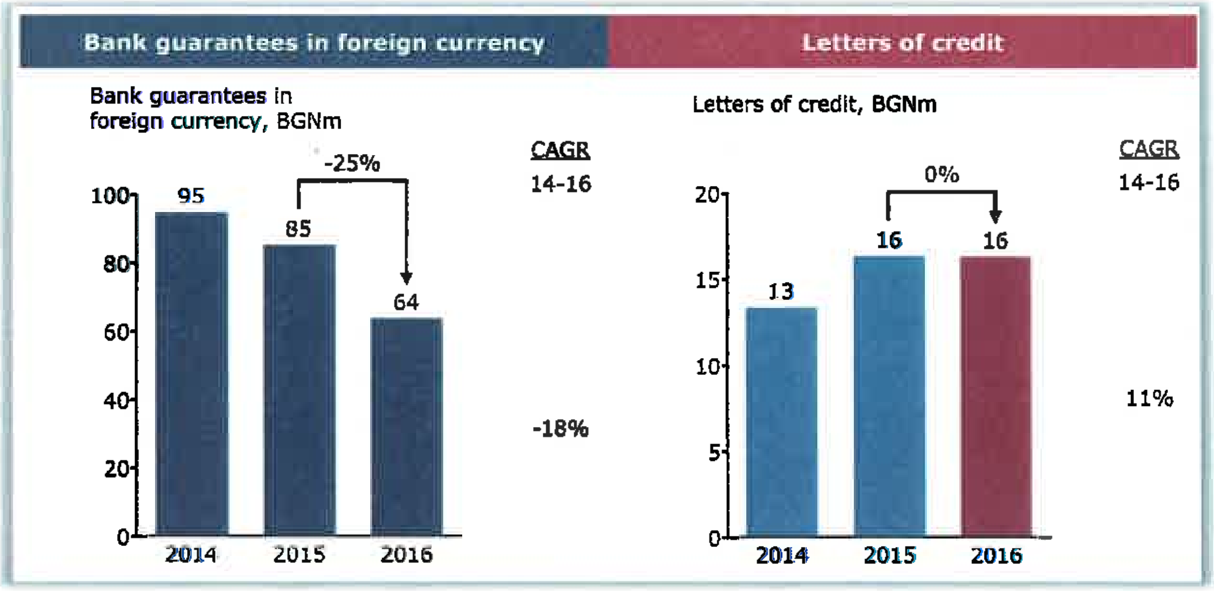
## INTERNATIONAL PAYMENTS

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 2016, 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 also operates in issuing checks and performing various documentary transactions.

During the year the Bank improved its internal processes concerning the monitoring of outgoing foreign currency transfers and the performance of documentary operations, aiming to maintain an effective controlling environment regarding the existing processes and further enhancement of the protection mechanisms against risks inherent to the banking activity.

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 deliviries of goods from Taiwanese suppliers to clients of First Investment Bank in Bulgaria. Under the agreement, Fibank can provide financing of up to 85% 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 12 months for consumer goods, and 6 months to 5 years for non-consumer goods.




During the reporting period, the letters of credit and bank guarantees in foreign currency issued by the Group of First Investment Bank to guarantee the performance of its customers to third parties amounted to BGN 80,111 thousand (2015: BGN 101,688 thousand), forming 11.1% of the off-balance sheet commitments of the Group (2015: 11.6%).

## GOLD AND COMMEMORATIVE COINS

In 2016 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 1,007 thousand compared to BGN 840 thousand a year earlier, driven by the successful 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 2016, jointly with the Swiss refinery PAMP and the JVP Berlin company, the distribution of a new silver coin was started, featuring an icon of St. Nikolay the Miracleworker, partial coloring and gilding. Keeping the tradition of cooperation with the New Zealand Mint, a new silver coin was designed dedicated to the Year of the Rooster, which is exclusively offered at the offices of Fibank.

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

## PRIVATE BANKING

An emphasis in Fibank's private banking for 2016 was the re-segmentation of the client base and expanding the range of banking solutions, aimed at providing tailored solutions to each customer.

Fibank
Частно банкиране

A 14% increase in the number of clients serviced was reported over the year. In this connection, and as a result of the efforts directed at developing this business segment, there was an increase in funds attracted by private banking resource by 55% for the period, as well as in the revenues generated, including those associated with service charges, which increased by 17% y/o/y.

During the year, new lending programs were introduced for private banking customers, as well as preapproved credit limits with included life insurance for certain segments.

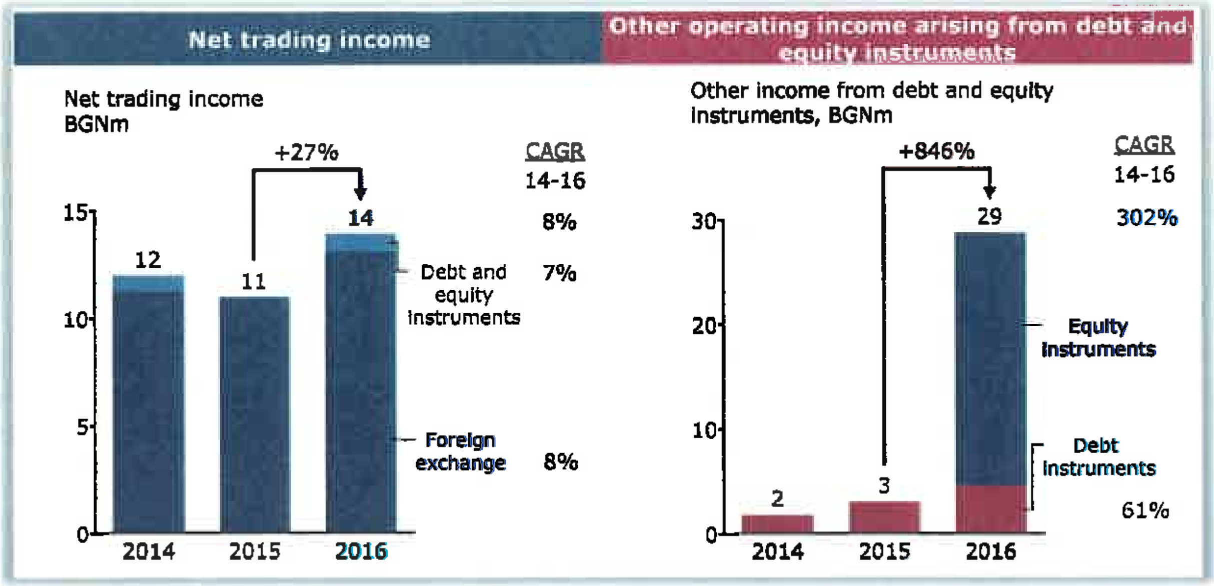
With a view to further developing the business and attracting new clients, a new regional private banking structure was established for the city of Varna, offering the full range of products and first class service, including the exclusive card product for the premium segment MasterCard World Elite.

First Investment Bank offers 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 2016, net trading income increased to BGN 13,937 thousand (2015: BGN 11,017 thousand) mainly as a result of the higher income from trade operations related to exchange rates and debt and equity instruments. Other operating income arising from debt and capital instruments amounted to BGN 40,115 thousand against BGN 62,802 thousand for the previous year, 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.

The portfolio of financial instruments at year-end amounted to BGN 891,835 thousand, compared to BGN 679,545 thousand a year earlier, of which BGN 619,836 were investments available for sale (2015: BGN 584,415 thousand), BGN 262,437 thousand financial assets held to maturity (2015: BGN 84,244 thousand) and BGN 9,562 thousand financial assets held for trading (2015: BGN 10,886 thousand).




First Investment Bank continued to develop its investment services and activities in line with the regulatory requirements and the market environment. In 2016 changes were adopted to the Bank's internal regulations, in the case of Fibank's activity as an investment intermediary and an issuer of financial instruments, which introduced and enforced the new requirements, arising from Regulation (EU) N 596/2014 of the European Parliament and of the Council on market abuse, and from Implementation of the Measures against Market Abuse with Financial Instruments Act.

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. Fibank's activities are in compliance with MiFID regulations in accordance with the Markets in Financial Instruments Act and Ordinance №38 of the Financial Supervision Commission, which ensures a higher level of protection for non-professional customers. 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.

