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

CD:
Bulgarian Stock Exchange – Sofia Ad
6 Tri Ushi Str.
Sofia

CC:
Central Depository
6 Tri Ushi Str., floor. 4
Sofia

Re: *Notice for General Meeting of Shareholders of First Investment Bank AD*

Dear Sirs,

We hereby inform you that in compliance with Article 25, para. 1 and Article 26, para. 1 of the By-Laws of First Investment Bank AD, Sofia in conjunction with Article 222 and Article 223 of the Commercial Act and Article 115, Paras. 1 and 2 of the Public Offering of Securities Act (POSA), the Managing Board of First Investment Bank AD is hereby convening an Annual Ordinary General Meeting of Shareholders (GMS). The GMS shall take place on 19 June 2019 at 11:00 AM at the Royal 1 Hall of Sofia Hotel Balkan, 5, Sveta Nedelya Square, Sofia. The Agenda shall be as follows:

1. Management Report of First Investment Bank AD for 2018;

   Draft resolution: *The GMS approves the consolidated and non-consolidated Management Report of the Bank for 2018; (consolidated and unconsolidated)*

2. Report of the registered auditors on the joint audit of the annual financial statements of the Bank for 2018;

   Draft resolution: *The GMS approves the Report of the registered auditors on the joint audit of the annual financial statements of the Bank for 2018;*

3. Approval of the Annual Financial Statements of the Bank for 2018 (consolidated and non-consolidated);

   Draft resolution: *The GMS approves the Annual Financial Statement of the Bank for 2018 – consolidated and non-consolidated;*

4. Decision for the distribution of the profit of First Investment Bank AD for 2018;

   Draft resolution: *The GMS resolves that the entire net profit of the Bank for 2018 shall be retained as other general reserves;*

5. Adoption of a resolution not to pay dividends, and not to make any other deductions from the 2019 profit;

   Draft resolution: *The GMS resolves that no dividends shall be paid to the shareholders, and no other deductions from the 2019 profit of the Bank shall be made, with a view to inclusion of the 2019 profit in the Common Equity Tier 1 capital of Fibank;*

6. Relief from responsibility of the members of the Supervisory Board and Management Board of First Investment Bank AD for their activities in 2018;

   Draft resolution: *The GMS relieves from responsibility the members of the Supervisory Board of First Investment Bank AD Evgeni Krastev Lukanov, Maya Lyubenova Georgieva, Yordan Velichkov Skorchev, Georgi Dimitrov Mutafchiev, Radka Veselinova Mineva and Jyrki Koskelo, as well as all members of the Management Board of First Investment Bank AD: Nedelcho Vassilev Nedelchev, Svetozar Aleksandrov Popov, Sevdalina Ivanova Vassileva, Zhivko Ivanov Todorov, Nadia Vassileva Koshinska, Chavdar Georgiev Zlatev – member of the MB from 20.02.2018, Svetoslav Stoyanov Moldovanski – member of the MB until 17.04.2018,, for their activities in 2018;*

7. Report of the Investor Relations Director of Fibank for 2018;

   Draft resolution: *The GMS approves the Report of the Investor Relations Director of Fibank for 2018;*

8. Report of the Internal Audit Director of Fibank for 2018;

   Draft resolution: *The GMS approves the Report of the Internal Audit Director of Fibank for 2018;*

9. Report of the Audit Committee of Fibank for 2018;

   Draft resolution: *The GMS approves the Report of the Audit Committee of Fibank for 2018;*

10. Approval of a new limit of total remuneration of the members of the Supervisory Board and Management Board of the Bank;

    Draft resolution: *The General Meeting of Shareholders confirms the current amount of total remuneration of the members of the Supervisory Board and Management Board of the Bank, and approves a new amount of total remuneration of the members of the Supervisory Board and Management Board of the Bank of up to BGN 14,000,000 (fourteen million) per annum.*

11. Appointment of registered auditors for 2019;

    Draft resolution: *The GMS, after prior consultation with the Bulgarian National Bank under Art. 76 para. 4 and in conjunction with Art. 76, para 6 of the Law on Credit Institutions, appoints BDO Bulgaria OOD, UIC 831255576 and MAZARS OOD, UIC 204638408 as auditing companies to perform an independent financial audit of the financial statements (individual and consolidated) of First Investment Bank AD under the terms of Art. 76, para. 1 of the Law on Credit Institutions for 2019, and to certify the annual financial statements of the Bank for 2019.*

12. Adoption of changes in the By-Laws of First Investment Bank AD.

    Draft resolution: *The GMS adopts the following changes to the By-Laws of the Bank:*

    In Art. 18, paragraph 2 shall be amended to read as follows: *„For a five-year term as of the date of registration of the amendments hereto, in pursuance of resolution of the General Meeting of Shareholders of 19 June 2019, the Management Board may adopt a resolution subject to approval by the Supervisory Board to issue mortgage-backed bonds in compliance with the Law on Mortgage-Backed Bonds, with a total nominal value of up to 400,000,000 (four hundred million) Bulgarian levs and with a maturity date of up to 10 years as from the date of issue and under other terms and conditions as determined by the Management Board.*“

Registration of shareholders for participation in the GMS shall take place between 9:45 AM and 10:50 AM, before the meeting begins.

The Management Board of First Investment Bank AD declares that the total number of shares and voting rights of the shareholders in the company as at the date of resolution of the Managing Board to summon the annual ordinary general meeting of shareholders, amounts to 110 000 000 (one hundred and ten million) dematerialized registered voting shares. Each share entitles its holder to participate in the General Meeting of Shareholders and to have one vote.

Shareholders having held at least 5 per cent of the capital of First Investment Bank AD for more than 3 months may, after the notice is posted in the Commercial Register, request the inclusion of items and propose draft resolutions on items already on the agenda of the general meeting; they can do so by submitting a list of items which they want to be included on the agenda and proposed resolutions no later than 03 June 2019, to be posted in the Commercial Register. Once posted in the Commercial Register the items shall be considered included in the agenda. No later than the following working day shareholders shall submit the list of items, the proposed resolutions and the written materials to the company's management address, as well as to the Financial Supervision Commission and the Central Depository.

During the general meeting, shareholders shall have the right to raise questions pertaining to all items on the agenda, as well as other questions, whether or not related to the agenda.

During the general meeting, shareholders shall have the right to make substantive proposals for resolutions on any item included in the agenda, subject to the requirements of the law. Such right may be exercised no later than closure of the deliberations which precede the voting on the respective item by the GMS.

Persons registered as shareholders of First Investment Bank AD in the Register of the Central Depository no later than 14 days before the date of the General Meeting – 04 June 2019 as per a list issued by Central Depository AD shall be entitled to vote at the GMS. Only persons listed as shareholders at the date quoted in the previous sentence shall have the right to attend the general meeting and vote.

In order to register and attend the Annual Ordinary General Meeting, shareholders and their proxies shall identify themselves: private individuals shall do so by presenting a personal ID document. Shareholders that are legal entities shall be allowed to participate in the GMS after they present the original or a notarized copy of a document for current court registration, or a certificate for registration in the relevant register. Legal representatives shall identify themselves by presenting a personal ID document.

Rules for voting by proxy:

In cases where a shareholder is represented at the general meeting by proxy pursuant to Art. 29, para. 1 of the company's By-Laws, a power of attorney issued for the specific meeting and certified by a notary public and drafted in accordance with Article 116, para. 1 of the Public Offering of Securities Act needs to be presented by the proxy together with a document for personal identification. In cases where the legal entity is not represented by its legal representative, the proxy shall present an identification document, an original or a notarized copy of a document for current court registration of the company and a power of attorney issued for the specific meeting and certified by a notary public and drafted in accordance with Article 116, para. 1 of the Public Offering of Securities Act. In cases where a shareholder is represented by a proxy legal entity, the latter shall present an identity document of its legal representative, a certificate of good standing of the proxy legal entity in the original, and a power of attorney issued for the specific meeting and certified by a notary public and drafted in accordance with Article 116, para. 1 of the Public Offering of Securities Act.

Powers of Attorney shall be enclosed with the other GMS documents.

Delegation to another person of any of the powers given to the proxy according to the power of attorney shall be null and void, as shall be the power of attorney given in violation of the provisions of Article 116, Paragraph 1 of the Public Offering of Securities Act.

Rules for Instruments Drafted in a Foreign Language

Should a shareholder or a shareholder's proxy deposit instruments (power of attorney, document for current court registration, or another instrument used to identify the shareholder) drafted in a language other than Bulgarian, such instruments shall be accompanied by a translation in Bulgarian and legalized in accordance with the requirements of current legislation; the signature of the translator placed on the translation shall be certified by a notary in the Republic of Bulgaria.

The Management Board of First Investment Bank AD shall provide a sample power of attorney on paper and in electronic form together with the materials for the GMS. The sample power of attorney shall also be available on the Bank's website at www.fibank.bg. Upon request, a sample power of attorney may also be presented after summoning of the ordinary GMS.

First Investment Bank AD shall receive and accept as valid notices and powers of attorney sent by electronic means to the following email address: shareholders.meeting@fibank.bg. Electronic messages need to be signed with a qualified electronic signature (QES) by the principal and accompanied by an electronic copy of the power of attorney, also signed with a QES by the principal. The terms and conditions for receiving powers of attorney by electronic means shall also be published on First Investment Bank's website at http://www.fibank.bg/bg/page/3628. Voting by correspondence or by electronic means is not permissible under the By-laws of First Investment Bank AD.

Written materials related to the GMS agenda shall be made available to shareholders pursuant to Art. 224 of the Commerce Act and Art. 27 of the By-Laws of First Investment Bank AD, including with regard to the additional items included on the agenda under Art. 223a, para. 4 of the Commerce Act, no later than 30 (thirty) days before the date of the GMS, each working day between 9:00 AM and 5:00 PM on the premises of First Investment Bank AD at 37, Dragan Tsankov Blvd, Sofia, Bulgaria. The notice and the written materials related to the GMS agenda items shall be published on First Investment Bank's website www.fibank.bg for the period from posting of the notice in the Commercial Register to adjournment of the GMS

All shareholders of First Investment Bank AD are invited to participate in the Annual Ordinary General Meeting of Shareholders, either personally or by proxy.

In case of absence of quorum at the announced opening hour of the GMS, it shall be postponed to 11.00 AM on 04 July 2019, with the venue and agenda remaining unchanged in compliance with Article 115, para. 12 of the Public Offering of Securities Act and Art. 227, para. 3 of the Commerce Act. New items may not be included in the agenda pursuant to Article 223a of the Commerce Act.

(signed)
Svetozar Popov
Executive Director

(signed)
Chavdar Zlatev
Executive Director

A G E N D A

FOR THE ANNUAL ORDINARY GENERAL MEETING OF SHAREHOLDERS OF FIRST INVESTMENT BANK AD

to be held on 19 June 2019 at 11:00 am at the Royal 1 Hall of Sofia Hotel Balkan, 5, Sveta Nedelya Square, Sofia

1. Management Report of First Investment Bank AD for 2018;
2. Report of the registered auditors on the joint audit of the annual financial statements of First Investment Bank for 2018;
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8. Report of the Internal Audit Director of First Investment Bank for 2018;
9. Report of the Audit Committee of First Investment Bank for 2018;
10. Approval of a new limit of total remuneration of the members of the Supervisory Board and Management Board of First Investment Bank;
11. Appointment of registered auditors for 2019;
12. Adoption of amendments to the By-Laws of First Investment Bank AD.

Materials
for
the Regular Annual General Meeting of Shareholders
of First Investment Bank AD
to be held on 19 June 2019

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Notice
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

to be held on 19 June 2019

NOTICE AND AGENDA
FOR THE ANNUAL ORDINARY GENERAL MEETING OF SHAREHOLDERS
OF FIRST INVESTMENT BANK AD

First Investment Bank AD (Fibank), having its registered office at 37, Dragan Tsankov Blvd., Iztok Region, Sofia, Bulgaria, registered in the Commercial Register kept by the Registry Agency under UIC 831094393, represented by the Executive Directors Svetozar Aleksandrov Popov and Chavdar Georgiev Zlatev, pursuant to Article 25, para. 1 and Article 26, para. 1 of the By-Laws of First Investment Bank AD, Sofia and in conjunction with Article 222 and Article 223 of the Commerce Act and Article 115, Paras. 1 and 2 of the Public Offering of Securities Act, the Management Board of First Investment Bank AD is hereby convening an Annual Ordinary General Meeting of Shareholders (GMS). The GMS shall take place on 19 June 2019 at 11:00 AM at the Royal 1 Hall of Sofia Hotel Balkan, 5, Sveta Nedelya Square, Sofia. The Agenda shall be as follows:

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Svetozar Popov Executive Director	Chavdar Zlatev Executive Director

On item 1 of the Agenda for the Regular Annual General Meeting of Shareholders of First Investment Bank AD

- First Investment Bank Annual Report for 2018 (individual)
- First Investment Bank Annual Report for 2018 (consolidated)

ACTIVITY REPORT

(ON AN UNCONSOLIDATED BASIS)

OF FIRST INVESTMENT BANK AD

FOR 2018

APRIL 2019

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, approved by the Financial Supervision Commission.

In 2018
First Investment Bank celebrated
its *25th anniversary.*

*The reasons Fibank became "**My bank**"*
to each one of its customers:

During these 25 years First Investment Bank participated actively in the formation and development of the banking market in Bulgaria, contributing with innovative products and perspective decisions.

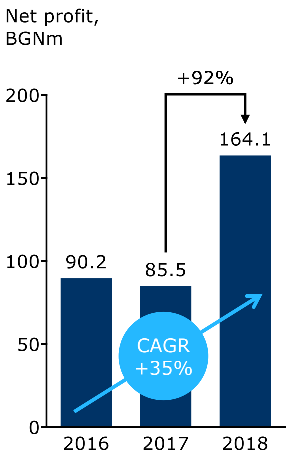
*We are consistently developing our **business**, following our **business principles**:*

- Retail banking
- Microlending
- SME banking
- Corporate banking
- Card payments
- Digital banking
- Trade financing
- International settlements
- Money and capital markets
- FX trade
- Gold and numismatics

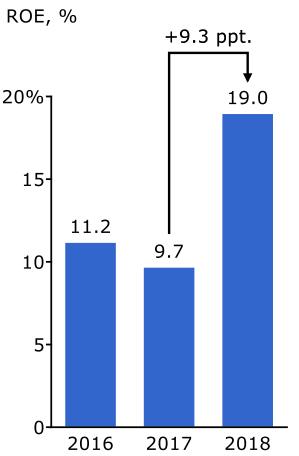
- We believe that trust is the basis of long-term relations.
- We strive not only for the best practices and results, but we have the goodwill and discipline to achieve them.
- We appreciate and respect our business partners.
- We strive for development and proactive solutions.
- We are engaged in social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

SELECTED INDICATORS

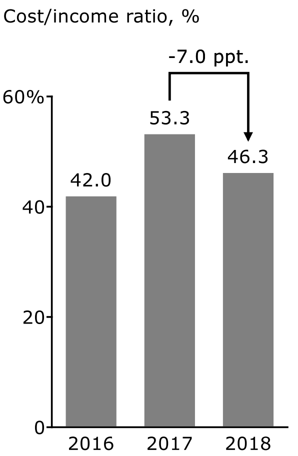
Net profit



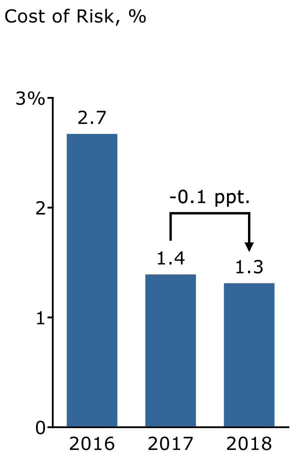
Return on equity (ROE)