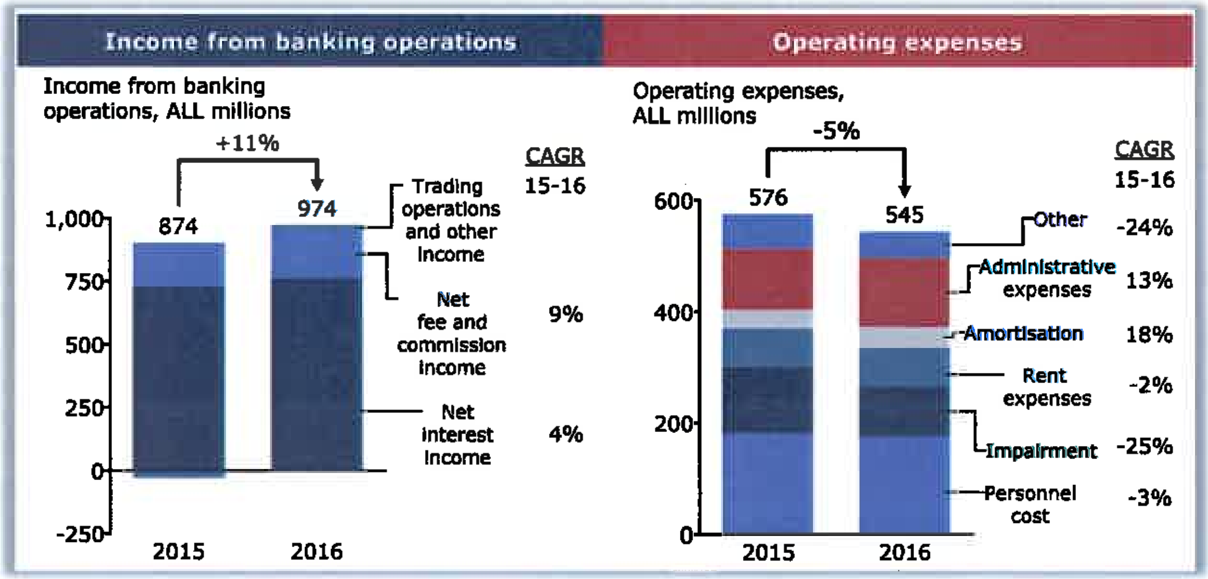
# BUSINESS OVERVIEW OF SUBSIDIARY COMPANIES

## FIRST INVESTMENT BANK – ALBANIA SH.A.

First Investment Bank – Albania Sh.a. 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.

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 2016, 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 position, its capital adequacy ratio at year-end amounting to 17.35% against a minimum required level of 12% according to the applicable regulatory requirements in the country.



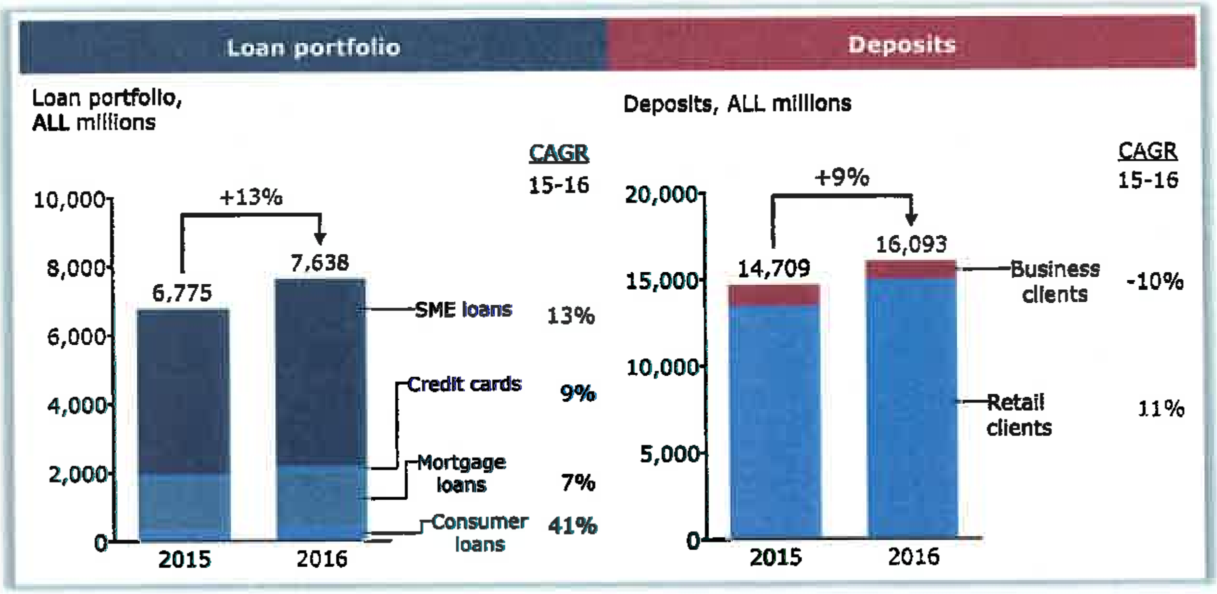

First Investment Bank – Albania Sh.a. reported net profit amounting to ALL 363,088 thousand[7] compared to ALL 250,947 thousand a year earlier. This was driven by the increase in operating income, incl. net interest income by 4.3% to ALL 763,608 thousand (2015: ALL 731,876 thousand), and net fee and commission income, which reached ALL 188,422 thousand compared to ALL 172,277 thousand a year earlier.

The bank undertook actions on cost optimization: personnel costs amounted to ALL 176,582 thousand against ALL 181,709 thousand for the previous year, as the number of staff of the bank at year-end were 140 people. General administrative expenses amounted to ALL 123,058 thousand (2015: ALL 108,966 thousand), while those for rents and depreciation were ALL 107,357 thousand

[7] The official rate of the Albanian lek (ALL) against the euro at the end of 2016 was 135.23, and the average for the year - ALL 137.19 for one euro.

(2015: ALL 103,029 thousand). Impairment costs decreased and reached ALL 89,608 thousand (2015: ALL 119,180 thousand).

During the period, the bank's assets increased by 11.0% reaching ALL 18,795,225 thousand (2015: ALL 16,939,994 thousand), mainly due to the growth in financial assets available for sale (2016: ALL 6,082, 403 thousand; 2015: 5,379,780 thousand) and in receivables from customers and banks. Loans to customers increased by 13.7% to ALL 7,049,429 thousand (2015: 6,198,085 thousand) mainly attributable to the growth in SME and retail loans, incl. consumer and mortgage loans.




Loans and advances to banks and financial institutions increased to ALL 1,791,915 thousand as at 31 December 2016 (2015: ALL 1,238,433 thousand), with a predominant share of claims on foreign institutions. Financial assets held to maturity amounted to ALL 1,311,855 thousand, compared to ALL 1,957,557 thousand a year earlier.

Amounts due to customers increased by 9.4% to ALL 16,093,343 thousand at period-end (2015: ALL 14,709,329 thousand), with growth being reported in retail 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 First Investment Bank – Albania Sh.a. welcomed its 100-thousand customer, who was awarded with gold ingot.

The equity of the bank increased and reached ALL 2,304,110 thousand compared to ALL 1,830,405 thousand at the end of 2015 due to an increase in retained earnings and revaluation surplus of investments available for sale.

During the year First Investment Bank – Albania Sh.a. developed its card business by organizing a number of promotional campaigns and registered a 9.1% growth in the utilized limits on credit cards, which reached ALL 157,576 thousand (2015: ALL 144,392 thousand). The Bank is certified by Visa to offer debit and credit chip cards to individual and corporate clients.

At the end of 2016, 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 social initiatives in Albania. During the year, an online campaign was started in support of orphan children from the „SOS Children Village Orphanage", as the gathered donations were aimed at ensuring better living conditions for the children. At the end of the year the bank realised an initiative for handmade Christmas cards created by children in disadvantage position, thus aiming at further increasing the awareness for this fragile social class of the Albanian Society.

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 an independent auditor. For 2016, the independent auditor of the bank was BDO Albania.

## DINERS CLUB BULGARIA AD

Diners Club International

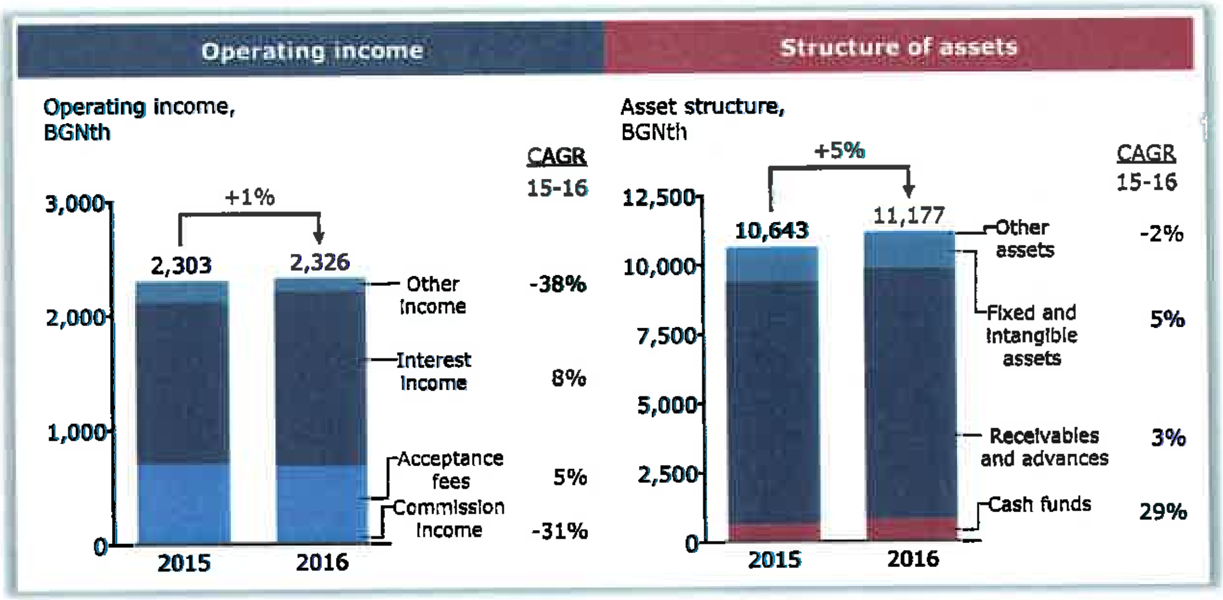
Diners Club Bulgaria AD is a joint stock company incorporated in November 1996, its main business activity being the issuance of Diners Club credit cards and processing of payments with them. In 2005, First Investment Bank acquired 80% of the company's capital. In 2010, Diners Club Bulgaria was licensed by the Bulgarian National Bank as a payment institution to perform payment transactions using payment cards, as well as 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. In 2016, the company continued to work in this direction. By year-end, the company had partnerships signed with sixteen financial institutions in Bulgaria, and the locations for carrying out payments with Diners Club cards continued to increase.

For the purpose of stimulating payments and the issuance of new Diners Club cards, a number of promotional campaigns were carried out in 2016. The company 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 2016 the company reported a net profit of BGN 179 thousand, compared to BGN 73 thousand a year earlier. Such increase was influenced by the higher net operating income (2016: BGN 2,252 thousand; 2015: BGN 2,236 thousand), including interest income and service charges. Diners Club Bulgaria continued to implement a policy of optimizing operating expenses: those decreased to BGN 1,174 thousand, compared to BGN 1,247 thousand for the previous year as a result of a decrease in the general and administrative expenses, as well as in impairment costs. Financial expenses also decreased, amounting to BGN 899 thousand (2015: BGN 916 thousand), including interest expenses, in line with the general downward trend of interest rates in the market.




The company's assets increased by 5.0% to BGN 11,177 thousand (2014: BGN 10,643 thousand), mainly due to an increase in receivables from customers which amounted to BGN 9,086 thousand or 3.5% more than at the end of 2015 (BGN 8,781 thousand). Loans and advances to individuals formed 98.7% of all receivables from customers (2015: 98.8%).

Borrowings also increased, drawn bank overdraft amounts reaching BGN 8,345 thousand compared to BGN 7,765 thousand a year earlier. The equity of the company amounted to BGN 2,130 thousand at the end of the period (2015: BGN 1,951 thousand), with retained earnings in the amount of BGN 230 thousand contributing to the growth. The average number of staff for 2016 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

FiHealth Insurance

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.

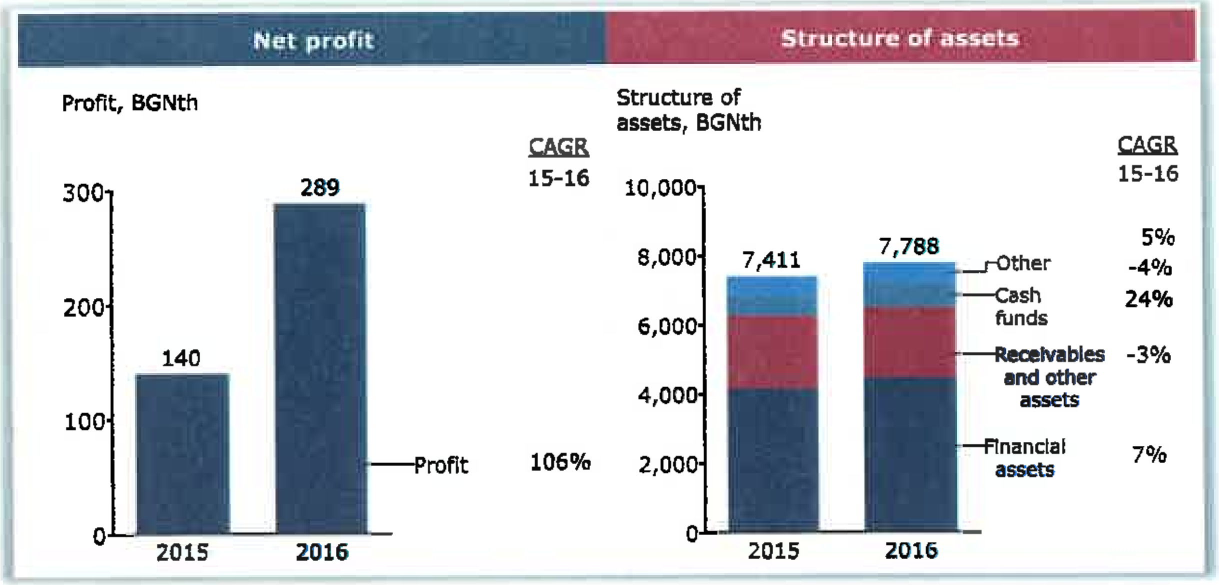
First Investment Bank acquired a majority stake in the company (formerly named Health Insurance Fund FI Health AD/Health Insurance Fund Prime Health AD) in 2010, and over the years has systematically and consistently worked towards developing the company's business, and expansion of the products and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

Fi Health Insurance AD has a one-tier management system, comprising a Board of Directors and Executive management (Executive Director). The Executive Director representing Fi Health Insurance AD, Mr. Nikola Bakalov, 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. As of 2016, in accordance with the provisions of the new Insurance Code in force from 01.01.2016, the company is jointly represented by the Executive Director and a Procurator. In line with these provisions, and with a view to implementing the best international practices in insurance, as of 2016 the functions of compliance, internal control, and risk management have been established in the company.

In 2016, Fi Health Insurance continued to develop its operations in accordance with its license and the legal requirements, implementing successful campaigns to offer new insurance products and attract new customers. The product range of the company includes insurance coverage designed for both individuals and business customers, primarily from the micro and SME segments, such as 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.

For 2016, Fi Health Insurance reported a net profit of BGN 289 thousand compared to BGN 140 thousand a year earlier, driven by the higher net premiums on general insurance contracts (2016: BGN 3,266 thousand; 2015: BGN 2,950 thousand), and by the increased customer base. 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 5.1%, to BGN 7,788 thousand at year-end (2015: BGN 7,411 thousand), driven by the increase in financial assets (2016: BGN 4,476 thousand; 2015: BGN 4,167 thousand), which mainly comprise bank deposits and Bulgarian government securities. As at 31 December 2016, the equity of Fi Health Insurance AD amounted to BGN 5,691 thousand, compared to BGN 5,402 thousand a year earlier. The company allocates the relevant technical reserves, according to the legal requirements and standards.




In order to continue safeguarding its financial stability while progressively increasing the portfolio of products, in 2016 Fi Health Insurance renewed its agreement with a reinsurance company having a credit rating of A- (S&P).