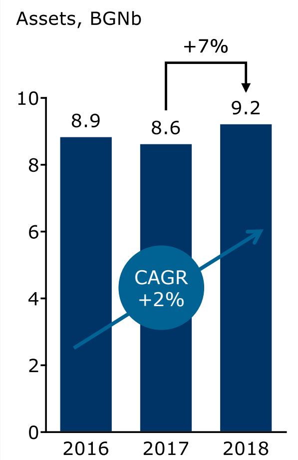
Cost/income ratio



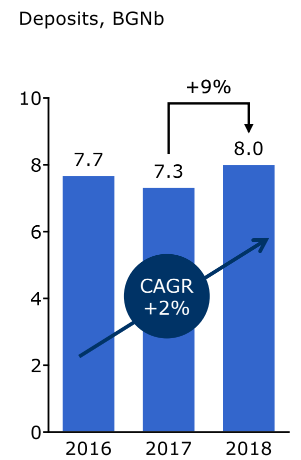
Cost of Risk



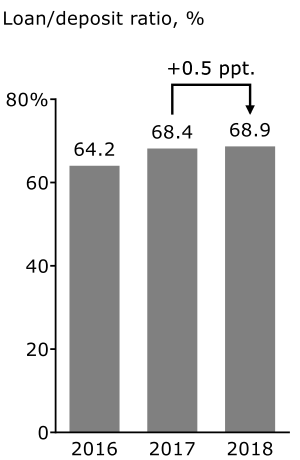
Assets



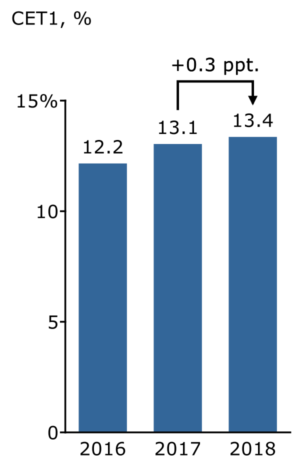
Deposits



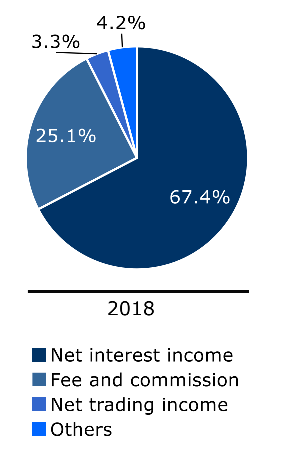
Loan/deposit ratio



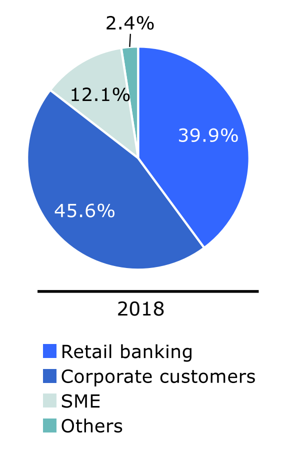
CET1 ratio



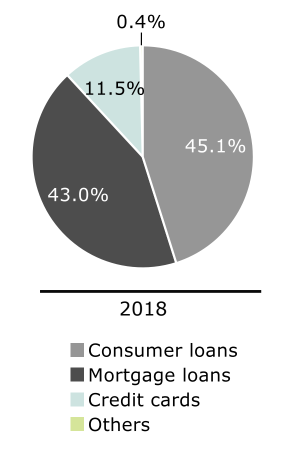
Operating income by type of income



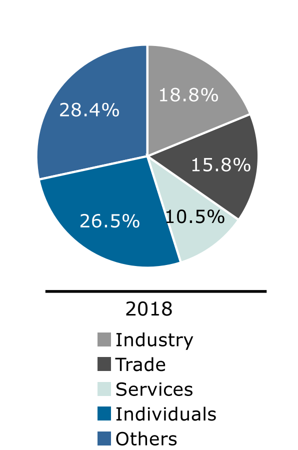
Operating income by business lines



Loans for individuals



Portfolio by sectors



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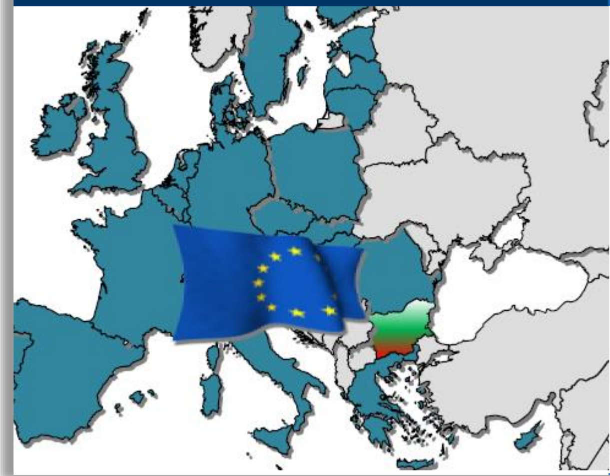
MACROECONOMIC DEVELOPMENT

Republic of Bulgaria



Indicators	
Population	7,05 mln. people
Area	110,994 km^2
Member of the European Union	2007
Member of NATO	2004
Exchange rate EUR/BGN (fixed)	1.95583
Flat tax rate	10%
Moody's	Baa2, stable
Fitch Ratings	BBB, stable
S&P	BBB-, positive

In 2018, notwithstanding some particular signs of instability in the external environment and indications of slowing growth in the euro area, the Bulgarian economy reported a positive development as a result of an increase in private consumption and investment activity, as well as the continuing trend towards improving labor market indicators. The existing Currency Board arrangement in the country and the fiscal position contribute to maintaining the macroeconomic stability. Steps in this direction were the officially declared intention of the country in 2018 to join the European Exchange Rate Mechanism II (ERM II) and the Single Supervisory Mechanism (SSM) through close cooperation with the European Central Bank.

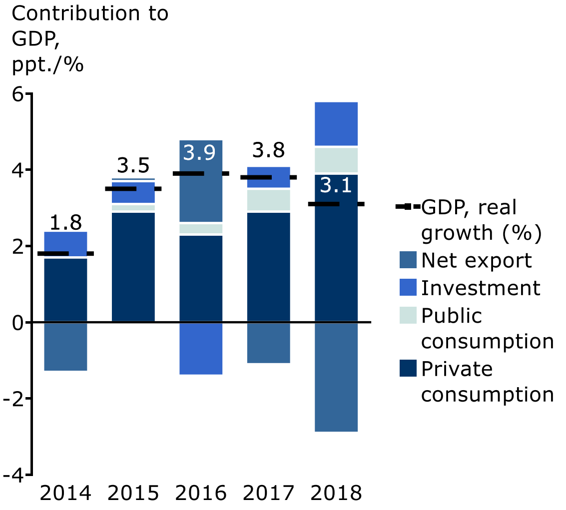
	2018	2017	2016	2015	2014
Gross domestic product (BGN million)	107,925	101,043	94,130	88,575	83,756
Gross domestic product, real growth (%)	3.1	3.8	3.9	3.5	1.8
- Consumption, real growth (%)	6.0	4.3	3.3	3.8	2.2
- Fixed capital formation, real growth (%)	6.5	3.2	(6.6)	2.7	3.4
- Net export, real growth (%)	(4.5)	(1.7)	3.6	0.3	(2.1)
Inflation, at period-end (%)	2.7	2.8	0.1	(0.4)	(0.9)
Average inflation (%)	2.8	2.1	(0.8)	(0.1)	(1.4)
Unemployment, at period-end (%)	6.1	7.1	8.0	10.0	10.7
Current account (% of GDP)	4.6	6.5	2.6	0.0	1.2
Trade balance (% of GDP)	(4.1)	(1.5)	(2.0)	(5.8)	(6.5)
International reserves of BNB (EUR million)	49,039	46,279	46,742	39,675	32,338
FDI in Bulgaria (% of GDP)	2.8	2.7	2.1	5.3	0.8
Gross external debt (% of GDP)	59.3	64.6	71.1	74.0	91.9
Public and publicly guaranteed debt (% of GDP)	22.2	25.3	29.1	26.3	27.2
Consolidated budget balance (% of GDP)	0.1	0.8	1.6	(2.8)	(3.7)
Exchange rate of USD (BGN for USD 1)	1.71	1.63	1.86	1.79	1.61

Source: NSI, BNB, MF, Employment agency

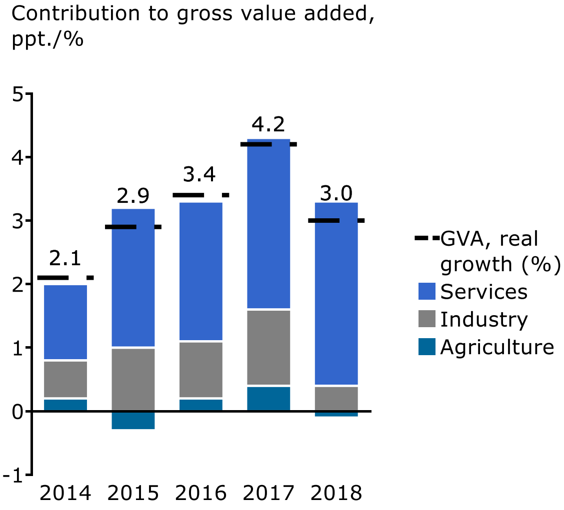
In 2018, the growth rate of the country's economy was 3.1% (2017: 3.8%), in line with certain slowdown of the economic activity dynamics in the EU and the Eurozone, as well as instability on a global scale related to protectionist measures and trade conflicts, as well as the uncertainties surrounding the Brexit talks. The main driver for the economy was final consumption, in particular that of private households, where a 6.3% growth was reported (2017: 4.5%). This was a result of the higher domestic demand and the positive labor market indications. An additional growth factor were capital investments which grew by 6.5% for the period (2017: 3.2%). Private investments played a major part, reflecting the developments in key macroeconomic indicators and the expectations of businesses in the country.

Net exports remained a limiting factor for growth, down by 4.5% in 2018 (2017: -1.7%), driven by both the decrease in exports (2018: -0.8%) and the increase in imports (2018: 3.7%), conditioned by the domestic demand for goods and services, as well as by the rising income of the population.

Components contribution to GDP



Sector contribution to gross value added

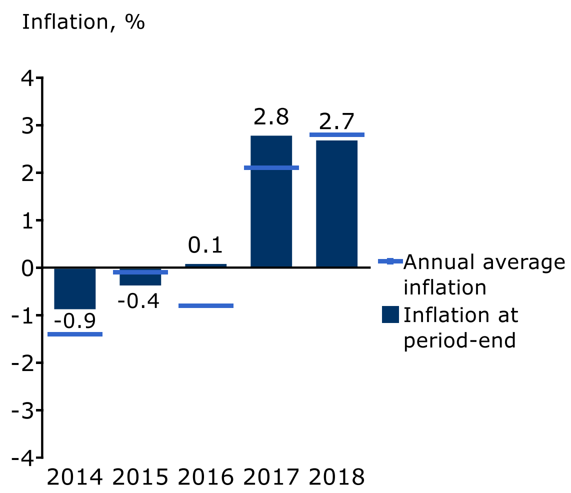


During the year, the gross value added in the economy grew by 3.0% (2017: 4.2%). In the services sector, a real growth of 4.3% was reported (2017: 4.0%) including in the trade, transport and tourism sectors (2018: 2.0%), accounting for 33% of the value added in this sector. Real estate transactions reported an increase of 9.3% for the year as a result of the resurgence in the property market and the construction sector. In 2018, the house price index increased by 6.3% year on year in the third quarter, of which 7.2% for newly built apartments and 5.8% for existing housing.

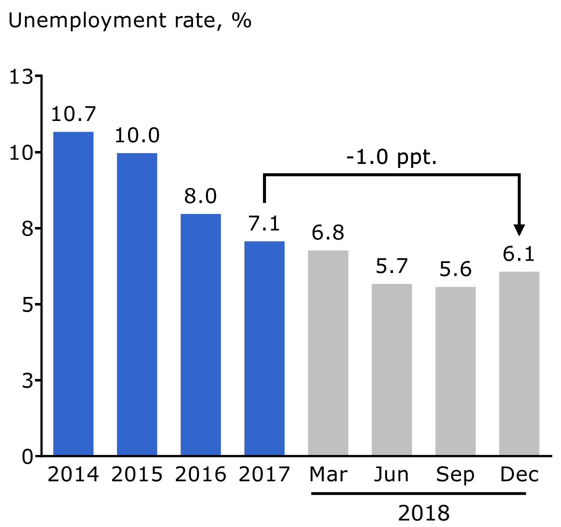
The industrial sector also had a positive impact on value added in the economy, increasing by 1.4% (2017: 4.1%). A weaker growth of 0.8% was observed in the mining and processing industries, including in the main export-oriented sectors. Those were influenced by the unstable economic environment in the international context, as well as by the unfavourable development of the economic situation in Turkey, given its share in the trade with Bulgaria. Value added in construction also provided a positive contribution of 4.0% over the year (2017: 4.4%), reflecting the positive dynamics and indications of recovery in this sector. A negative result of -1.1% was reported in the agricultural sector (2017: 8.9%), mainly due to the lower production output in plant production, in particular industrial and fodder crops, and vegetables.

In 2018, the labor market continued to show positive indications, including in seasonal employment. The unemployment rate declined to 6.1% at the end of the period (2017: 7.1%, 2016: 8.0%, 2015: 10.0%, 2014: 10.7%), in line with the growing expectations of companies regarding investments and costs. The number of employed persons reached 3,149 thousand in the fourth quarter of 2018, with employment rate reaching 67.7% or 0.2% higher than a year earlier. At the end of the year, 63.6% of people employed worked in the services sector, 30.2% in industry and 6.1% in agriculture.

Inflation



Unemployment rate

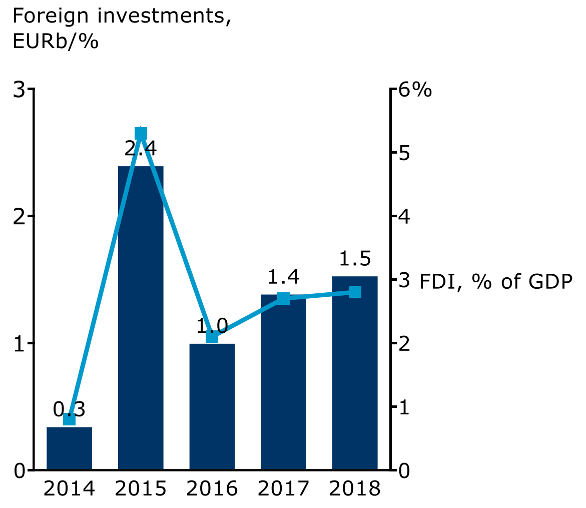


During the year, inflation in the country followed an upward trend, with the average annual inflation for the period standing at 2.8% (2017: 2.1%). Inflation at year-end was 2.7% (2017: 2.8%). Such a trend was driven by price increases in almost all major subgroups following the increase in consumer demand, including in the services sector (4.3%), catering (4.3%), as well as food (2.6%) water, electricity and gas (4.6%), the last two having predominant weight in the consumer basket (31.3% and 18.2% respectively). Domestic prices were also affected by the prices of raw materials in the international markets, including oil prices. Harmonized inflation, which is one of the criteria for price stability for joining the Eurozone, was 2.3% at the end of the period (2017: 1.8%) and 2.6% on average for the year (2017: 1.2%).

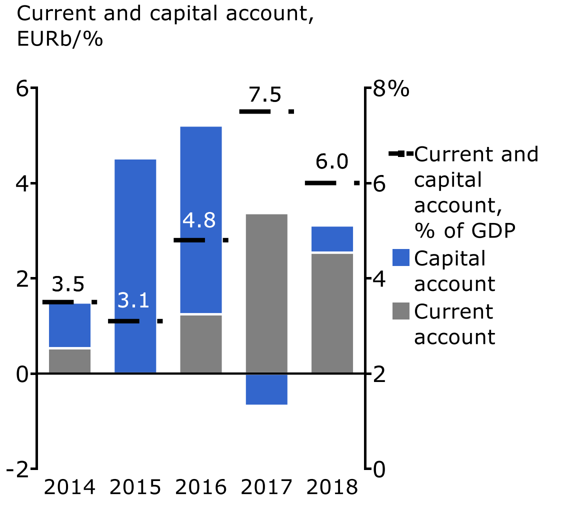
During the year, foreign direct investment in the country amounted to EUR 1,533 million (2.8% of GDP) at the end of 2018 (2017: EUR 1,390 million or 2.7% of GDP). Such dynamics was mainly due to higher equity investment and retained earnings, rather than investment in debt instruments (bonds, financial and commercial loans). By country, most investments were attracted from the Netherlands (EUR 1,087 million), followed by Germany (EUR 154 million) and Belgium (EUR 94 million).