In 2016, in connection with the asset review of pension funds and balance sheet review of insurance companies in the country organized by the Financial Supervision Commission, an independent review of the balance sheet of Fi Health Insurance AD was carried out by an external evaluator (PriceWaterhouseCoopers). The review confirmed the soundness of assets and capital position of the company in accordance with the regulatory requirements and the Solvency I framework, as well as the presence of the necessary policies and procedures, and their compliance with the applicable requirements and activity specifics.


As at 31 December 2016 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 37 „Subsidiary undertakings" of the Consolidated financial statements for the year ended 31 December 2016.*

# MEETING THE 2016 GOALS

| N | Goals | Met |
|---|---|---|
| 1 | To maintain its position as a preferred bank by businesses and individuals | In 2016, borrowings from customers increased by 9.8%, to BGN 7,911,911 thousand. Growth was reported in both the retail and corporate segments, which testifies to the sustained trust and customer satisfaction with the products and services offered by the Bank. In terms of deposits Fibank retained its third place among banks in Bulgaria, with a market share of 10.38% on an unconsolidated basis.<br>The loan portfolio in the retail banking segment remained at levels close to the previous year: BGN 1,453,502 thousand. Growth was observed in SME loans which reached BGN 612,093 thousand, and in micro loans – BGN 108,561 thousand at year-end, in line with the focus of the Bank on the development of these segments. Fibank retained its third place among banks in the country, with a market share of 10.49%. |
| 2 | To reinforce its sustainable development in accordance with the external environment and the regulatory framework | First Investment Bank retained its third place in terms of assets among banks in the country, with a balance sheet of BGN 9,089,855 thousand at the end of 2016 on a consolidated basis. Borrowings from customers continued to grow. The Bank maintained a high liquidity position (liquid assets ratio: 28.12% at the end of 2016), and strong capital adequacy (total capital adequacy ratio: 15.13%), exceeding the regulatory requirements.<br>Fibank, along with the other banks in Bulgaria, successfully passed the asset quality review and the stress tests conducted by the BNB with the assistance of the consulting firm Deloitte.<br>The Bank took steps for upgrading its capital, reducing of risk exposures (de-risking), and improving the systems for risk management in line with the external environment and the regulatory recommendations. |
| 3 | To maintain a moderate risk profile and continue to optimize its risk-based approach to all activities and operations | In 2016, First Investment Bank conducted its activity in implementation of the plans for maintaining a moderate risk profile and further enhancing its safeguards against risks, including with respect to building additional capital buffers, as well as maintaining an effective control environment regarding the existing business processes and the risks undertaken.<br>With respect to reducing the risk on exposures (de-risking) and the measures taken in this direction during the year, a decrease was reported in the risk-weighted assets of the Bank by 2.8% (BGN 177,353 thousand), to BGN 6,178,635 thousand by the end of 2016.<br>*For more information, see section „Risk Management"* |

| N | Goals | Met |
|---|---|---|
| 4 | To apply high business standards in accordance with the principles of the Basel Committee, and European and local regulations | ◈ First Investment Bank entered 2016 with a new organizational structure, established in July 2015 with the assistance of the International Finance Corporation (IFC) and compliant with best international standards of corporate governance and the principles of the Basel Committee on Banking Supervision in this area. During the year the Bank continued to upgrade and improve its practices, including through initiatives aimed at minority shareholders.<br>◈ Customer satisfaction remains among the Bank's strategic priorities, and customer service continues to be based on integrated and personal approach to each client. This is evidenced by the good performance results, as well as by the data from the representative survey on the business sector in Bulgaria conducted by Progress Consult EOOD, which ranks Fibank among the most recognizable brands by the marketing power indicator which includes criteria such as brand recognition, meeting the customers' expectations, trust, and choice as a bank of preference.<br>*For more information, see section „Corporate Governance"* |
| 5 | To offer new products to individuals and business customers, tailored to demand and market trends | ◈ In 2016 Fibank developed new lending products and improved the existing ones, including a new loan for gasification of households, new lending program for students and postgraduates, as well as new lending programs and segments for the customers of private banking.<br>◈ Fibank launched the new banking programs Digital Me and Digital Me+ aimed at young individuals, new contactless debit cards especially designed for children and teenagers, as well as the new business debit cards VISA Business Debit и MasterCard Business Debit.<br>◈ The savings products offered were complemented by new solutions for individuals and businesses, including the Forex Plus deposit, the Champion 4-4-2 deposit, and the New Deposit from Fibank.<br>*For more information, see section „Business Overview"* |
| 6 | To continue the priority development of lending to individuals and small and medium-sized companies, with a view to further diversifying the loan portfolio | ◈ Loans to SMEs and micro enterprises continued to increase their share in the Bank's portfolio - to 10.4% and 1.9% respectively, in implementation of the plans for development of these segments and with a view to further diversifying the portfolio. The share of retail loans remained almost unchanged, at 24.7% by the end of 2016.<br>◈ During the year, Fibank developed new lending products and programs in support of the retail and SME customers, offering competitive terms consistent with the market trends and the customer needs. |

| N | Goals | Met |
|---|---|---|
| 7 | To continue to support customers in the implementation of projects under EU programs and funds | In 2016 Fibank continued its support for 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.<br>The Bank signed a new agreement with the National Guarantee Fund for issuance of loan guarantees to complement the collateral of enterprises approved for assistance under the Program for Rural Development 2014 -2020, as well as enterprises from the livestock and agricultural sectors.<br>During the year, First Investment Bank became a member of the Bulgarian Association of Consultants in European Programs (BAKEP), continuing to build lasting relationships in support of the Bulgarian business.<br>*For more information, see section „Europrograms"* |
| 8 | To offer customers new opportunities for mobile payments based on innovative approaches and technologies | In 2016, Fibank was the first among banks in the country to launch an innovative platform for electronic contactless payments via mobile devices using digital bank cards. Thus First Investment Bank strengthened its position among the pioneers in the development of digital services and contactless payments, and the introduction of innovative solutions and services.<br>Updates were implemented of the Fibank mobile application, with a view to improving the quality of remote services. New features were added, including the option to perform one-off or automated utility payments.<br>*For more information, see section „Remote Banking"* |
| 9 | To invest in technology, in line with the trends in this field, in order to create added value products for customers and new multifunctional banking solutions | During the year, the design was updated and new features were added to the platform for electronic services My Fibank, including the feature for ordering transfers between own accounts kept with the Bank.<br>First Investment Bank developed a new interface for individuals, enabling fully online applications for consumer loans on the Bank's website at www.credit.fibank.bg.<br>In 2016, the Bank launched a project to migrate its core banking information system to a new and higher version for the purpose of improvement of processes and system performance, and faster and easier parameterization of products and services.<br>*For more information, see section „Information Technologies"* |

| N | Goals | Met |
|---|---|---|
| 10 | To continue to be a socially responsible institution contributing to the implementation of socially significant projects and initiatives | ◈ Fibank continued its efforts and contributions aimed at increasing the financial culture and literacy among young people. During the year, Fibank and the Higher School of Insurance and Finance (HSIF) started a joint master's program in Bank management and investment, where proven professionals from the Bank's team shall participate as lecturers-practitioners with experience in real banking business.<br>◈ In 2016, First Investment Bank jointly with the National Centre for Transfusion Haematology (NCTH) and the National Television launched a campaign for free and voluntary blood donation which was supported by a number of celebrities, as well as by many of the Bank's employees.<br>◈ As part of the donation program, scholarships were provided for gifted students, and a number of initiatives were supported such as music events and activities aimed at supporting the development of sports in the country as a socially responsible cause.<br>*For more information, see section „Social Responsibility"* |

# SUBSEQUENT EVENTS

- There have been no events after the reporting date that require additional disclosures.

# GOALS FOR DEVELOPMENT DURING 2017

- To continue its stable development in accordance with the market environment and regulatory framework.
- To maintain stable capital indicators and necessary buffers above regulatory requirements.
- To continue to maintain moderate risk profile and effective control environment with regards to business processes and risk undertaking.
- To diversify the loan portfolio through priority lending to retail and small and medium companies.
- To apply high corporate governance standards in compliance with the good international practices and applicable regulatory requirements.
- To develop electronic services, incl. through integrated management, upgrading and adding new functionalities.
- To continue its policy for creating innovative services with a focus on digital services.
- To offer new products and services to individuals and business customers, while maintaining high quality of customer service.
- To assert its positions of good and preferable employer through determined and persistent work in human capital management.
- To affirm its image as a socially responsible institution supporing 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 18-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 Audit Committee of First Investment Bank - Albania Sh.a, Chairman of the Board of Directors of Fi Health Insurance AD, as well as Manager of Realtor OOD. 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 21-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.