The faster growth in imports (7.1% y/o/y, to EUR 29,676 million) increased the trade deficit to EUR -2,248 million or -4.1% of GDP at the end-2018 (2017: EUR -766 million, or -1.5% of GDP). As a result the balance on the current and capital account on annual base decreased to EUR 3,317 million or 6.0% of GDP, despite the higher income in the services (tourism and travelling) and in the capital transfers, incl. under the EU programs.

Foreign investments in the country

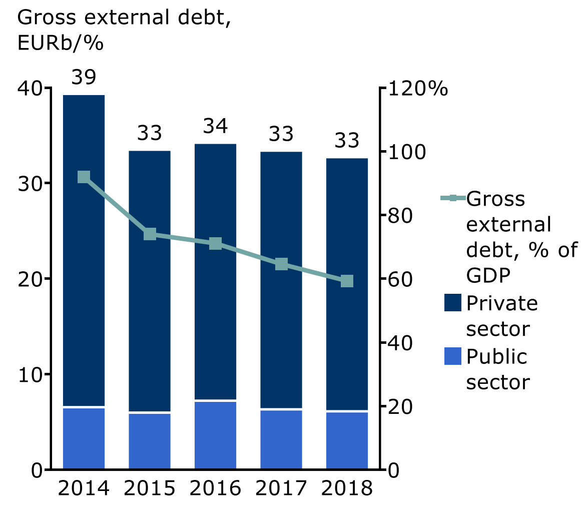


Current and capital account

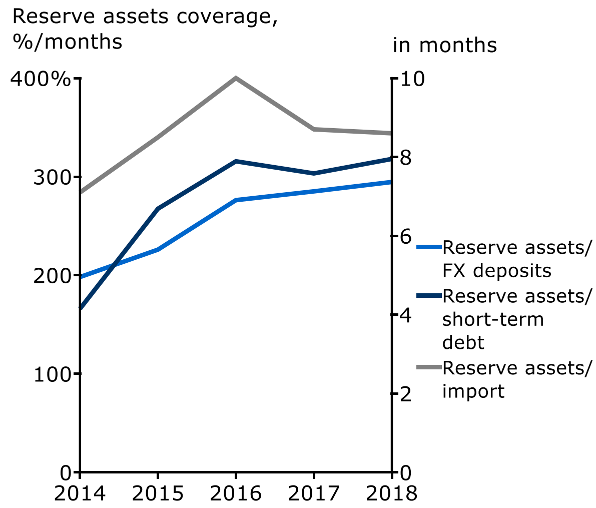


Bulgaria's gross external debt declined to EUR 32,716 million at the end of 2018, or 59,3% of GDP (2017: EUR 33,397 million or 64.6% of GDP), decrease being reported in both the private and public sectors. Public external debt continued to decline to EUR 6,121 million or 11.1% of GDP as at December 2018, remaining among the lowest in the EU. The total government and government guaranteed debt, including debt issued on the domestic market, also declined to 22.2% of GDP (2017: 25.3%), compared to an average of 81% for the EU and 86% for Eurozone countries. BNB reserve assets covered 318.0% of the short-term debt (2017: 303.3%) and 294.6% of the foreign currency deposits (2017: 285.1%) in the country.

Gross external debt

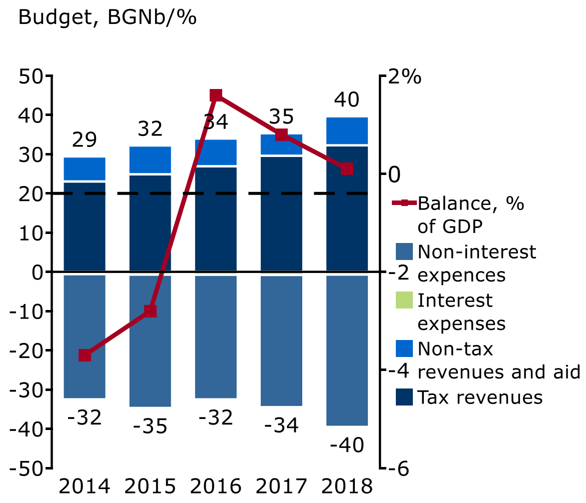


Reserve assets coverage

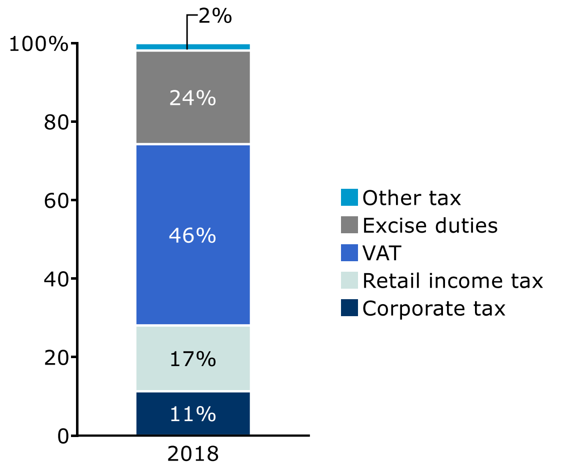


In 2018, the consolidated budget surplus declined to BGN 137 million or 0.1% of GDP (2017: BGN 845 million or 0.8% of GDP), reflecting the higher growth in expenses – by 14.6% to BGN 39,509 million, mainly as a result of the increase in pensions during the year and the associated higher social and health insurance payments, as well as the costs of remuneration in the secondary education system and energy subsidies. Capital expenditures also increased to BGN 5,322 million (2017: BGN 3,750 million), mainly related to priority infrastructure and other investment projects, as well as to the higher absorption of EU funds and more active implementation of EU projects for the program period 2014-2020 and the related co-financing provided by the State.

Consolidated budget



Structure of tax revenues



Tax revenues increased by 9.0% to BGN 32,236 million. An increase was reported in all major revenue groups, including corporate tax (6.8% to BGN 2,465 million), personal income tax (10.1% to BGN 3,648 million), VAT (8.0% to BGN 10,064 million), excise duties (4.4% to BGN 5,203 million) and customs duties (by 16.4% to BGN 226 million). Social security contributions also increased, amounting to BGN 9,458 million, of which BGN 6,825 million social contributions and BGN 2,633 million health insurance contributions.

In 2018, the international rating agency Standard & Poor's upgraded the outlook for Bulgaria's credit ratings from stable to positive. The long-term foreign and local currency credit ratings remained unchanged by year-end: Moody's Investor Service (Baa2, stable), Fitch Ratings (BBB, stable), Standard & Poor's (BBB-, positive).

At the beginning of 2018, Bulgaria took over the rotating presidency of the Council of the European Union. For half a year, the country hosted a significant number of meetings, events and working groups of the EU bodies. The main priorities of the Bulgarian Presidency were aimed at young people, their social cohesion and economic growth; at ensuring security and stability in a strong and united Europe; at improving the European connections and perspective for the Western Balkans, as well as at the development of digital economy and skills of the future.

In 2018, as a step in the direction of Bulgaria's accession to the Eurozone, the country officially declared its intention to join the European Exchange Rate Mechanism II (ERM II) and the Single Supervisory Mechanism (SSM) through close cooperation with the European Central Bank.

Forecasts for 2019 include maintaining the growth in private consumption and domestic demand, as well as increasing public investment and consumption in connection with the more active absorption of funds under EU funds and programs, while inflation rates are expected to remain at their current level. The estimates of the Ministry of Finance (autumn macroeconomic forecast) are for real GDP growth of 3.7% in 2019 and a slowdown to 3.5% over the 2020-2021 period, in line with the economic activity trends in the EU and the Eurozone, and the risks associated with the international environment.

THE BANKING SYSTEM

In 2018, the banking system in Bulgaria reported stable indicators and improved financial performance against the background of sustainable deposit growth and revival of lending activity driven by the favorable macroeconomic developments. The external environment and low interest rates continued to have an effect on banking activity, as well as the actions for management of credit risk, including in the context of the introduction of new regulatory and accounting standards (IFRS 9) effective from 1 January 2018. The broad regulatory framework and the continuing integration with the European financial infrastructure had an additional effect on the development of banking policies.

A further step in this direction was the formal application sent in July 2018 to establish close cooperation with the European Central Bank (ECB) within the framework of the Single Supervisory Mechanism (SSM), which is part of the roadmap for the accession of Bulgaria to the euro area and of the Bulgarian lev to the European Exchange Rate Mechanism II (ERM II).

in % / change in ppt	2018	2017	2016	18/17	17/16
CET 1 ratio	18.99	20.41	20.41	(1.86)	0.00
Tier 1 capital ratio	19.41	20.86	20.88	(1.89)	(0.02)
Capital adequacy ratio	20.38	22.08	22.15	(2.07)	(0.07)
Leverage ratio	10.47[1]	10.68	10.89	(0.21)	(0.21)
Liquidity coverage ratio (LCR)	294.1	347.6	-	(53.5)	-
Loan/deposit ratio[2]	72.02	71.53	73.48	0.49	(1.95)
Return-on-equity (ROE)	12.11	9.32	10.40	2.79	(1.08)
Return-on-assets (ROA)	1.59	1.20	1.37	0.39	(0.17)
Non-performing loans and advances[3]	7.63	10.17	12.85	(2.54)	(2.68)

Source: Bulgarian National Bank

The total capital ratio for the system was 20.38% at the end of 2018 (2017: 22.08%) while the Tier 1 capital ratio was 19.41% compared to 20.86% at the end of 2017, both indicators well above the regulatory requirements. Such dynamics were mainly driven by the increase in CET 1 capital, including paid-in capital and retained profit during the year, which was outpaced by the increase in risk-weighted assets. The leverage ratio, used as an additional regulatory indicator comparing Tier 1 capital to the total on- and off-balance sheet exposures of banks, was 10.47% as at September 2018 compared to 10.68% as at 31.12.2017.

In order to mitigate the impact of cyclical risks on financial stability, in September 2018 the BNB decided to introduce a 0.5% counter-cyclical capital buffer applicable to local credit risk exposures, in force from October 2019. From 1 January 2018, a capital buffer for other systemically important institutions (O-SIIs) of 0.125% to 0.50% was introduced, as a key macroprudential tool to address structural risks. In November 2018, the BNB announced its annual review of that buffer, identifying

[1] Data as at 30 Sep 2018.
[2] Gross loans and advances (without central banks and credit institutions)/deposits (without credit institutions)
[3] Non-performing loans and advances/gross loan and advances

ten banks as O-SIIs and determining individual buffer levels for 2019 ranging from 0.25% to 0.75%, and for 2020 – from 0.50 % to 1%.

During the year, liquidity remained at high levels notwithstanding the indications of resurgence in lending. The loan/deposit ratio remained at 72.02% (2017: 71.53%), reflecting the sustained conservative approach in risk management. New liquidity reporting requirements were introduced since the beginning of 2018, including with respect to the liquidity coverage ratio (LCR), correlating the liquidity buffers supported by banks against net outflows over a period of 30 calendar days. At the end of 2018 the ratio was 294.1% compared to 347.6% a year earlier, exceeding the minimum requirements of 100%. The ratio of liquidity buffer to balance sheet assets for the system was 25.9% at the end of September 2018.

In 2018, the banking system generated a net profit of BGN 1,678 million, or 42.9% higher than in 2017. Increase was reported in all major operating income categories, as well as a decrease in impairment charges to BGN 479 million (2017: BGN 745 million).

BGN million /change in %	2018	2017	2016	18/17	17/16
Net interest income	2,742	2,675	2,805	2.5	(4.6)
Net fee and commission income	1,066	996	921	7.0	8.1
Administrative expenses	1,717	1,613	1,587	6.4	1.6
Impairment	479	745	807	(35.7)	(7.7)
Net profit	1,678	1,174	1,262	42.9	(7.0)

Source: Bulgarian National Bank

Net interest income increased by 2.5% y/o/y to BGN 2,742 million (2017: BGN 2,675 million), while net fee and commission income increased to BGN 1,066 million (2017: BGN 996 million). The latter accounted for 25.2% of the total operating income of the system (2017: 25.6%). The financial results reported for 2018 provided a return on assets (ROA) of 1.59% (2017: 1.20%) and return on equity (ROE) of 12.11% (2017: 9.32%), serving as proof of the banking sector's ability to generate high returns, in line with the current developments and opportunities.

Total balance-sheet assets grew by 7.9% y/o/y to BGN 105,557 million (2017: BGN 97,808 million). Changes in the balance sheet structure of the system included an increase in the share of loans to 63.3% of total assets (2016: 61.0%). Cash and balances with central banks accounted for 19.3% of assets, and investment in securities – for 13.1%, mainly including debt securities issued by central governments.

The gross loan portfolio (without credit institutions and central banks) during the year increased by 8.6% to BGN 60,908 million at the end of the period (2017: BGN 56,084 million). Increase involved all segments, and especially household loans which accounted for 36.2% of the total portfolio (2017: 35.3%). Residential mortgage loans grew by 15.3% to BGN 10,906 million (2017: BGN 9,460 million) and consumer loans – by 12.9% to BGN 10,333 million (2017: BGN 9,151 million) at the end of the year. Loans to non-financial corporations retained their major share of 57.3% of total loans to customers, reaching BGN 34,871 million (2017: BGN 33,160 million), while those to other financial corporations grew to BGN 3,220 million (2017: BGN 2,530 million).

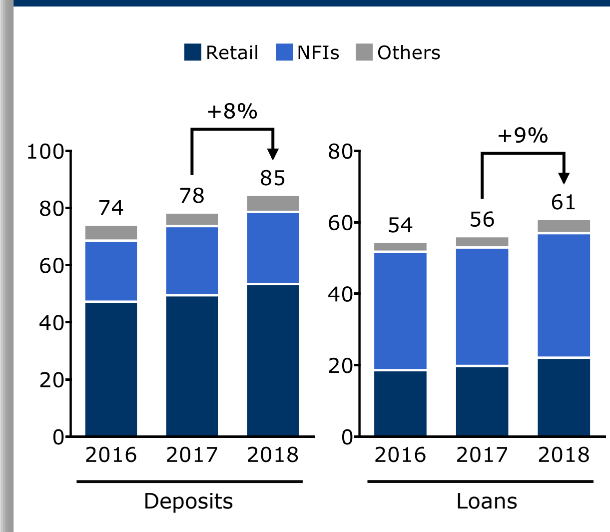
BGN million /change in %	2018	2017	2016	18/17	17/16
Assets	105,557	97,808	92,095	7.9	6.2
Loans to non-financial corporates	34,871	33,160	33,180	5.2	(0.1)
Loans to individuals, incl:	22,075	19,789	18,575	11.6	6.5
- Mortgage loans	10,906	9,460	8,772	15.3	7.8
- Consumer loans	10,333	9,151	8,677	12.9	5.5
Deposits from non-financial corporates	25,278	24,190	21,375	4.5	13.2
Deposits from individuals	53,383	49,456	47,196	7.9	4.8

Source: Bulgarian National Bank

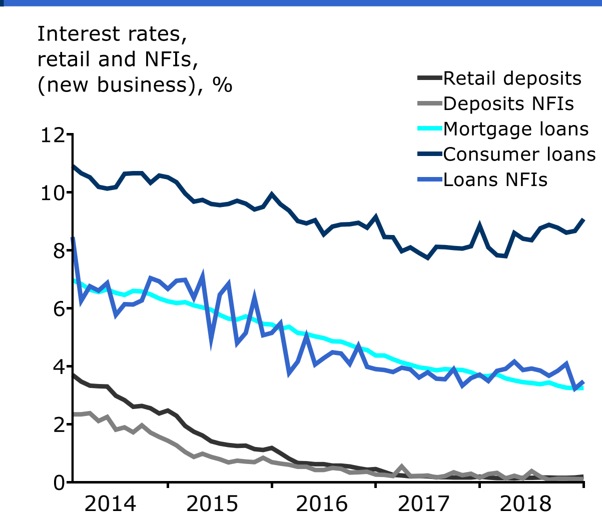
The share of non-performing loans and advances continued to decline to 7.63% of gross loans and advances (2017: 10.17%). Non-performing loans were adequately covered by impairment allowances and the additionally accumulated buffers in the system. Loans to non-financial corporations accounted for the largest share in the structure of non-performing loans (68.5%), followed by loans to households (29.0%) and other financial corporations (2.3%).