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.

**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 20-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 he 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. He worked for the first 13 years in the Central and Eastern Europe and Africa regions as investment officer and also as country anchor for Poland and the Baltics states. 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, 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 holds currently 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;
- MyBucks (Africa micro lender), Luxembourg and Al Jaber Group, U.A.E., Africa Power Corporation, UK – 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

**Vassil Christov – Chief Executive Officer (CEO) and Chairman of the Managing Board**

**Mr. Vassil Christov** joined First Investment Bank AD in 2001 as head of the „Mortgage loans" Division. From 2002 he was director of „Retail Banking" Department, and from 2005 to 2010 he was Director of „Branch Network" Department. In 2010 Mr. Christov was elected as a member of the Managing Board of First Investment Bank AD, and in the beginning of 2011 was appointed as a Deputy Executive Director. From the end of 2011 Mr. Christov was Executive Director of the Bank. At the end of 2015, he was elected as Chief Executive Officer (CEO) and Chairman of the Managing Board.

Previously, Mr. Christov worked as a senior credit officer of "Large corporate customers" at United Bulgarian Bank AD. He holds a Master's in Accounting and Control from the University of National and World Economy in Sofia.

In the Bank he is responsible for the Compliance, the Corporate communications Department, the Human Capital Management Department, the Legal Department, the Marketing and Advertising Department, the Sales Department, the Branch Network Department, the Administrative Department, the Vault and the Protocol & Secretariat.

Besides his position in the Bank, Mr. Christov is also a Chairman of the Managing Board (Steering Council) of First Investment Bank – Albania Sh.a., member of the Board of Directors of Diners Club Bulgaria AD and member of the Board of Directors of BORICA – Bankservice AD. Mr. Christov is also a member of the Board of Directors of Medical Centers FiHealth AD, Medical Centers FiHealth Plovdiv AD and a member of the Board of Directors of Balkan Financial Services EAD.

In 2012, Mr. Christov was granted the prestige "Banker of the Year" award of the Bulgarian financial weekly "Banker".

**Dimitar Kostov – Chief Risk Officer (CRO), Member of the Managing Board and Executive Director**

**Mr. Dimitar Kostov** joined the team of First Investment Bank AD in 2003 as a specialist in the "Risk Management" Department. Later he held a position as head of "Evaluation of Risk Exposures" Division. From 2004 to 2007 he was a deputy director of "Risk Management" Department, and from 2007 to 2011 he was a director of "Risk Management" Department. In 2010, Mr. Kostov was elected as a member of the Managing Board of First Investment Bank AD, and at the beginning of 2011 he was appointed as a Deputy Executive Director. Since the end of 2011 Mr. Kostov has been an Executive Director of the Bank and during the 2012-2015 period he was Chairman of the Managing Board. At the end of 2015, he was elected as Chief Risk Officer (CRO).

Previously, Mr. Kostov worked as a manager of "Customer Relations" at Raiffeisenbank (Bulgaria) EAD and in United Bulgarian Bank AD as a senior bank officer in "Large Corporate Clients". He holds a Master's degree in Business Administration from Sofia University "St. Kliment Ohridski". Mr. Kostov is a CFA charterholder.

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.

Mr. Kostov does not hold outside professional positions.

**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 and the Security Department.

Besides his position in the Bank, Mr. Moldovansky is also a member 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 Next DC OOD and of the capital of Cook and More OOD.

**Maya Oyfalosh – Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director**

Ms. **Maya Oyfalosh** joined First Investment Bank AD in 1993 as a credit specialist. Later she was promoted to Director of "Research and Credit Analysis" department and from 2002 was Director of "Analyses of corporate loans", as well as elected as a member of the Credit Council of the Bank. In 2004, Ms. Oyfalosh was appointed Director of Corporate Banking Department and elected as a member of the Managing Board. In the beginning of 2011 she was appointed as Director of "Management of Loan Portfolios of Foreign Branches and Companies" and is a member of the Managing Board of Fibank. Since April 2013 Ms. Oyfalosh has been an Executive Director of the Bank and is a member of the Managing Board. At the end of 2015, she was elected as Chief Corporate Banking Officer (CCBO).

Previously, Ms. Oyfalosh worked as a department director at First West Finance House and as a credit specialist at First Private Bank.

Ms. Oyfalosh holds Master's degree in Public Finances, as well as is certified consultant in Financial Management and certified consultant in European programs.

In the Bank she is responsible for the Corporate Banking Department and the SME Lending Department.

Besides her position in the Bank, Ms. Oyfalosh is Deputy Chair of the Supervisory Board of UNIBank, Republic of Macedonia.

**Nadia Koshinska – Chief Retail Banking Officer (CRBO) and Member of the Managing Board**

**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.

In the Bank she is responsible for the Retail Banking Department, the Private Banking Department and the Organisation and Control of Customer Service Department.

Ms. Nadia Koshinska holds a Masters degree in Accounting and Control from the University of National and World Economy.

Prior to joining First Investment Bank she worked in the balance of payments and foreign debt division in Bulgarian National Bank.

Ms. Koshinska does not hold outside professional positions.

**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, the Financial Institutions and Correspondent Banking Department and the specialized unit Financial and Business Analysis.

Mr. Todorov is a member of the CFO Club in Bulgaria.

Mr. Todorov does not hold outside professional positions.

The present Activity report (on a consolidated basis) for 2016 was approved by the Managing Board of First Investment Bank AD in accordance with the Bank's internal regulations at a meeting dated 07 April 2017.

Signed

Vassil Christov

*Chief Executive Officer,*

*Chairman of the Managing Board*

Signed

Dimitar Kostov

*Executive Director,*

*Chief Risk Officer,*

*Member of the Managing Board*

Signed

Svetoslav Moldovansky

*Executive Director,*

*Chief Operating Officer,*

*Member of the Managing Board*

Signed

Maya Oyfalosh

*Executive Director,*

*Chief Corporate Banking Officer,*

*Member of the Managing Board*

Signed

Jivko Todorov

*Chief Financial Officer,*

*Member of the Managing Board*

# DECLARATION

**under Art. 100o, para. 4(4) of the Public Offering of Securities Act (POSA) and Art. 32, para. 1(3) of Ordinance No 2 of the Financial Supervision Commission on the prospectuses to be published when securities are offered to the public or admitted to trading on a regulated market and on disclosure of information by the public companies and the other issuers of securities**

The undersigned Vassil Christov Christov, Chief Executive Officer and Chairman of the Managing Board of First Investment Bank AD, Dimitar Kostov Kostov, Executive Director and Member of the Managing Board of First Investment Bank AD, Svetoslav Stoyanov Moldovansky, Executive Director and Member of the Managing Board of First Investment Bank AD, Maya Ivanova Oyfalosh, Executive Director and Member of the Managing Board of First Investment Bank AD, and Jivko Todorov, Chief Financial Officer and Member of the Managing Board at First Investment Bank AD, hereby declare that to the best of our knowledge:

- The consolidated financial statements of First Investment Bank AD as at 31 December 2016, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets and liabilities, financial position and profit of First Investment Bank AD and the subsidiaries subject to consolidation.
- The annual report of First Investment Bank AD as at 31 December 2016 on a consolidated basis contains a fair review of the development and results from the activities of First Investment Bank AD and the subsidiary companies subject to consolidation.