In 2018, borrowed funds in the banking system (excluding credit institutions and central banks) continued their upward trend, growing by 7.9% to BGN 84,571 million (2017: BGN 78,406 million). An increase was reported in deposits of both non-financial corporations (by 4.5% to BGN 25,278 million) and households (by 7.9% to BGN 53,383 million), retaining a dominant share of 63.1% of all attracted funds. Deposits of other financial corporations reached BGN 3,213 million, and those in the government sector BGN 2,697 million. In the currency structure of deposits, the share of BGN deposits increased to 61.7% (2017: 60.4%) at the expense of EUR deposits which decreased to 30.6% (2017: 31.5%), while those in other currencies amounted to 7.7% (2017: 8.1%).

Loans and deposits (BGNm)



Interest rates on deposits and loans



In the course of the year, the downward trend in interest rates remained in line with the dynamics in the Eurozone and the EU countries. In 2018, average weighted interest rates on deposits (new business[4]) of households and non-financial corporations fell to 0.15% and 0.21% respectively (2017:

[4] Term deposits in BGN up to 1 year

0.20% and 0.25% respectively). Decrease was also observed in interest rates on loans (new business[5]); for non-financial corporations – down to 3.75% on average for the year (2017: 4.01%) and for mortgage loans – down to 3.42% (2017: 3.94%). A slight increase was reported in consumer loans to 8.50% (2017: 8.13%).

At year-end, 25 credit institutions operated in the country, including 5 branches of foreign banks. Subsidiaries of EU banks accounted for 71.6%[6] of the system's assets, local banks – for 22.3%, while branches of EU and non-EU-owned banks formed the remaining 6.1%. The share of the other systemically important institutions (O-SII) in the country accounted for 83.8% of the banking assets.

Consolidation processes will continue to pose a challenge to the banking system, mirroring those in the European Union, along with the digitization and technological development, the volume of regulations affecting the competitive advantages of banks, as well as the risks of instability internationally.

REGULATORY FRAMEWORK DEVELOPMENTS

In 2018, implementation of the single European regulatory rules by transposing them into the national legislation continued to be a priority among the legislative initiatives in the area of banking.

The new requirements of the International Financial Reporting Standard 9 Financial Instruments (IFRS 9), effective from 1 January 2018, introduced a new impairment model based on expected loss, to replace the IAS 39 model of incurred loss. The new standard also introduced requirements and guidance on the classification and measurement of the quality of financial assets. A new Regulation (EU) 2017/2395 of the European Parliament and of the Council introduced the possibility for banks to apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on regulatory capital. A five-year transitional period is envisaged, during which banks may include in their Common Equity Tier 1 capital the amount calculated in accordance with the approach chosen (static approach or static approach with a dynamic component) and apply transitional treatment factors of 0.95 for 2018, 0.85 for 2019, 0.70 for 2020, 0.50 for 2021, and 0.25 for 2022.

In February 2018, a new Law on Markets in Financial Instruments was adopted transposing the requirements arising from the European financial market legal framework: Directive 2014/65/EU of the European Parliament and of the Council and Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments (MiFID II/MiFIR package). The changes are aimed at enhancing investor protection and improving the performance of market participants in the trading and clearing of financial instruments as well as introducing new disclosure and transparency standards in relation to investment services and activities.

In March 2018, a new Law on Payment Services and Payment Systems (LPSPS) was adopted which, together with the additional technical standards and guidelines of the European Banking Authority, aims to implement in the national legislation the requirements arising from Directive (EU) 2015/2366 on payment services in the internal market (PSD2). The new regulations, in line with the changes in technology development, introduce new payment services executed entirely in the internet environment: payment initiation services and account information, as well as means and methods for enhancing the security of online payments. In this regard, new Ordinance No. 3 and Ordinance No. 16 of the BNB were adopted. A challenge for banks in the area of payment services for 2019 remains the application of the requirements related to Commission Delegated Regulation (EU) 2018/389 with

[5] Loans by original maturity in BGN
[6] Data as at the end of the third quarter of 2018.

regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication.

Since the end of May 2018, the requirements are in force of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation – GDPR). It introduces a number of new requirements, including broadening the definition of personal data, pseudonymisation, data protection at the design stage and by default, profiling, new data subject rights, etc.

In July 2018, a new Ordinance No 37 of the BNB on the Internal Exposures of Banks was adopted, including requirements for banks' internal rules and procedures for the formation, identification, monitoring and reporting of internal exposures, manner of calculating their value, and form and content of their reporting.

The same month, amendments were adopted to Ordinance No. 11 of the BNB on Bank Liquidity Management and Supervision. The changes were due to the full entry into force of the liquidity coverage requirements, eliminating the option of applying national regulations in the field of liquidity reporting and introducing uniform European reporting models. Changes also included the introduction of a maturity ladder in accordance with Commission Implementing Regulation (EU) 2017/2114 of 9 November 2017 amending Implementing Regulation (EU) No 680/2014 as regards templates and instructions.

During the year a new Law on Measures against Money Laundering was adopted, transposing in the Bulgarian legislation Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (Directive (EU) 2015/849). At the end of the year, a new Implementing Regulation of the Law on Measures against Money Laundering was also adopted (promulgated SG No. 3 / 08.01.2019), clarifying and further developing certain requirements in the area.

In December 2018, amendments were adopted to the Law on the Bulgarian National Bank concerning the role of the European Central Bank in the national framework for supervision of banking institutions, in relation to the stated intention of Bulgaria to join the Single Supervisory Mechanism through the establishment of close cooperation with the ECB. Changes to the Law on Credit Institutions were also made, providing for the possibility to exercise macro-prudential supervision of banks at systemic level, as well as changes aimed at introducing the new requirements stemming from the EBA Guidelines on internal governance (EBA/GL/2017/11) and the EBA and ESMA Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12).

MISSION

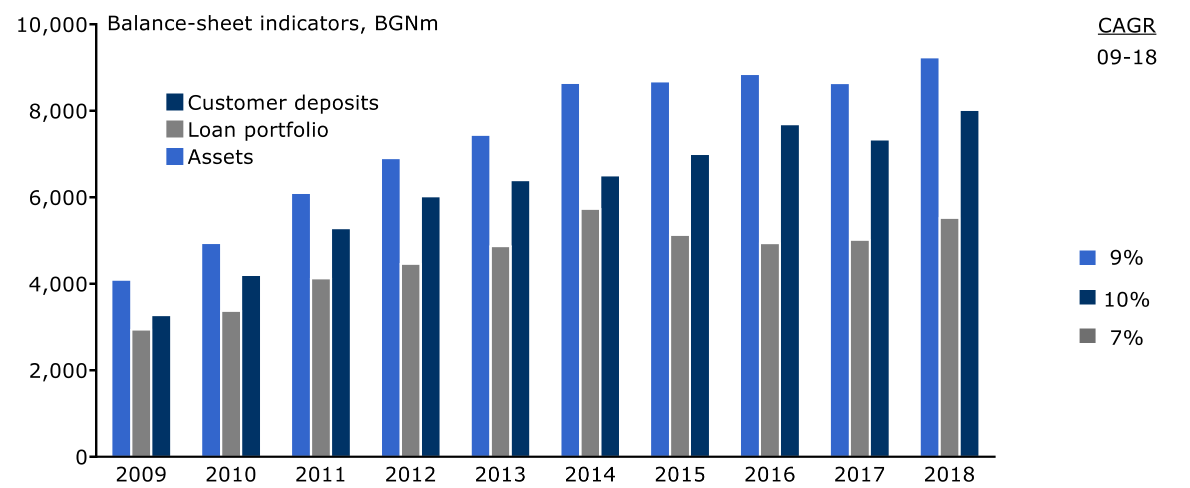
First Investment Bank AD aspires to continue to be one of the best banks in Bulgaria, recognized as a rapidly growing, innovative, customer-oriented bank, offering outstanding products and services to its customers, ensuring excellent careers for its employees, and contributing to the community. The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

25 YEARS FIBANK

In 2018, First Investment Bank celebrated the 25th anniversary since its establishment. Over this period, it reasserted as the largest Bulgarian-owned bank in the country and with a standing as an innovative and dynamic institution with own image and trademark for high quality of service.

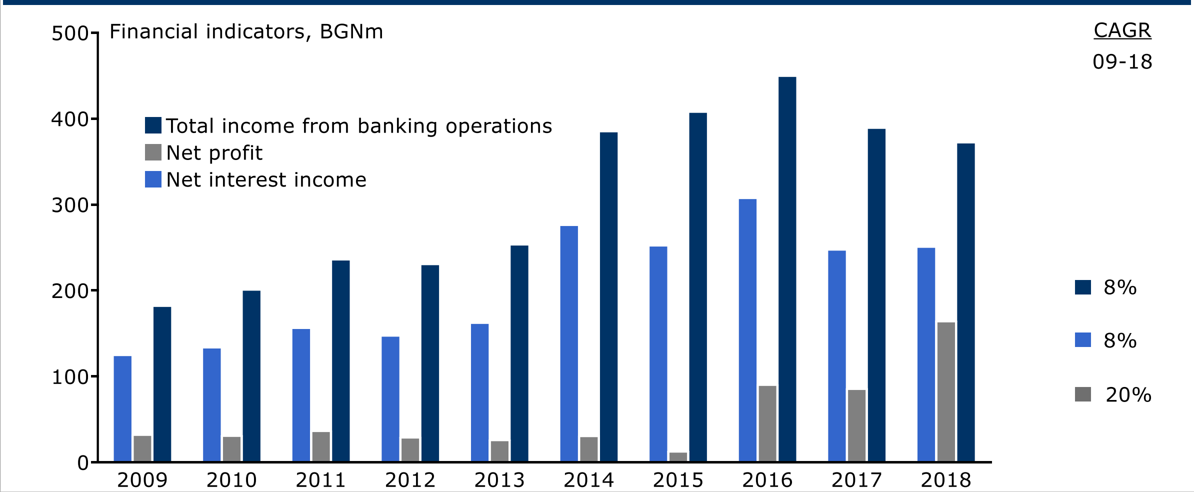
During these years of progress and growth, First Investment Bank became a preferred bank for the population, supporting good projects and forward-thinking ideas. As a pioneer institution in the areas of information technology, bank cards and international payments, it built a sound base allowing it to upgrade and advance its business model in line with the best practices and innovations in banking.

Balance-sheet indicators



Today, with assets exceeding BGN 9.3 billion, Fibank is the fourth largest bank in Bulgaria with a significant market share in the priority segments of consumer and mortgage lending. Its plans involve further expansion in the small and medium enterprise segment, as well as maintaining its position among the leading in corporate banking.

Financial indicators



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.

PARTICIPATIONS AND MEMBERSHIPS

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

MARKET POSITION[7]

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

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

MARKET SHARE[8]

- 8.82% of bank assets in Bulgaria
- 10.69% of loans in the country
  - 12.82% of corporate lending
  - 9.27% of consumer lending
  - 6.68% of mortgage lending
- 9.57% of deposits in the country
  - 11.98% of deposits from individuals

CORRESPONDENT RELATIONS

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

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

BRANCH NETWORK

As at 31 December 2018 First Investment Bank had a total of 155 branches and offices: 154 branches and offices, incl. Head Offices, throughout Bulgaria and a foreign branch in Cyprus.

SUBSIDIARIES

First Investment Bank AD had eleven subsidiary companies as at 31 December 2018: First Investment Bank - Albania Sh.a., Diners Club Bulgaria AD, Fi Health Insurance AD, 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 regarding subsidiary companies see note 36 “Subsidiaries” of the Unconsolidated Financial Statements as at 31 December 2018.

[8] Market shares are based on unconsolidated data from the BNB.

AWARDS 2018

- First Investment Bank was awarded as Favorite Brand of Bulgarians in the Banks category of the competition My Love Marks. The Bank also ranked among the top three in two other categories: Favorite Employer and Innovative Brands.
- Fibank won second place in the Innovations category of the international Efma-Accenture DMI Awards 2018 for its microchip debit card for children and teens, as well as for the Bank's early financial education program.
- Mrs. Maya Georgieva, Deputy Chair of Fibank Supervisory Board, received a prize at the Banker of the Year 2018 awards organized by the Banker newspaper for overall contribution to the development of the banking system and for prudent management of market risk challenges.
- Mr. Jivko Todorov, Chief Financial Officer of the Bank, took the first prize in the Strategy for Development of the Finance Function category of the prestigious CFO of the Year 2018 awards organized by EY Bulgaria.

- First Investment Bank won the Innovation Award at the Product of the Year 2018 competition for its debit cards for children and teens.
- First Investment Bank won the Innovation and Continuous Improvement of the Quality of Products and Services prize in the Company of the Year competition organized by Business Lady Magazine.
- Fibank's Smart Lady business program won a prestigious award in the European Excellence Awards 2018, distinguishing the best public relations and marketing communications projects in Europe.
- Fibank won the special Community Service Award for financial inclusion of children and youth and a Forbes Trusted Partner Certificate at the 8-th edition of the annual Forbes Bulgaria Business Awards.

- First Investment Bank received the Socially Responsible Campaign of the Year award at the annual b2b Media Awards 2018 for its traditional charity calendar.
- The Bank was awarded as Benefactor for Innovative Education at the seventh edition of the DigitalKidZ conference.

FIRST INVESTMENT BANK: DATES AND FACTS

1993	First Investment Bank was established on 8 October 1993 in Sofia. Fibank was granted a full banking license for carrying out operations in Bulgaria and abroad.
1994-95	The Bank developed and specialized in servicing corporate clients.
1996	First Investment Bank was the first in Bulgaria to offer services enabling banking from home or from the office. Fibank was the first bank to receive a 5-year loan from the European Bank for Reconstruction and Development for financing small and medium-sized enterprises in Bulgaria.
1997	The Bank started issuing Cirrus/Maestro debit cards, Eurocard/Mastercard credit cards and the American Express card. Fibank was the first Bulgarian bank to offer debit cards with international access. Thompson Bankwatch awarded Fibank its first credit rating. The Bank opened its first branch abroad, in Cyprus.
1998	First Investment Bank obtained its first syndicated loan from foreign banks. The Bank negotiated financing for the import of investment goods from a number of EU countries, guaranteed by export insurance agencies.
1999	The Bank negotiated a syndicated loan organized by EBRD to the total amount of EUR 12.5 million. First Investment Bank received a medium-term loan for EUR 6.6 million from a German government organization for financing of Bulgarian companies. The Bank opened a foreign branch in Tirana, Albania offering banking services to Albanian companies and individuals.
2000	First Investment Bank started developing its business in the field of retail banking. Deposits from private individuals grew 2.3-fold.
2001	Fibank launched the first virtual bank branch in Bulgaria, allowing customers to bank via the Internet. The Bank was awarded the prize “Bank of the Year” by ‘Pari’ (‘Money’) daily. Maya Georgieva (Executive Director of First Investment Bank), received the prize “Banker of the Year” from ‘Banker’ Weekly.
2002	Fibank was named “Bank of the Client“ in the annual rating of ‘Pari’ daily.
2003	Products and services to individuals became the focus of the Bank’s activities. Loans to individuals increased over five times during the year. Fibank was named “Bank of the Client” for the second time in the annual rating of ‘Pari’ daily.
2004	The Bank expanded its infrastructure. The branch network expanded by 27 new branches and offices, the ATM network more than doubled. First Investment Bank was awarded the prize “Financial Product of the Year” for its Mortgage Overdraft product.
2005	Fibank acquired 80% of the capital of Diners Club Bulgaria AD. The Bank issued Eurobonds to the amount of EUR 200 million on the Luxembourg Stock Exchange. Fibank was also the first Bulgarian bank to issue perpetual subordinated bonds. Matthew Mateev (Deputy Chief Executive Director of First Investment Bank) was awarded the prize “Banker of the Year” by ‘Banker’ weekly.

2006	Fibank was named "Bank of the Client" for the third time in the annual rating of 'Pari' daily. First Investment Bank received a syndicated loan, to the amount of EUR 185 million, organised by Bayerische Landesbank, in which 33 banks participated. The Bank's share capital was increased from BGN 20 million to BGN 100 million by transforming retained profits into new shares.
2007	First Investment Bank realized the biggest banking initial public offering of shares in Bulgaria and became a public company. „Fibank Mobile" – the first banking mobile portal created by the Bank with useful financial information for its customers, started functioning. Fibank is among the first banks in Bulgaria to implement new chip technology by issuing debit and credit cards. First Investment Bank – Albania Sh.a. was issued a full banking license in Albania.
2008	Fibank implemented new centralized and integrated core banking information system FlexCube. First Investment Bank received a syndicated loan to the amount of EUR 65 million from 11 leading banks all over the world. Fibank became the first bank in Bulgaria with its own corporate blog. The Bank received the prestigious card business award OSCARDS of Publi-News in the Europe region for innovation in the card business.
2009	Fibank became the first and only bank in Bulgaria to start offering the sale and redemption of investment diamonds. First Investment Bank offered a new Internet service "My FIBank", which provides e-statements on bank accounts and credit cards.
2010	Fibank welcomed its one millionth client. First Investment Bank signed an agreement with IFC for cooperation in the field of trade finance. Fibank was the first Bank in Bulgaria to offer contactless payments based on PayPass technology. Fibank acquired a controlling interest in Health Insurance Fund FI Health AD.
2011	First Investment Bank was recognized as the Best Bank in Bulgaria in 2011 by the financial magazine Euromoney. New Executive Directors of the Bank were appointed – Dimitar Kostov, Vassil Christov, Svetoslav Moldovansky. Maya Georgieva (Executive Director of First Investment Bank) received the Banker of the Year 2011 award from "Banker" Weekly for market sustainability achieved and customer confidence earned.
2012	Fibank was granted "Bank of the Year" award from "Bank of the Year" Association, with the best complex performance. The Bank signed an agreement with the European Investment Fund for the financing of SME under the JEREMIE initiative. Vassil Christov, Executive Director of First Investment Bank won the prestigious award "Banker of the Year" of the "Banker" Weekly.

2013	◈ First Investment Bank AD signed an agreement with the Hungarian MKB Bank Zrt. for the acquisition of 100% of the shares of MKB Unionbank EAD. ◈ Fibank finalized the issuance of new hybrid debt (two bonds emissions) to the total amount of EUR 100 million, included in the Tier I capital. ◈ Clients were provided with the opportunity to purchase online products of investment gold and other precious metals. ◈ Maya Oyfalosh was elected Executive Director of First Investment Bank AD.
2014	◈ The merger of Union Bank EAD into First Investment Bank AD was implemented, incl. entire integration of operational systems, procedures, infrastructure, human resources, products and services ◈ First Investment Bank successfully overcame the pressure on the banking system thanks to existing high liquidity, high professionalism, as well as to the liquidity support pursuant to EC Decision C(2014) 4554/29.06.2014 ◈ Fibank was awarded as best bank in the field of retail banking from the international portal Global Banking & Finance Review.
2015	◈ First Investment Bank realized a joint project with the IFC for upgrading the systems for risk management and corporate governance in Fibank in accordance with the principles of the Basel Committee and recognized international standards. ◈ A new independent member of the Supervisory Board was elected: Mr. Jyrki Koskelo, an accomplished professional with extensive experience in the IFC. ◈ A new organizational structure of the Bank was adopted, further elaborating the control functions and introducing new positions, incl. CEO, CRO, CCO. ◈ In an effort to maintain an open line of communication with investors and enhance dialogue with minority shareholders, a Club of investors was created. ◈ First Investment Bank was distinguished as the favorite brand among financial institutions in Bulgaria by the global organization Superbrands.
2016	◈ An innovative platform was launched for electronic payments via mobile devices with contactless (NFC) function and use of digital bank cards. ◈ The Bank repaid in full the liquidity support according to decision C(2014)8959 of 25.11.2014 of the EC. ◈ Fibank successfully passed the asset quality review and the stress test of the banking system conducted in the country. ◈ New contactless debit cards for children and teenagers were developed.
2017	◈ Fibank created an integrated e-banking platform My Fibank, using a single customer service channel (Omnichannel). ◈ Changes were made to the Management Board in line with in line with the Bank's key growth and strategic development goals. ◈ First Investment Bank joined as direct participant the Pan-European Automated Clearing House STEP2 SEPA Credit Transfer (SCT). ◈ Fibank updated its core banking information system by migrating to Oracle Flexcube12. ◈ First Investment Bank developed its online consumer credit services at the Bank's internet address www.credit.fibank.bg.

HIGHLIGHTS 2018

JANUARY

- First Investment Bank and the National Guarantee Fund signed a new financing agreement under the COSME 2017 Guarantee Scheme, which aims to facilitate the access of SMEs to financing and to support the implementation of productive investment within the European Union.
- A mobile Investor Relations application was developed to provide quick access to financial information and other data and news of interest to investors.
- From January 1, 2018, the Bank started applying the new International Financial Reporting Standard (IFRS 9), introducing a revised impairment model based on expected credit losses, as well as changes in the classification and measurement of financial assets.

FEBRUARY

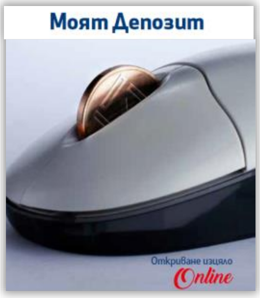
- Mr. Chavdar Zlatev was appointed as Chief Corporate Banking Officer (CCBO), Member of the Management Board and Executive Director of First Investment Bank AD.
- The Bank developed improved mortgage loan offers, with competitive interest rates and a focus on cross-selling.
- Fibank signed an agreement with the BNB for distribution of Bulgarian commemorative coins and sets of coins issued by the Central Bank.

MARCH

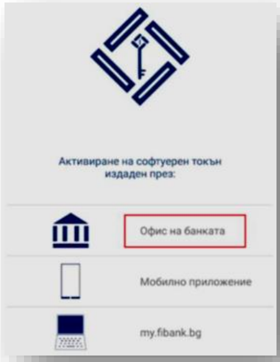
- A new Smart Lady program was launched aimed at supporting female entrepreneurs. The program mainly targets micro, small and medium-sized businesses run by women, as well as businesses producing products and services designed for women.
- A new Cash-in service was introduced, using cards issued by Fibank at ATMs of the Bank.

APRIL

- A new electronic deposit product My Deposit was launched, opened and managed entirely online through the My Fibank electronic banking system.
- A new child savings account was developed as an additional product to the Smart Lady program.
- Fibank further developed its online consumer lending services.



MAY



- A new software Fibank Token was launched as a means of signature and authentication in the electronic banking system of the Bank, featuring two-factor authentication and QR Code scanning technology.
- Promotional credit and savings products were developed on the occasion of the Bank's anniversary: 25 Years Fibank.
- The Bank implemented a project for introduction of the regulatory requirements arising from the General Data Protection Regulation (GDPR).

JUNE

- First Investment Bank established a partnership with Erste Asset Management aimed at offering on the Bulgarian market the mutual funds managed by this Austrian company.
- The offering of a specialized consumer product Restart was started for refinancing and consolidation of loans.
- A General Meeting of Shareholders was held which took decisions on retention of profit, selection of registered auditors, as well as changes in the composition of the Audit Committee and the Internal Audit management.
- A project was realized for implementation of the new regulatory requirements arising from the European legislative framework in financial markets: the MiFID II/MiFIR package.
- Fitch Ratings confirmed its ratings of the Bank. A new long-term counterparty risk rating (Ba2) was assigned by Moody's Investors Service.

JULY

- The term was extended of two guarantee agreements with the NGF providing financing to SMEs, including to agricultural producers and companies approved for assistance under the Rural Development Program.
- Ms. Ralitsa Bogoeva was appointed as Chief Information Technology and Operations Officer of the Bank.
- The parameters were optimized of packages offered by the Bank to individuals and business customers.

AUGUST

- First Investment Bank and the Bulgarian Development Bank signed an agreement for provision of financing in support of micro, small and medium enterprises under a joint program with KfW.
- The process of change management in the Bank was improved with a view to more effective implementation of the IT development strategy, as well as to enhanced monitoring of project management and development.

SEPTEMBER

- An innovative Evolve credit card of a new generation was developed, combining three brands (Fibank, Diners Club and MasterCard) into a single payment instrument.
- First Investment Bank opened a Chinese Yuan correspondent account with Industrial & Commercial Bank of China Limited, with a view of facilitating payments and supporting Bulgarian businesses in commercial and structured finance transactions.
- A campaign was launched to present the factoring services offered by the Bank to existing and potential business customers.
- The first stage was carried out of a project implementing the requirements of the Law on Payment Services and Payment Systems and of the other regulations transposing Directive (EU) 2015/2366 on payment services in the internal market (PSD2).

OCTOBER

- First Investment Bank celebrated its 25th anniversary as the largest Bulgarian-owned bank in the country and an institution with established brand for high quality of service.
- The process of risk management and validation of internal models was improved.
- A new silver coin dedicated to the Year of the Pig was exclusively offered at the offices of Fibank.

NOVEMBER

- A regular meeting was held with minority shareholders as part of the initiatives for further engagement and maintaining an open line for communication with shareholders and investors.
- A new product for business customers was introduced: Free Deposit+, featuring a 1-month fixed term deposit in BGN or EUR linked to a current account where the accrued interest is paid.
- The distribution started of gold coins for newborns, designed under Fibank's project in partnership with the New Zealand Mint.

DECEBMER

- First Investment Bank signed an agreement with the Bulgarian Development Bank for financing of micro, small and medium-sized enterprises with the support of the European Strategic Investment Fund (COSME+).
- The launch is prepared of an innovative service: a digital version of a credit/debit payment card.
- 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.

FINANCIAL REVIEW

KEY INDICATORS

	2018	2017	2016	2015	2014
Financial indicators (BGN thousand)					
Net interest income	250,885	247,578	307,623	252,380	276,269
Net fee and commission income	93,546	98,851	89,175	81,470	82,029
Net trading income	12,279	15,435	14,047	11,340	12,934
Total income from banking operations	372,363	389,314	456,545	407,975	385,292
Administrative expenses	(202,315)	(196,635)	(185,055)	(172,518)	(178,310)
Impairment	(82,500)	(77,511)	(154,776)	(327,422)	(291,827)
Net profit	164,138	85,466	90,185	12,543	30,581
Balance-sheet indicators (BGN thousand)					
Assets	9,237,837	8,642,571	8,852,470	8,681,387	8,645,835
Loans and advances to customers	5,525,957	5,018,298	4,941,062	5,131,731	5,734,295
Loans and advances to banks and fin.inst.	125,472	54,402	54,472	109,435	80,559
Due to other customers	8,021,439	7,338,375	7,691,256	7,002,880	6,507,864
Other borrowed funds	118,156	118,517	70,367	133,802	177,544
Shareholders' equity	812,913	929,284	841,751	745,382	728,409
Key ratios (in %)					
Capital adequacy ratio	16.31	16.18	15.41	15.04	15.22
Tier 1 capital ratio	16.31	16.16	15.38	14.53	13.96
CET 1 ratio	13.37	13.08	12.20	11.52	11.01
Leverage ratio	11.28	11.55	10.31	10.20	10.38
Liquid assets/deposits from customers	27.09	26.26	29.14	28.42	31.16
Liquidity coverage ratio (LCR)	251.43	320.22	313.88	330.97	350.30
Net stable financing ratio (NSFR)	134.23	136.52	137.63	132.23	116.47
Net loans/deposits ratio	68.89	68.38	64.24	73.28	88.11
Cost of risk	1.32	1.38	2.68	5.59	4.67
Net interest income/total income from banking operations	67.38	63.59	67.38	61.86	71.70
Cost/income ratio	46.28	53.31	42.04	33.55	35.33
Resources (in numbers)					
Branches and offices	155	156	158	163	169
Staff	2,651	3,045	2,991	3,063	3,129

CREDIT RATING

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

Fitch Ratings	2018	Change	2017
Long-term rating	B	=	B
Short-term rating	B	=	B
Viability rating	b	=	b
Support rating	5	=	5
Support rating floor	NF	=	NF
Outlook	Stable	=	Stable

In June 2018, Fitch Ratings affirmed entirely the ratings of First Investment Bank as follows: long-term rating „B", short-term rating „B", viability rating „b", support rating „5" and support rating floor „NF (No Floor)". The outlook on all ratings is stable.

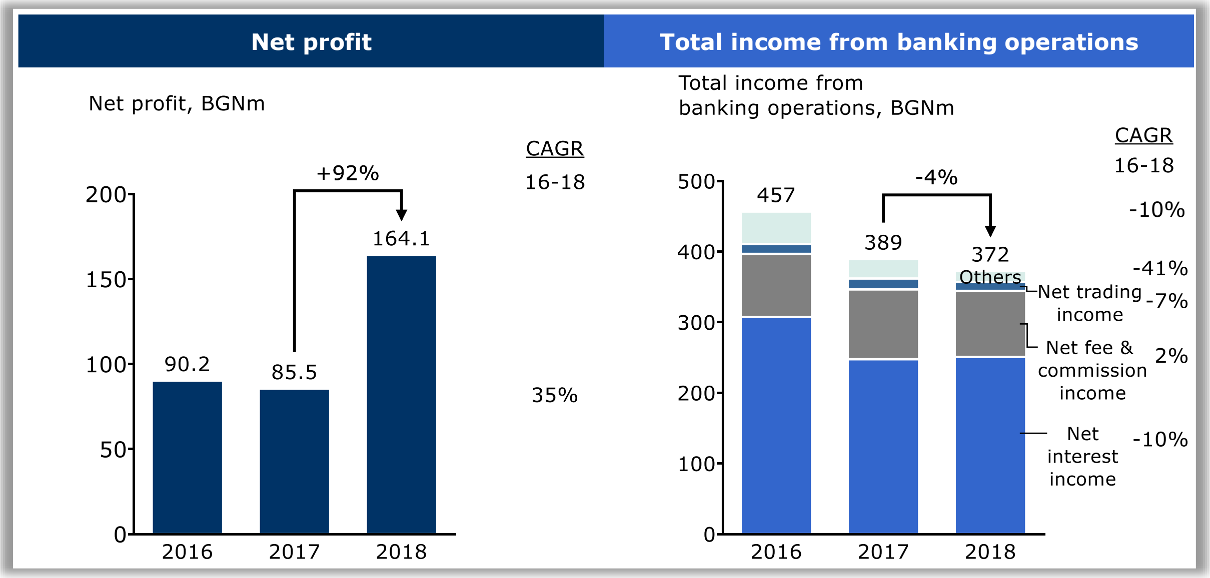
Moody's Investors Service	2018	Change	2017
Long-term rating	B1	=	B1
Short-term rating	NP	=	NP
Baseline Credit Assessment	b2	=	b2
Long-term Counterparty Risk Rating	Ba2	N/A	N/A
Short-term Counterparty Risk Rating	NP	N/A	N/A
Outlook	Stable	=	Stable

In June 2018, Moody's Investor Service assigned to First Investment Bank new counterparty risk ratings, in accordance with the updated methodology of the rating agency – long-term rating „Ba2"/ short-term rating „NP (Not Prime)". The other credit ratings of First Investment Bank remained unchanged, as follows: long-term rating „B1", short-term rating „NP (Not Prime)", baseline credit assessment „b2". The outlook on all ratings is stable.