(signed)

Vassil Christov
Chief Executive Officer
Chair of MB

(signed)

Dimitar Kostov
Executive Director
Member of MB

(signed)

Svetoslav Moldovansky
Executive Director
Member of MB

(signed)

Maya Oyfalosh
Executive Director
Member of MB

(signed)

Jivko Todorov
Chief Financial Officer
Member of MB

07 April 2017
Sofia

ver2.5

| | |
|---|---|
| ***FINV9150*** | First Investment Bank AD |
| ***31.12.2016*** | *Reporting date* |
| ***consolidated*** | *Basis for application* |
| IFRS | Accounting standard |

in BGN '000

## 1.Balance sheet [statement of financial position]

c010

**1.1 Assets**

| | | ***References*** | ***Breakdown in table*** | **Carrying amount** |
|---|---|---|---|---|
| | | | | 010 |
| 010 | **Cash and cash balances with central banks and other deposits payable on demand** | *Para. 54 (i) of IAS 1* | | **1 639 888** |
| 020 | Cash | *part 2, item 1 of Appendix V* | | 159 841 |
| 030 | Cash balances with central banks | *part 2, item 2 of Appendix V* | | 1 157 100 |
| 040 | Other deposits payable on demand | *part 2, item 3 of Appendix V* | 5 | 322 947 |
| 050 | **Financial assets held for trading** | *Para. 8, (a)(ii) of IFRC 7; Para. 9, AG 14 of IAS 39* | | **9 562** |
| 060 | Derivatives | *Para. 9 of IAS 39* | 10 | 0 |
| 070 | Equity | *Para. 11 of IAS 32* | 4 | 3 891 |
| 080 | Debt securities | *part 1, items 24, 26 of Appendix V* | 4 | 5 671 |
| 090 | Loans and advances | *part 1, items 24, 27 of Appendix V* | 4 | 0 |
| 100 | **Financial assets at fair value through profit or loss** | *Para. 8 (a)(i) of IFRC 7; Para. 9 of IAS 39* | 4 | **0** |
| 110 | Equity | *Para. 11 of IAS 32* | 4 | 0 |
| 120 | Debt securities | *part 1, items 24, 26 of Appendix V* | 4 | 0 |
| 130 | Loans and advances | *part 1, items 24, 27 of Appendix V* | 4 | 0 |
| 140 | **Financial assets available-for-sale** | *Para. 8, (d) of IFRC 7; Para. 9 of IAS 39* | 4 | **619 836** |
| 150 | Equity | *Para. 11 of IAS 32* | 4 | 14 461 |
| 160 | Debt securities | *part 1, items 24, 26 of Appendix V* | 4 | 605 375 |
| 170 | Loans and advances | *part 1, items 24, 27 of Appendix V* | 4 | 0 |
| 180 | **Loans and receivables** | *Para. 8 (c) of IFRC 7; Para. 9, AG 16, AG 26 of IAS 39; part 1, item 16 of Appendix V* | 4 | **5 095 347** |
| 190 | Debt securities | *part 1, items 24, 26 of Appendix V* | 4 | 0 |
| 200 | Loans and advances | *part 1, items 24, 27 of Appendix V* | 4 | 5 095 347 |
| 210 | **Investments held to maturity** | *Para. 8 (b) of IFRC 7; Para. 9, AG 16, AG 26 of IAS 39* | 4 | **262 437** |
| 220 | Debt securities | *part 1, items 24, 26 of Appendix V* | 4 | 262 437 |
| 230 | Loans and advances | *part 1, items 24, 27 of Appendix V* | 4 | 0 |
| 240 | **Derivatives - hedge accounting** | *Para. 22 (d) of IFRC 7; Para. 9 of IAS 39* | 11 | **0** |
| 250 | **Changes in the fair value of hedged positions when hedging a portfolio for interest rate risk** | *Para. 89A (a) of IAS 1* | | **0** |
| 260 | **Investments in a subsidiary, jointly-controlled entity or associate** | *Para. 54 (e) of IAS 1; part 2, item 4 of Appendix V* | 4, 40 | **0** |
| 270 | **Tangible assets** | | | 319 506 |
| 280 | Property, Plant and Equipment | *Para. 6 of IAS 16; Para. 54 (a) of IAS 1* | 21,42 | 97 239 |
| 290 | Investment Property | *Para. 5 of IAS 40; Para. 54 (b) of IAS 1* | 21, 42 | 222 267 |
| 300 | **Intangible assets** | *Para. 54(c) of IAS 1; Art. 4, Para. 1, item 115 of Reg 575* | | **10 186** |
| 310 | Goodwill | *Para. B67, (d) of IFRC 3; Art. 4, Para. 1, item 113 of Reg 575* | | 673 |
| 320 | Other intangible assets | *Paras. 8, 118 of IAS 38* | 21, 42 | 9 513 |
| 330 | **Tax assets** | *Para. 54 (n)-(o) of IAS 1* | | **334** |
| 340 | Current tax assets | *Para. 54(n) of IAS 1; Para. 5 of IAS 12* | | 328 |
| 350 | Deferred tax assets | *Para. 54, (o) of IAS 1; Para. 5 of IAS 12; Art. 4, Para. 106 of Reg 575* | | 6 |
| 360 | **Other assets** | *part 2, item 5 of Appendix V* | | **1 132 430** |
| 370 | **Non-current assets and disposal groups classified as held for sale** | *Para. 54, (j) of IAS 1; Para. 38 of IFRC 5; part 2, item 6 of Appendix V* | | **0** |
| 380 | **TOTAL ASSETS** | *Para. 9, (a), IN 6 of IAS 1* | | **9 089 526** |

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**consolidated** *Basis for application*
IFRS Accounting standard

in BGN '000

## 1.Balance sheet [statement of financial position]

c010

### 1.2 Liabilities

| | | References | Breakdown in table | Carrying amount |
|---|---|---|---|---|
| | | | | 010 |
| 010 | **Financial liabilities held for trading** | *Para. 8, (e)(ii) of IFRC 7; Para. 9, AG 14-15 of IAS 39* | 8 | **0** |
| 020 | Derivatives | *Para. 9, AG 15(d) of IAS 39* | 10 | 0 |
| 030 | Short positions | *AG15 (b) of IAS 39* | 8 | 0 |
| 040 | Deposits | *Part 2, item 9 of Appendix 2 to ECB/2013/33; Part 1, item 30 of Appendix V* | 8 | 0 |
| 050 | Issued debt securities | *part 1, item 31 of Appendix V* | 8 | 0 |
| 060 | Other financial liabilities | *part 1, items 32-34 of Appendix V* | 8 | 0 |
| 070 | **Financial liabilities at fair value through profit or loss** | *Para. 8, (e)(i) of IFRC 7; Para. 9 of IAS 39* | 8 | **0** |
| 080 | Deposits | *Part 2, item 9 of Appendix 2 to ECB/2013/33; Part 1, item 30 of Appendix V* | 8 | 0 |
| 090 | Issued debt securities | *part 1, item 31 of Appendix V* | 8 | 0 |
| 100 | Other financial liabilities | *part 1, items 32-34 of Appendix V* | 8 | 0 |
| 110 | **Financial liabilities at amortised cost** | *Para. 8, (f) of IFRC 7; Para. 47 of IAS 39* | 8 | **8 195 949** |
| 120 | Deposits | *Part 2, item 9 of Appendix 2 to ECB/2013/33; Part 1, item 30 of Appendix V* | 8 | 7 916 842 |
| 130 | Issued debt securities | *part 1, item 31 of Appendix V* | 8 | 208 740 |
| 140 | Other financial liabilities | *part 1, items 32-34 of Appendix V* | 8 | 70 367 |
| 150 | **Derivatives - hedge accounting** | *Para. 22 (b) of IAS 7; Para. 9 of IFRC 39; part 1, item 23 of Appendix V* | 8 | **0** |
| 160 | **Changes in the fair value of hedged positions when hedging a portfolio for interest rate risk** | *Para. 89A (b) of IAS 39* | | **0** |
| 170 | **Provisions** | *Para. 10 of IAS 37; Para. 54 (l) of IAS 1* | 43 | 1 144 |
| 180 | Pensions and other subsequent obligations to pay defined post-employment benefits | *Para. 63 of IFRC 19; Para. 78(d) of IAS 1; part 2, item 7 of Appendix V* | 43 | 0 |
| 190 | Other long-term employee benefits | *Para. 153 of IFRC 19; Para. 78(d) of IAS 1; part 2, item 8 of Appendix V* | 43 | 0 |
| 200 | Restructuring | *Para. 71, AG 84(a) of IAS 37* | 43 | 0 |
| 210 | Pending legal matters and tax-related court cases | *IAS 37, addendum B, examples 6 and 10* | 43 | 1 144 |
| 220 | Loans and guarantees | *Appendix C.9 to IAS 37* | 43 | 0 |
| 230 | Other provisions | | 43 | 0 |
| 240 | **Tax liabilities** | *Para. 54 (n)-(o) of IAS 1* | | **15 638** |
| 250 | Current tax liabilities | *Para. 54(n) of IAS 1; Para. 5 of IAS 12* | | 471 |
| 260 | Deferred tax liability | *Para. 54, (o) of IAS 1; Para. 5 of IAS 12; Art. 4, Para. 1, item 108 of Reg 575* | | 15 167 |
| 270 | **Share capital payable upon request** | *Illustrative example (IE) 33 of IAS 32; IFRC 2; part 2, item 9 of Appendix V* | | **0** |
| 280 | **Other liabilities** | *part 2, item 10 of Appendix V* | | **21 356** |
| 290 | **Liabilities in disposal groups classified as held for sale** | *Para. 54, (p) of IAS 1; Para. 38 of IFRC 5; part 2, item 11 of Appendix V* | | **0** |
| 300 | **TOTAL LIABILITIES** | *Para. 9, (b), IN 6 of IAS 1* | | **8 234 087** |