FINANCIAL RESULTS

In 2018 First Investment Bank reported higher financial results and steady development, as net profit increased to BGN 164,138 thousand compared to BGN 85,466 thousand a year earlier. Such increase was mainly driven by the higher other income, including from sales of assets, as a result of the Bank's consistent actions to reduce non-interest-bearing assets and further optimization of its balance-sheet positions. Reported income from sale of assets for the year amounted to BGN 81,117 thousand (2017: 10,616 thousand), including the finance lease transaction at the end of the year for a significant part of the site of the former Kremikovtzi metallurgical plant with an international investor: a subsidiary of Soravia Real Estate Developers GmbH, part of the Austrian economic group Soravia. The return on equity (after tax) was 18.99% and the return on assets (after tax) was 1.85%.

Fibank improved its market position, taking fifth place on net profit among banks in the country on unconsolidated basis (2017: sixth). The market share of the Bank increased to 9.33% (2017: 7.28%).



During the year First Investment Bank performed its activity in compliance with the goals for development and the external environment and necessity for financing. The total income from banking operations amounted to BGN 372,363 thousand (2017: BGN 389,314 thousand), as the decrease registered in net fee and commission income and other operating income is partialy compensated by the growth in net interest income, generated in an environment of continuing low interest rates.

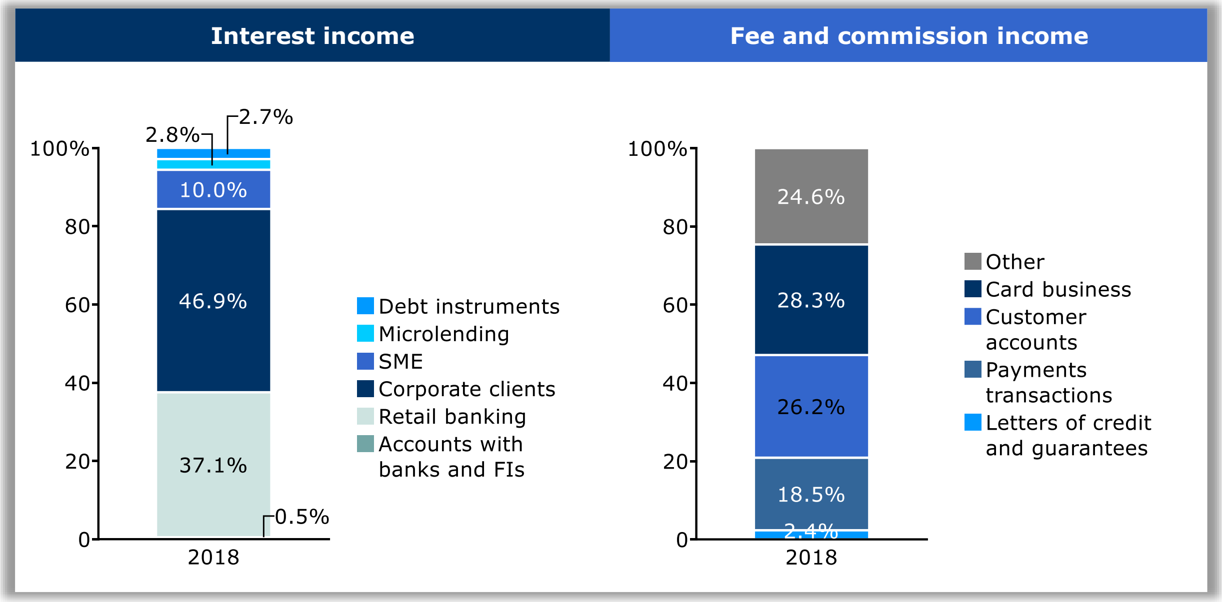
For 2018, net interest income amounted to BGN 250,885 thousand or 1.3% more than the previous year (2017: BGN 247,578 thousand), and remained a major source of income for the Bank, constituting 67.4% of total operating income (2017: 63.6%). Fibank's operations abroad (Cyprus Branch) had an unsignificant share forming hardly 0.3% of the Bank's net interest income (2017: 0.2%).

For the reporting period, interest income decreased to BGN 312,212 thousand (2017: BGN 340,218 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 all main business lines[9], including corporate customers (2018: BGN 146,291 thousand; 2017: BGN 169,816 thousand), as well as in the retail segment, including retail banking (2018: BGN 115,692 thousand; 2017: BGN 121,840 thousand) and microlending (2018: BGN 8,601 thousand; 2017: BGN 9,137 thousand). An increase was recorded in small and medium-sized enterprises (2018: BGN 31,213 thousand; 2017: BGN 30,703 thousand), as

[9] Business lines based on the Bank's internal criteria for customer segmentation

well as in these related to debt instruments (2018: BGN 8,853 thousand; 2017: BGN 7,945 thousand), which reflected the dynamics in the profitability and the conditions on the debt securities markets.

The last years trends in interest expenses remained, decreasing to BGN 61,327 thousand (2017: BGN 92,640 thousand) mainly due to a reduction in the expenses on customer deposits, which reached BGN 35,312 thousand against BGN 66,596 thousand a year earlier and formed 57.6% of total interest expense. During the year, First Investment Bank continued to adjust interest rates on deposit products in accordance with market conditions and competitive environment, as well as regarding the levels of liquidity. The net interest margin of the Bank amounted to 3.99% for the period.

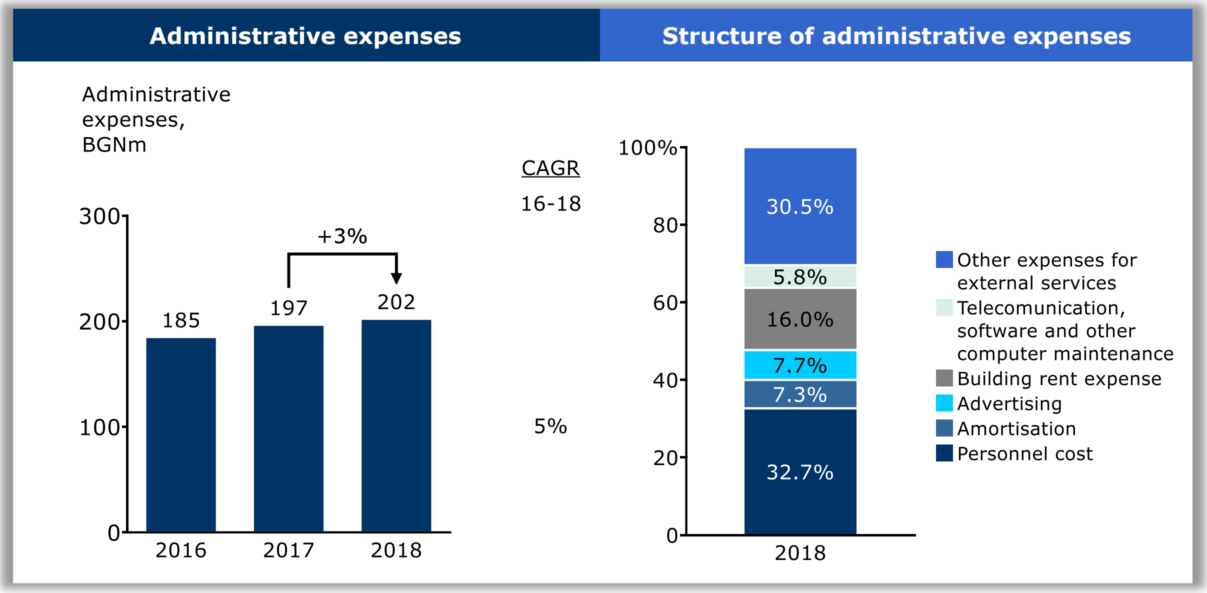


Net fee and commission income for 2018 amounted to BGN 93,546 thousand compared to BGN 98,851 thousand the previous year, forming 25.1% of total income from banking operations (2017: 25.4%), thus providing solid input to the operating profit. Fibank's operations abroad (Cyprus Branch) formed 2.1% of net fee and commission income (2017: 0.7%). An increase was reported in all main services, including card services (2018: BGN 32,642 thousand; 2017: BGN 30,152 thousand), payment operations (2018: BGN 21,401 thousand; 2017: BGN 20,365 thousand) and customers accounts (2018: BGN 30,254 thousand; 2017: BGN 29,559 thousand). A decrease was registered in the letters of credit and guarantees (2018: BGN 2,686 thousand; 2017: BGN 2,911 thousand), as well as in other services (2018: BGN 28,389 thousand; 2017: BGN 33,663 thousand), including in these related to credit activity.

For 2018, net trading income amounted to BGN 12,279 thousand (2017: BGN 15,435 thousand). The decrease reflected mainly the lower income arising from foreign exchange operations, which amounted to BGN 12,511 thousand compared to BGN 14,970 thousand a year earlier. Net expense was reported in the operations arising from debt and equity instruments, which amounted on total BGN 232 thousand for the period, compared to a net income of BGN 465 thousand for the previous year. The share of net trading income remained insignificant at 3.3% of total income from banking operations (2017: 4.0%).

Other operating income amounted to BGN 15,653 thousand compared to BGN 27,450 thousand a year earlier, arising mainly from the lower income from debt instruments, which were BGN 2,435 thousand (2017: BGN 11,644 thousand). A decrease was reported in the operating income from rents (2018: BGN 8,862 thousand; 2017: BGN 11,283 thousand), as well as from the management of loans, acquired through business combination (2018: BGN 2,038 thousand; 2017: BGN 4,458 thousand).

For the year, the administrative expenses amounted to BGN 202 315 thousand against BGN 196,635 thousand a year earlier, mainly driven by higher costs on personnel (2018: BGN 66,061 thousand; 2017: BGN 61,642 thousand), as well as for external services (2018: BGN 61,612 thousand; 2017: BGN 57,886 thousand). The building rent expenses (2018: BGN 32,462 thousand; 2017: BGN 32,443 thousand) and those for telecommunications, software and other computer maintenance (2018: BGN 11,737 thousand; 2017: BGN 11,217 thousand) remained at levels close tp the previous year, while a decrease was reported in the advertising expenses (2018: BGN 15,603 thousand; 2017: BGN 17,722 thousand) and the amortization expenses, which decreased to BGN 14,840 thousand, compared to BGN 15,725 thousand for the previous year. For the period, cost/income ratio amounted to 46.28% on an unconsolidated basis (2017: 53.31%).



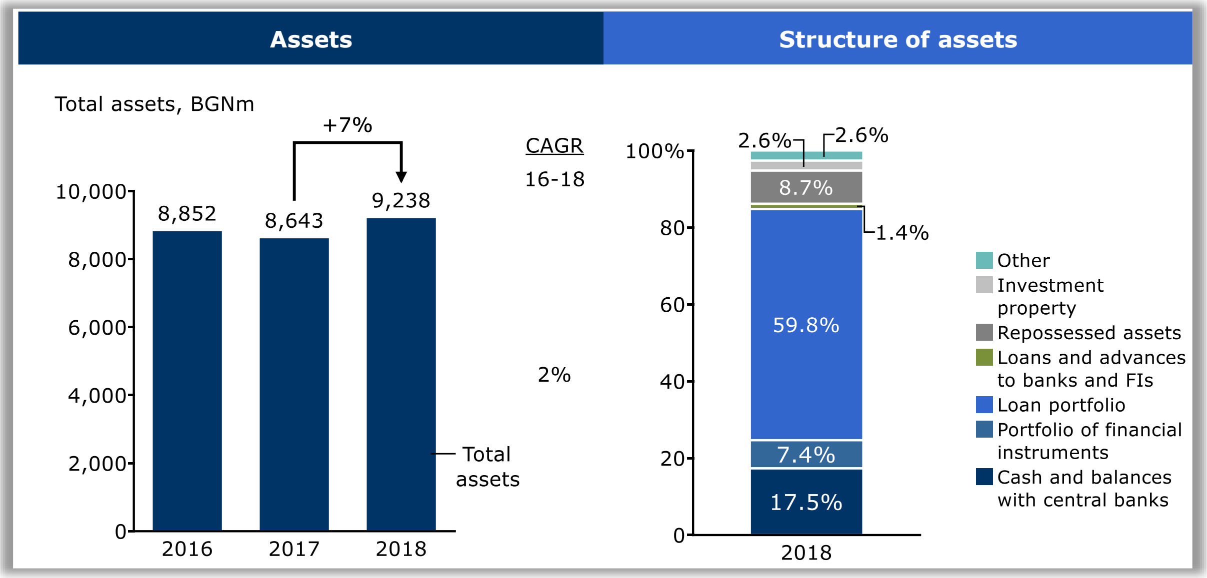
During the year an additional write-downs were made on loans, off-balance sheet commitments and other investments amounting to BGN 160,348 thousand, while the reversal of write-downs were BGN 77,848 thousand. As a result of this the net impairment for 2018 amounted to BGN 82,500 thousand (2017: BGN 77,511 thousand). Since January 1, 2018 First Investment Bank has applied the new requirements of IFRS 9, which established the model of expected credit losses for impairment of financial assets. *For further information see section „Risk management“.*

For the period First Investment Bank reported other net income amounting to BGN 64,776 thousand, which included mainly income of sale of assets (2018: BGN 81,117 thousand) and of revaluation of investment properties (2018: 13,669 thousand), as well as expenses for contributions that the Bank made to the funds for deposit insurance, restructuring and investor compensation (2018: BGN 32,339 thousand).

For further information see the Unconsolidated financial statements for the year ended December 31, 2018.

BALANCE

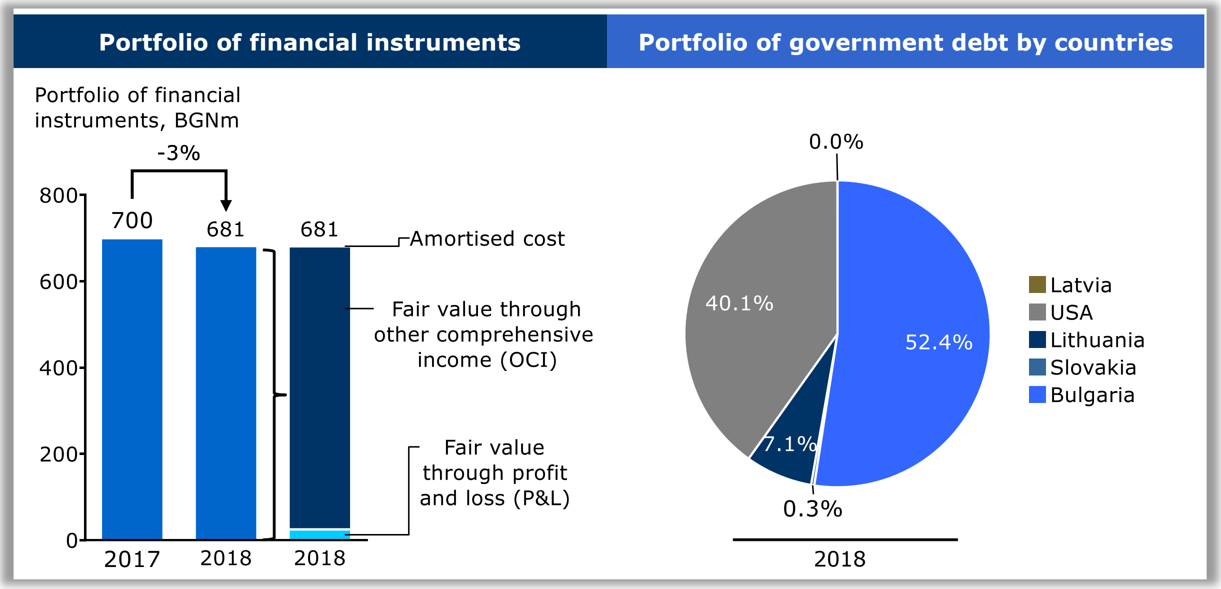
In 2018, total assets of First Investment Bank increased with 6.9% to BGN 9,237,837 thousand compared to BGN 8,642,571 thousand a year earlier. The dynamics reflected the development of the credit services with a focus on retail and SME banking in line with the Bank's plans, the reduction in repossessed assets and the increase in attracted funds. Fibank retained its leading positions among the banks in the country, as it was ranked fourth in terms of assets among banks in the country (2017: third) with market share of 8.82% on an unconsolidated basis (2017: 8.84%).



In the structure of the Bank's assets, the loans and advances to customers increased their share and remained structure-determining with 59.8% of total assets (2017: 58.1%), followed by cash and balances with central banks to 17.5% (2017: 16.5%) and investments in securities at 7.4% (2017: 8.1%). Repossessed assets decreased their share to 8.7% (2017: 11.3%) and investment property amounted to 2.6% (2017: 2.5%) of total assets. Loan/deposit ratio amounted to 68.9% compared to 68.4% the previous year, reflecting the conservative approach to credit risk management.

Cash and balances with central banks amounted to BGN 1,615,646 thousand or 13.4% more than the end of 2017 at BGN 1,425,252 thousand. An increase was reported in the receivables from central banks, which reached BGN 1,035,796 thousand at the end of the period (2017: BGN 875,355 thousand) and included mainly the minimum required reserves, which Fibank maintained in BNB, depending on the dymanics in attracted funds. First Investment Bank manages the cash funds in accordance with customer needs and maintaining optimal return. At the end of 2018 cash on hand amounted to BGN 172,145 thousand compared to BGN 187,054 thousand a year earlier. Current accounts in foreign banks amounted to BGN 407,705 thousand (2017: 362,843 thousand), as they were managed in accordance with the cash flows.

Loans and advances to banks and financial institutions increased during the year, amounting to BGN 125,472 thousand at period-end (2017: BGN 54,402 thousand). An increase was registered mainly in receivables from foreign banks and financial institutions (2018: BGN 96,571 thousand; 2017: BGN 42,722 thousand), as at less degree by these of local banks and institutions (2018: BGN 28,901 thousand, 2017: BGN 11,680 thousand).



The portfolio of investments in securities was BGN 681,464 thousand as at 31 December 2018 (2017: BGN 699,560 thousand), as the dynamics reflected an increase mainly in investments from foreign governments, including treasury bills (2018: BGN 247,145 thousand; 2017: BGN 187,488 thousand), at the expense of bonds issued by the Bulgarian government, which decreased to BGN 322,889 thousand (2017: BGN 381,349 thousand) and by foreign banks to BGN 26,480 thousand (2017: 63,730 thousand). As at 1 January 2018 First Investment Bank applied the new requirements on business models and the criteria on classification and evaluation of financial assets within the Bank's portfolios in compliance with IFRS 9. In this regard, BGN 656,038 thousand of the securities portfolio was reported at fair value through other comprehensive income (2017: 673,039 thousand), BGN 24,678 thousand at fair value through profit or loss (2017: 6,906 thousand) and BGN 748 thousand at amortized cost (2017: 19,615 thousand). The Bank's policy is to maintain a limited trading portfolio, which included mainly government bonds issued by the Bulgarian government, as well as a portfolio of equity instruments. Investments in subsidiaries remained almost unchanged during the period, amounting to BGN 36,179 thousand at the end of the period, compared to BGN 36,357 a year earlier.

As of 31 December 2018, Fibank's operations abroad (Cyprus branch) formed 0.1% of the Bank's assets and 2.5% of the liabilities, as the policy for development of the Cyprus branch's activities is focused toward the segments of micro, small business and retail banking.

Repossessed assets reported a decrease by 17.7% (BGN 172,727 thousand) to BGN 804,707 thousand (2017: BGN 977,434 thousand), in execution of the Bank's consistent policy on reduction of this type of non-interest-bearing assets. A decrease was reported in all main positions, including land, buildings and machines, and vehicles. The investment properties increased as a result of transferred during the year repossessed assets (2018: BGN 11,475 thousand), as well as revaluation made on the transfer (2018: BGN 13,669 thousand). As a result, the total amount of investment properties reached BGN 242,558 thousand folowing write-offs on sold properties amounting to BGN 798 thousand.

Other assets of the Bank amounted to BGN 110,378 thousand (2017: BGN 115,780 thousand), including deferred expenses, gold and other receivables.

For further information see the Unconsolidated financial statements for the year ended December 31, 2018.

LOAN PORTFOLIO

LOANS

In 2018, the loan portfolio of the First Investment Bank before impairment increased by 11.7% to BGN 6,265,604 thousand (2017: BGN 5,610,157 thousand), folowing the goals on priority development in the business segments of retail banking and SMEs.

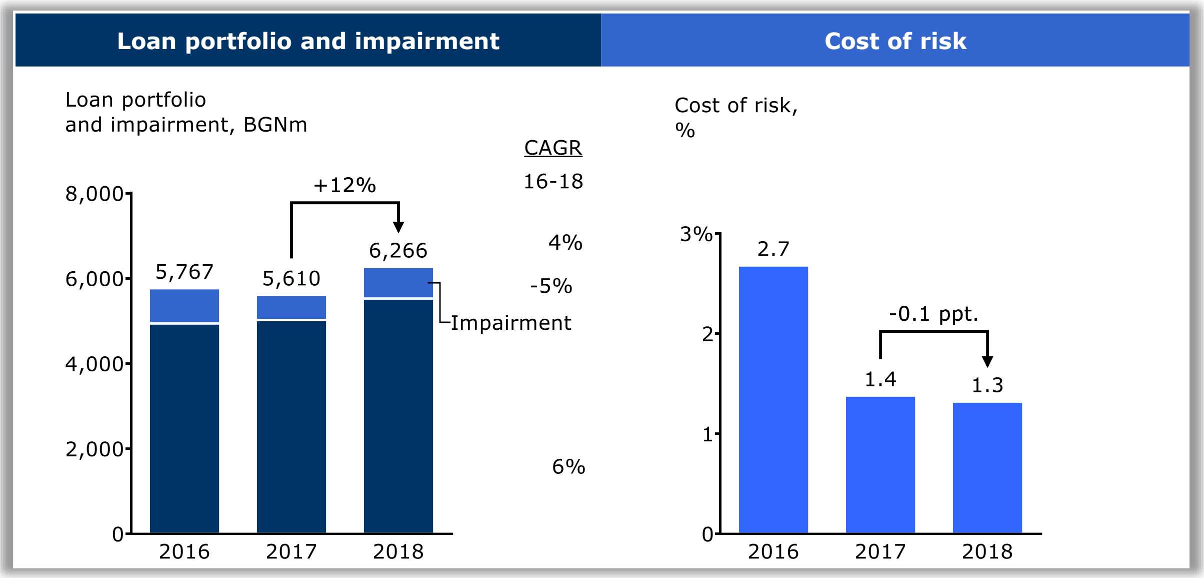
In BGN thousand / % of total	2018	%	2017	%	2016	%
Retail customers	1,629,047	26.0	1,454,273	25.9	1,412,784	24.5
Microlending	139,943	2.2	120,882	2.2	107,744	1.9
Small and medium enterprises	751,180	12.0	643,444	11.5	531,839	9.2
Corporate customers	3,745,434	59.8	3,391,558	60.4	3,714,238	64.4
Gross loan portfolio	**6,265,604**	**100**	**5,610,157**	**100**	**5,766,605**	**100**
Impairment	(739,647)		(591,859)		(825,543)	
Net loan portfolio	**5,525,957**		**5,018,298**		**4,941,062**	

An increase was registered in all business lines, including retail loans, which increased their share to 26.0% of the total portfolio (2017: 25.9%), microlending to 2.23% (2017: 2.16%) and SMEs to 12.0% (2017: 11.5%). Growth was reported also in loans to corporate customers due an increase mainly in the receivables of financial leasing. Nevertheless, their share decreased to 59.8% of gross loans (2017: 60.4%). As of 31 December 2018, First Investment Bank kept its third place in terms of loans among banks in the country with a market share of 10.69% (2017: 10.29%).

In BGN thousand / % of total	2018	%	2017	%	2016	%
Loans in BGN	3,144,452	50.2	2,718,759	48.5	2,164,785	37.5
Loans in EUR	3,022,015	48.2	2,830,968	50.5	3,400,543	59.0
Loans in other currency	99,137	1.6	60,430	1.0	201,277	3.5
Gross loan portfolio	**6,265,604**	**100**	**5,610,157**	**100**	**5,766,605**	**100**
Impairment	(739,647)		(591,859)		(825,543)	
Net loan portfolio	**5,525,957**		**5,018,298**		**4,941,062**	

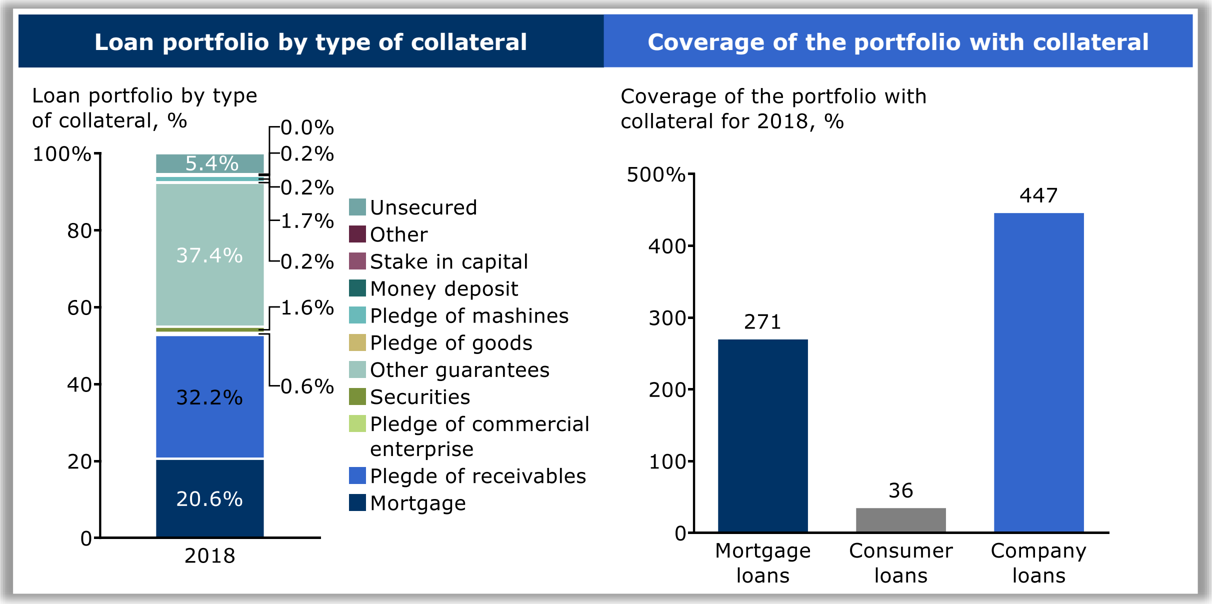
In the currency structure of the loan portfolio, the loans in BGN increased to BGN 3,144,452 thousand (2017: BGN 2,718,759 thousand) or 50.2% of the total portfolio (2017: 48.5%). An increase was reported in the loans in EUR to BGN 3,022,015 thousand at the end of the period (BGN 2017: 2,830,968 thousand), but decreased their share to 48.2% (2017: 50.5%) of gross loans. There is a Currency Board Arrangement functioning in the country, which minimizes currency risk BGN/EUR. During the year, Republic of Bulgaria submitted officialy its intention to join the Exchange rate mechanism II (ERM II) and the Single Supervisory Mechanism (SSM), which is a step towards joining the Euro Area. Loans in other currency amounted to BGN 99,137 thousand (2017: 60,430 thousand), forming 1.6% of the total loan portfolio (2017: 1.0%).

Loans granted by the Cyprus branch of First Investment Bank constituted hardly 0.1% of the gross portfolio of the Bank (2017: 0.1%).



In 2018, Fibank managed the credit risk in accordance with the set targets in compliance with the regulatory requirements of the European and local legislation. At the end of the period the impairment for calculation of the potential losses on the loan portfolio amounted to BGN 739,647 thousand, compared to 591,859 a year earlier. The main impact had the implementation of IFRS 9, including the reported effect of the initial application of the standard at the amount of BGN 258,322 thousand, as well as the writing-off of impaired exposures on the amount of BGN 210,953 thousand (2017: 308,620 thousand). During the year, an additional allowances were accrued on the amount of BGN 159,158 thousand and released on the amount of BGN 59,558 thousand.

The Bank's policy is to require customers to provide adequate collateral before granting loans. It accepts all types of collateral permitted by law and applies discount rates depending on the expected realizable value.



At the end of 2018 collaterals with the largest share in the portfolio were other guarantees at 37.4%, followed by pledges of receivables at 32.2% and mortgages at 20.6%.

For further information on credit risk, see Note 3 "Risk Management" of the Unconsolidated Financial Statements for the year ended December 31, 2018.

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. During the year, the local regulatory framework was enhanced – a new Ordinance № 37 of the BNB of 16 July 2018 on the Internal Exposures of Banks.

Type of related party	Parties that control or manage the Bank		Enterprises under common control	
In BGN thousand	2018	2017	2018	2017
Loans	1,769	753	21,915	10,309
Deposits and loans received	12,862	8,708	111,018	101,244
Deposits placed	-	-	19,704	19,604
Other receivables	-	-	22,146	23,482
Other borrowings	-	-	100	100
Off-balance sheet commitments	1,283	1,291	3,469	2,609

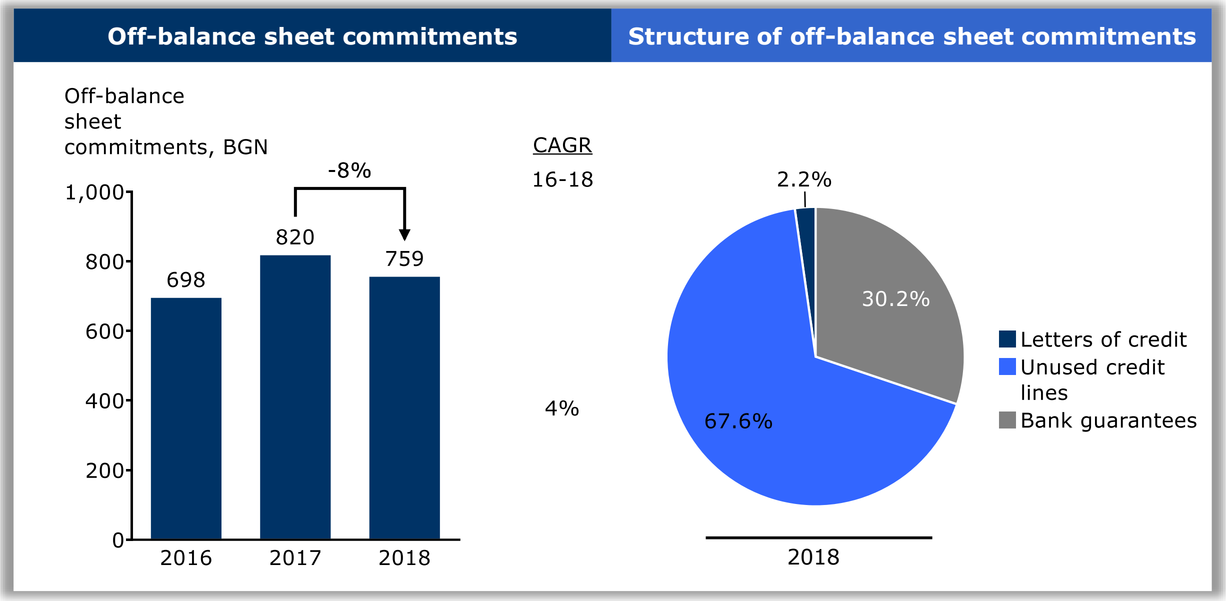
For more information regarding related party transactions, see Note 34 "Related party transactions" of the Unconsolidated financial statements for the year ended December 31, 2018.

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 also applies the unified international rules in this area, protecting the interests of the parties that are involved in the operation.

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

At the end of the reporting period the total amount of off-balance sheet commitments amounted to BGN 758,600 thousand compared to BGN 820,432 thousand a year earlier. The decrease was mainly result from the decrease in bank guarantees to BGN 228,705 thousand (2017: BGN 235,120 thousand), in the letters of credit to BGN 16,984 thousand (2017: BGN 17,796 thousand), as well as repaid other off-balance sheet commitments, which amounted to BGN 62,166 thousand at the end of 2017. An increase was reported in unused credit lines reaching to BGN 512,911 thousand, compared to BGN 505,350 thousand a year earlier.



For more information on off-balance sheet commitments, see Note 31 "Commitments and contingent liabilities" from the Unconsolidated financial statements for the year ended December 31, 2018.