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| ***consolidated*** | *Basis for application* |
| IFRS | Accounting standard |

in BGN '000

## 1.Balance sheet [statement of financial position]

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### 1.3 Total own funds

| | | References | Breakdown in table | Carrying amount |
|---|---|---|---|---|
| | | | | 010 |
| 010 | **Equity** | *Para. 54(r) of IAS 1; Para. 22 of DOB* | 46 | **110 000** |
| 020 | Paid up share capital | *Para. 78, (e) of IAS 1* | | 110 000 |
| 030 | Not fully paid-up capital | *Para. 78 (e) of IAS 1; part 2, item 14 of Appendix V* | | 0 |
| 040 | **Premium reserves** | *Para. 78(e) of IAS 1; Art. 4, Para. 1, item 124 of Reg 575* | 46 | 97 000 |
| 050 | **Issued capital instruments other than share capital** | *part 2, items 15-16 of Appendix V* | 46 | 0 |
| 060 | Component of the share capital in compound financial instruments | *Paras. 28 -29 of IAS 32; part 2, item 15 of Appendix V* | | 0 |
| 070 | Other issued equity instruments | *part 2, item 16 of Appendix V* | | 0 |
| 080 | **Other own funds** | *Para. 10 of IFRS 2; part 2, item 17 of Appendix V* | | 0 |
| 090 | **Accumulated other comprehensive income** | *Art. 4, para. 1, item 100 of Reg 575* | 46 | **23 000** |
| 095 | Items which cannot be reclassified as profit or loss | *Para. 82A (a) of IAS 1* | | 4 500 |
| 100 | *Tangible assets* | *Paras. 39 -41 of IAS 16* | | *4 500* |
| 110 | *Intangible assets* | *Paras. 85 -87 of IAS 38* | | *0* |
| 120 | *Actuarial gains or (-) losses on defined benefit plans* | *Para. 7 of IAS 1* | | *0* |
| 122 | *Non-current assets and disposal groups classified as held for sale* | *Para. 38, IN example 12 of IFRS 5* | | *0* |
| 124 | *Share of the other comprehensive income of subsidiaries, associates and joint ventures* | *Para. 82(i) of IAS 1; Para. 11 of IAS 28* | | *0* |
| 128 | Items which can be reclassified as profit or loss | *Para. 82A (a) of IAS 1* | | 18 500 |
| 130 | *Hedges of net investments in foreign operations [effective portion]* | *Para. 102(a) of IAS 39* | | *0* |
| 140 | *Currency exchange* | *Para. 52 (b) of IFRC 21; Paras. 32, 38-49 of IAS 21* | | *-2 043* |
| 150 | *Derivatives from hedging Cash flow hedges [effective portion]* | *Para. 23, (c) of IFRC 7; Paras. 95-101 of IAS 39* | | *0* |
| 160 | *Financial assets available-for-sale* | *Para. 20, (a)(ii) of IFRC 7; Para. 55(b) of IAS 39* | | *20 543* |
| 170 | *Non-current assets and disposal groups classified as held for sale* | *Para. 38, IN example 12 of IFRS 5* | | *0* |
| 180 | *Share of the other comprehensive income of subsidiaries, associates and joint ventures* | *Para. 82(i) of IAS 1; Para. 11 of IAS 28* | | *0* |
| 190 | **Retained earnings** | *Art. 4, para. 1, item 123 of Reg 575* | | **487 528** |
| 200 | **Revaluation reserve** | *Para. 30, D5-D8 of IFRS 1; part 2, item 18 of Appendix V* | | **0** |
| 210 | **Other reserves** | *Para. 54 of IAS 1; Para. 78 (e) of IAS 1* | | **39 865** |
| 220 | Reserves or loss from the write-off of investments in subsidiaries, associates and joint ventures | *Para. 11 of IAS 28; part 2, item 19 of Appendix V* | | 0 |
| 230 | Other | *part 2, item 19 of Appendix V* | | 39 865 |
| 240 | **(-) Repurchased own shares** | *Para. 79 (a)(vi) of IFRC 1; Paras. 33-34, IE14, IE36 of IAS 32; part 2, item 20 of Appendix V* | 46 | **0** |
| 250 | **Profit or loss attributable to the owners of the parent company** | *Para. 28 of IAS 27; Para. 81B(b)(ii) of IAS 1* | 2 | **95 589** |
| 260 | **(-) Interim dividends** | *Para. 35 of IAS 32* | | **0** |
| 270 | **Minority interests [Non-controlling interests]** | *Para. 4 of IAS 27; Para. 54 (r) of IAS 1, Para. 27 of IAS 27* | | **2 457** |
| 280 | Accumulated other comprehensive income | *Paras. 27-28 of IAS 27; Art. 4, Para. 1, item 100 of Reg 575* | 46 | 0 |
| 290 | Other items | *Paras. 27 -28 of IAS 27* | 46 | 2 457 |
| 300 | **TOTAL SHAREHOLDERS' EQUITY** | *Para. 9 (c), IN 6 of IAS 1* | 46 | **855 439** |
| 310 | **TOTAL SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES** | *IN 6 of IAS 1* | | **9 089 526** |

Vassil Christov
Chief Executive Officer

Svetoslav Moldovansky
Executive Director

Dimitar Kostov
Executive Director

Yanko Karakolev
Director of Finance Department

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## 2. Profit and Loss Account

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| | | References | Breakdown in table | Current period |
|---|---|---|---|---|
| | | | | 010 |
| 010 | **Interest income** | *Para. 97 of IAS 1; Para. 35, (b) of IAS 18; part 2, item 21 of Appendix V* | 16 | **441 291** |
| 020 | Financial assets held for trading | *Para. 20, (a)(i) of IFRC 7; part 2, item 24 of Appendix V* | | 300 |
| 030 | Financial assets at fair value through profit or loss | *Para. 20, (a)(i), Para. B5, (e) of IFRC 7* | | 0 |
| 040 | Financial assets available-for-sale | *Para. 20, (b) of IFRC 7; Para. 55, (b) of IAS 39; Para. 9 of IAS 39* | | 14 957 |
| 050 | Loans and receivables | *Para. 20 (b) of IFRC 7; Para. 9 of IAS 39; Para. 46 (a) of IAS 39* | | 424 316 |
| 060 | Investments held to maturity | *Para. 20 (b) of IFRC 7; Para. 9 of IAS 39; Para. 46 (b) of IAS 39* | | 1 718 |
| 070 | Derivatives — hedge accounting, interest rate risk | *Para. 9 of IAS 39; part 2, item 23 of Appendix V* | | 0 |
| 080 | Other assets | *part 2, item 25 of Appendix V* | | 0 |
| 085 | Revenue from interest on liabilities | *part 2, item 25 of Appendix V* | | 0 |
| 090 | **(Interest expense)** | *Para. 97 of IAS 1; part 2, item 21 of Appendix V* | 16 | **122 046** |
| 100 | (Financial liabilities held for trading) | *Para. 20, (a)(i), Para. B5, (e) of IFRC 7; part 2, item 24 of Appendix V* | | 0 |
| 110 | (Financial liabilities at fair value through profit or loss) | *Para. 20, (a)(i), Para. B5, (e) of IFRC 7* | | 0 |
| 120 | (Financial liabilities at amortised cost) | *Para. 20, (b) of IFRC 7; Para. 47 of IAS 39* | | 120 999 |
| 130 | (Derivatives — hedge accounting, interest rate risk) | *Para. 9 of IAS 39; part 2, item 23 of Appendix V* | | 0 |
| 140 | (Other liabilities) | *part 2, item 26 of Appendix V* | | 16 |
| 145 | (Interest on assets cost) | *part 2, item 26 of Appendix V* | | 1 031 |
| 150 | **(Expense for share capital payable upon request)** | *Para. 11 of IRFRIC 2* | | **0** |
| 160 | **Dividend income** | *Para. 35, (b), (v) of IAS 18; part 2, item 28 of Appendix V* | | **586** |
| 170 | Financial assets held for trading | *Para. 20, (a)(i), Para. B5, (e) of IFRC 7* | | 26 |
| 180 | Financial assets at fair value through profit or loss | *Para. 20, (a)(i), Para. B5, (e) of IFRC 7; Para. 9 of IAS 39* | | 0 |
| 190 | Financial assets available-for-sale | *Para. 20, (a)(ii) of IFRC 7; Para. 9 of IAS 39; Para. 55, (b) of IAS 39* | | 560 |
| 200 | **Fee and commission income** | *Para. 20 (c) of IFRS 7* | 22 | **111 052** |
| 210 | **(Fee and commission expense)** | *Para. 20 (c) of IFRS 7* | 22 | **19 566** |
| 220 | **Net profits or (-) losses from write-off of financial assets and liabilities which are not accounted at fair value through profit or loss** | *Para. 20, (a), (ii) to (v) of IAS 7; part 2, item 97 of Appendix V* | 16 | **40 115** |
| 230 | Financial assets available-for-sale | *Para. 20, (a)(ii) of IFRC 7; Para. 9 of IAS 39; Para. 55, (b) of IAS 39* | | 28 298 |
| 240 | Loans and receivables | *Para. 20, (a), ( iv) of IFRC 7; Para. 9 of IAS 39; Para. 56 of IAS 39* | | 11 318 |
| 250 | Investments held to maturity | *Para. 20, (a), (iii) of IFRC 7; Para. 9 of IAS 39; Para. 56 of IAS 39* | | 0 |
| 260 | Financial liabilities at amortised cost | *Para. 20, (a), (v) of IFRC 7; Para. 56 of IAS 39* | | 0 |
| 270 | Other | | | 499 |
| 280 | **Net profits or (-) losses from financial assets and liabilities held for trading** | *Para. 20, (a)(i) of IFRC 7; Para. 55, (a) of IAS 39* | 16 | **815** |
| 290 | **Net profits or (-) losses from financial assets and liabilities at fair value through profit or loss** | *Para. 20, (a)(i) of IFRC 7; Para. 55, (a) of IAS 39* | 16,45 | **0** |
| 300 | **Net profits or (-) losses from hedge accounting** | *Para. 24, IFRC 7; part 2, item 30 of Appendix V* | 16 | **0** |
| 310 | **Net exchange rate differences [profit (-) loss]** | *Para. 28, AG 52(a) of IAS 21* | | **13 122** |
| 330 | **Net profits or (-) losses from write-off of non-financial assets** | *Para. 34 of IAS 1* | 45 | **0** |
| 340 | **Other operating income** | *part 2, items 141-143 of Appendix V* | 45 | **34 903** |
| 350 | **(Other operating expense)** | *part 2, items 141-143 of Appendix V* | 45 | **45 149** |
| 355 | **NET TOTAL OPERATING INCOME** | | | **455 123** |
| 360 | **(Administrative expenses)** | | | **174 949** |
| 370 | (Personnel costs) | *Para. 7 of IAS 19; Para. 102, IN 6 of IAS 1* | 44 | 60 884 |
| 380 | (Other administrative expenses) | | | 114 065 |
| 390 | **(Amortisation)** | *Paras. 102, 104 of IAS 1* | | **17 184** |
| 400 | (Property, Plant and Equipment) | *Para. 104 of IAS 1; Para. 73, (e), (vii) of IAS 16* | | 13 923 |
| 410 | (Investment Property) | *Para. 104 of IAS 1; Para. 79, (d), (iv) of IAS 40* | | 0 |

## 2. Profit and Loss Account

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| | | References | Breakdown in table | Current period |
|---|---|---|---|---|
| 420 | (Other intangible assets) | *Para. 104 of IAS 1; Para. 118, (e), (vi) of IAS 38* | | 3 261 |
| 430 | **(Provisions or (-) reversed provisions)** | *Para. 59, 84 of IAS 37; Para. 98, (b), (f), (g) of IAS 1* | 43 | **0** |
| 440 | (Loans and guarantees) | | | 0 |
| 450 | (Other provisions) | | | 0 |
| 460 | **(Impairment or (-) impairment adjustment of financial assets which are not accounted at fair value through profit or loss)** | *Para. 20, (e) of IFRC 7* | 16 | **156 120** |
| 470 | (Financial assets assessed by the expense method) | *Para. 20, (e) of IFRC 7; Para. 66 of IAS 39* | | 0 |
| 480 | (Financial assets available-for-sale) | *Para. 20, (e) of IFRC 7; Para. 67 of IAS 39* | | 0 |
| 490 | Loans and receivables | *Para. 20, (e) of IFRC 7; Para. 63 of IAS 39* | | 156 120 |
| 500 | (Investments held to maturity) | *Para. 20, (e) of IFRC 7; Para. 63 of IAS 39* | | 0 |
| 510 | **(Impairment or (-) reversed impairment of investments in a subsidiary, jointly-controlled entity or associate)** | *Paras. 40 -43 of IAS 28* | 16 | **0** |
| 520 | **(Impairment or (-) reversed impairment of non-financial assets)** | *Para. 126(a)-(b) of IAS 36* | 16 | **0** |
| 530 | (Property, Plant and Equipment) | *Para. 73, (e), (v)-(vi) of IAS 16* | | 0 |
| 540 | (Investment Property) | *Para. 79, (d), (v) of IAS 40* | | 0 |
| 550 | (Goodwill) | *B67, (d), (v) of IFRC 3; Para. 124 of IAS 36* | | 0 |
| 560 | (Other intangible assets) | *Para. 118, (e), (iv)-(v) of IAS 38* | | 0 |
| 570 | (Other) | *Para. 126(a)-(b) of IAS 36* | | 0 |
| 580 | **Negative goodwill in profit or loss** | *B64, (n)(i) to IFRC 3* | | **0** |
| 590 | **Share of profit or (-) loss from investments in a subsidiary, jointly-controlled entity or associate** | *Para. 82, (c) of IAS 1* | | **0** |
| 600 | **Profit or (-) loss from non-current assets and disposal groups classified as held for sale, which do not meet the requirements for discontinued operations** | *Para. 37 of IFRS 5; part 2, item 27 of Appendix V* | | **0** |
| 610 | **PROFIT OR (-) LOSS BEFORE TAX FROM CURRENT OPERATIONS** | *Para. 102, IN 6 of IAS 1; Para. 33 A of IFRC 5* | | **106 870** |
| 620 | **(Tax expense or (-) income relating to the profit or loss from current operations)** | *Para. 8, (d) of IAS 1; Para. 77 of IAS 12* | | **11 178** |
| 630 | **PROFIT OR (-) LOSS AFTER TAX FROM CURRENT OPERATIONS** | *IN 6 of IAS 1* | | **95 692** |
| 640 | **Profit or (-) loss after tax from discontinued operations** | *Para. 82, (e) of IAS 1; Para. 33, (a), Para. 33 A of IFRC 5* | | **0** |
| 650 | Profit or (-) loss before tax from discontinued operations | *Para. 33, (b)(i) of IFRC 5* | | 0 |
| 660 | (Tax expense or (-) income related to discontinued operations) | *Para. 33, (b)(i) of IFRC 5* | | 0 |
| 670 | **PROFIT OR (-) LOSS FOR THE YEAR** | *Para. 81A (a) of IAS 1* | | **95 692** |
| 680 | Relating to minority interests [non-controlling interests] | *Para. 83, (a)(i) of IAS 1* | | 103 |
| 690 | Attributable to the owners of the parent company | *Para. 81B (b)(ii) of IAS 1* | | 95 589 |

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