ATTRACTED FUNDS

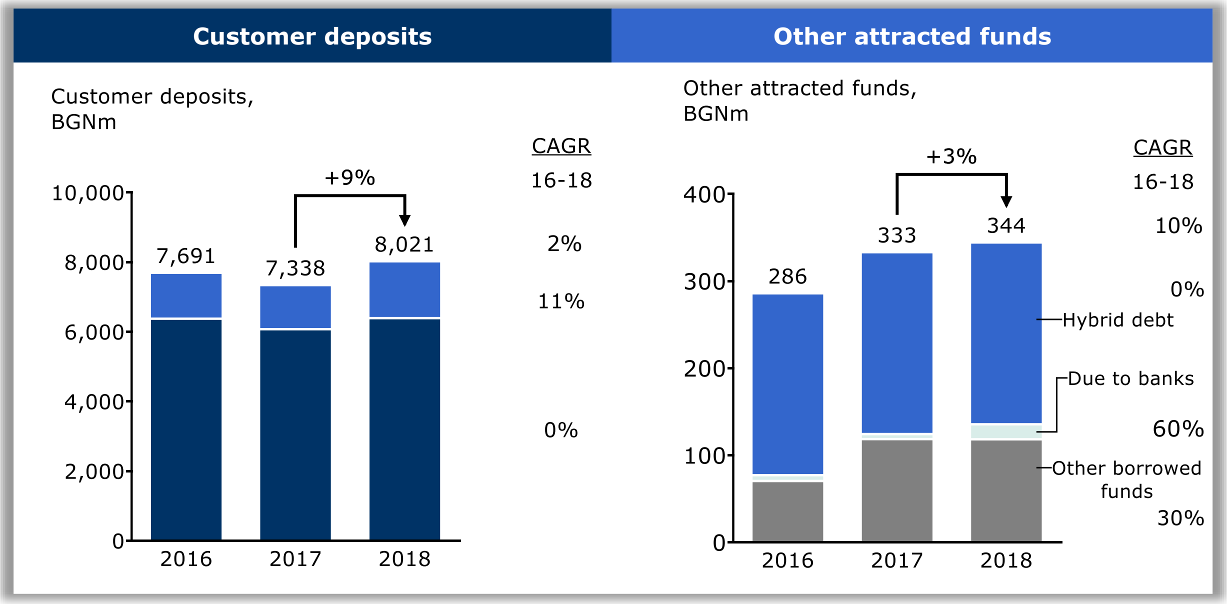
In 2018, attracted funds from customers increased by 9.3% (BGN 683,064 thousand) and reached BGN 8,021,439 thousand (2017: BGN 7,338,375 thousand), thus remaining the main source of funding for the Bank with 95.2% of total liabilities (2017: 95.1%). First Investment Bank offers various deposit and savings products, as well as package programs, in line with the market conditions and customers' needs. As at 31 December 2018, the Bank was fourth in terms of deposits among banks in Bulgaria (2017: third) with a market share of 9.57% on unconsolidated basis (2017: 9.45%) at the end of the period.

The funds attracted from individuals grew by 5.2% to BGN 6,392,855 thousand at the end of period compared to BGN 6,075,112 thousand a year earlier. They retained their structure-defining share in the total deposits due to customers at 79.7% (2017: 82.8%). In the currency structure of attracted funds from individuals, funds in BGN formed the majority at 46.2% of total deposits from customers (2017: 47.3%), followed by those in EUR at 27.1% (2016: 28.9%) and in other currencies at 6.4% (2017: 6.6%).

In BGN thousand / % of total	2018	%	2017	%	2016	%
Attracted funds from individuals	**6,392,855**	**79.7**	**6,075,112**	**82.8**	**6,376,583**	**82.9**
In BGN	3,709,363	46.2	3,467,565	47.3	3,381,722	44.0
In EUR	2,171,366	27.1	2,123,010	28.9	2,483,865	32.3
In other currency	512,126	6.4	484,537	6.6	510,996	6.6
Attracted funds from corporate, state-owned and public institutions	**1,628,584**	**20.3**	**1,263,263**	**17.2**	**1,314,673**	**17.1**
In BGN	961,766	12.0	771,439	10.5	677,640	8.8
In EUR	494,422	6.2	333,630	4.5	289,484	3.8
In other currency	172,396	2.1	158,194	2.2	347,549	4.5
Total attracted funds from customers	**8,021,439**	**100**	**7,338,375**	**100**	**7,691,256**	**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 28.9% to BGN 1,628,584 thousand (2017: BGN 1,263,263 thousand) as a result of the consecutive Bank's policy of cross sales, development of transactional business in compliance with the new technologies and European payment infrastructure, as well as maintaining long-term relations with customers. At the end of 2018 their share increased to 20.3% of total deposits from customers (2017: 17.2%). In the currency structure of attracted funds from corporates and institutions, funds in BGN formed 12.0% of total deposits from customers (2017: 10.5%), those in EUR at 6.2% (2017: 4.5%), while those in other currencies at 2.1% (2017: 2.2%).



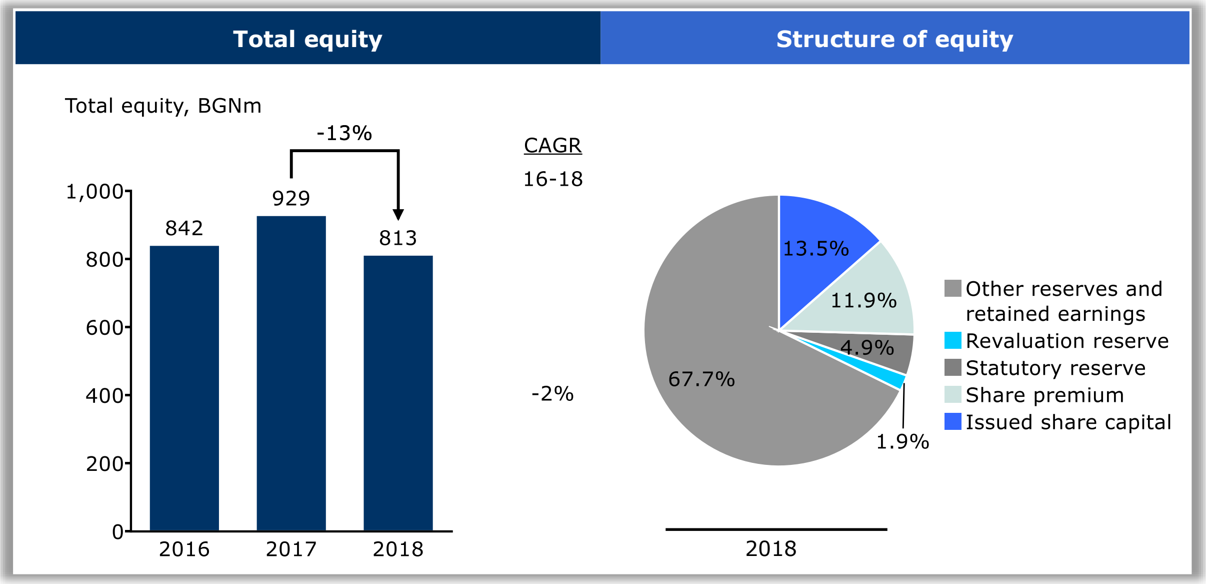
Other borrowed funds amounted to BGN 118,156 thousand as at 31 December 2018 compared to BGN 118,517 thousand a year earlier, as the decrease in liabilities on the acceptances under letters of credit (2018: BGN 13,553 thousand; 2017: BGN 16,941 thousand) was partialy compensated by the increase in financings from financial institutions (2018: BGN 31,078 thousand; 2017: BGN 28,242 thousand). They included attracted funds from the European Investment Fund under the JEREMIE 2 initiative at BGN 13,674 thousand (2017: BGN 24,254 thousand), from the Bulgarian Development Bank AD at BGN 17,336 thousand (2017: BGN 3,615 thousand) and from the Agriculture State Fund at BGN 68 thousand (2017: 373 thousand). *For more information see section „Europrograms“.* As at the end of the year the amortized cost of the debt related to agreements for full swap of profitability amounted to BGN 73,525 thousand (2017: BGN 73,334 thousand).

For 2018 the liabilities due to banks amounted to BGN 17,243 thousand, compared to BGN 5,743 thousand a year earlier.

For more information on borrowings see the Unconsolidated Financial Statements for the year ended December 31, 2018.

CAPITAL

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.



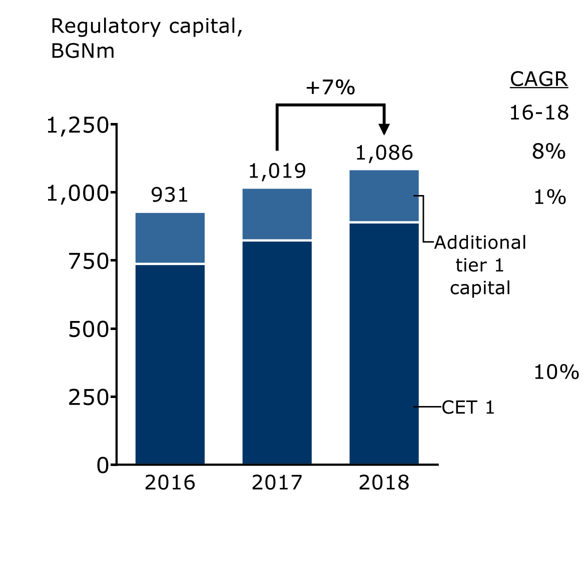
In relation to the effect of the initial application of IFRS 9 on other reserves and retained earnings, which amounted to BGN 550,671 thousand at the end of the period (2017: BGN 658,399 thousand), the total equity of First Investment Bank decreased by 12.5% to BGN 812,913 thousand (2017: BGN 929,284 thousand).

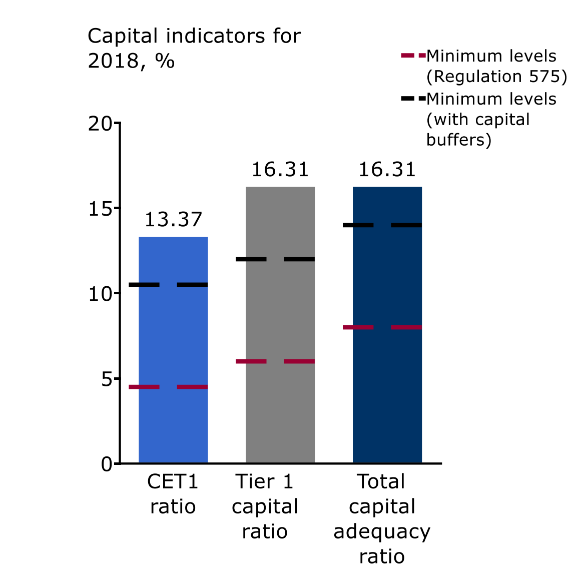
REGULATORY CAPITAL

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 2018, 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 8.1% to BGN 889,922 thousand (2017: 823,575 thousand). As a result of this, tier 1 capital also grew to reach BGN 1,085,505 thousand (2017: BGN 1,017,817 thousand) at the end of the period. The total own funds amounted to BGN 1,085,505 thousand compared to BGN 1,018,717 thousand a year earlier.

As at 31 December 2018, First Investment Bank had issued two hybrid instruments (bond issues) with an original principal in the amount of EUR 40 million (ISIN: BG2100008114) and EUR 60 million (ISIN: BG2100022123), which fully comply with the requirements of Regulation (EU) No 575/2013 and are included in the additional tier 1 capital. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. The amortised cost of the hybrid debt at the end of the period was BGN 208,786 thousand remaining unchanged compared to a year earlier. Both hybrid bond issues are admitted to trade on a regulated market at the Luxembourg Stock Exchange.





For the purpose of reporting large exposures and qualifying holdings outside the financial sector, First Investment Bank applies the definition of eligible capital, which includes tier 1 capital and tier 2 capital, which cannot exceed 1/3 of tier 1 capital. As at 31 December 2018, the eligible capital of First Investment Bank, calculated in accordance with Regulation (EU) No 575/2013 and Ordinance No7 of BNB for the organization and management of risks in banks amounted to BGN 1,085,505 thousand.

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

In this regard, at the beginning of 2018, it was decided during the transitional period until 2022, First Investment Bank to apply the measures under Article 473a of Regulation (EU) No 575/2013, including the additional relief provided for in paragraph 4 - the so-called dynamic part of the transitional treatment.

CAPITAL REQUIREMENTS

At end-2018 the capital indicators of First Investment Bank were as follows: the common equity tier 1 ratio was 13.37%, the tier 1 capital ratio was 16.31% and the total capital adequacy ratio was 16.31%, exceeding the minimum regulatory capital requirements – respectively 4.5%, 6.0% and 8.0%, definited in Regulation (EU) № 575/2013.

In BGNth/% of risk exposures	2018	%	2017	%	2016	%
CET 1 capital	889,922	13.37	823,575	13.08	737,284	12.20
Tier 1 capital	1,085,505	16.31	1,017,817	16.16	929,047	15.38
Own funds	1,085,505	16.31	1,018,717	16.18	930,847	15.41
Total risk exposures	**6,656,398**		**6,296,788**		**6,042,247**	

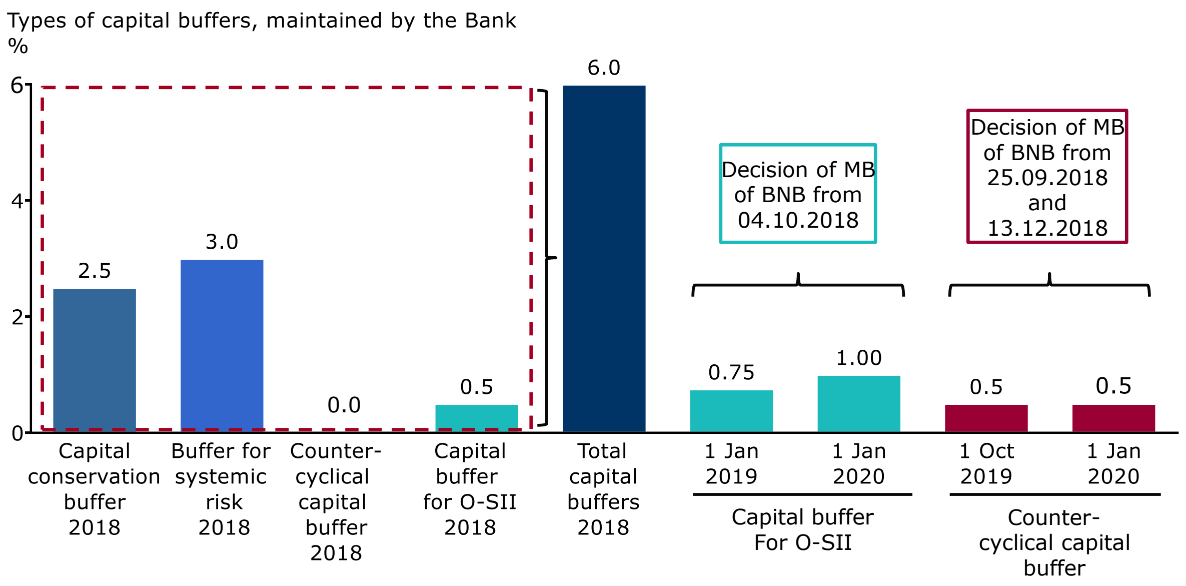
In 2018 the application of complex measures with regards to capital levers in key areas were continued, including through profit retention, diversification of the loan portfolio, maintaining high discipline with regards to risk management and increasing profitability and income from banking operations.

CAPITAL BUFFERS

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

First Investment Bank maintains a capital conservation buffer, comprised of common equity tier 1 capital, equal to 2.5% of the total risk exposure of the Bank, as well as buffer for systemic risk covered by common equity tier 1 capital with the aim for decreasing the effect of potential long-term non-cyclical system or macroprudential risks in the banking system in the country. In 2018 the level of the capital buffer for systemic risk applicable to all banks in Bulgaria remained unchanged at 3% of the total risk exposures in the country.

Capital buffers



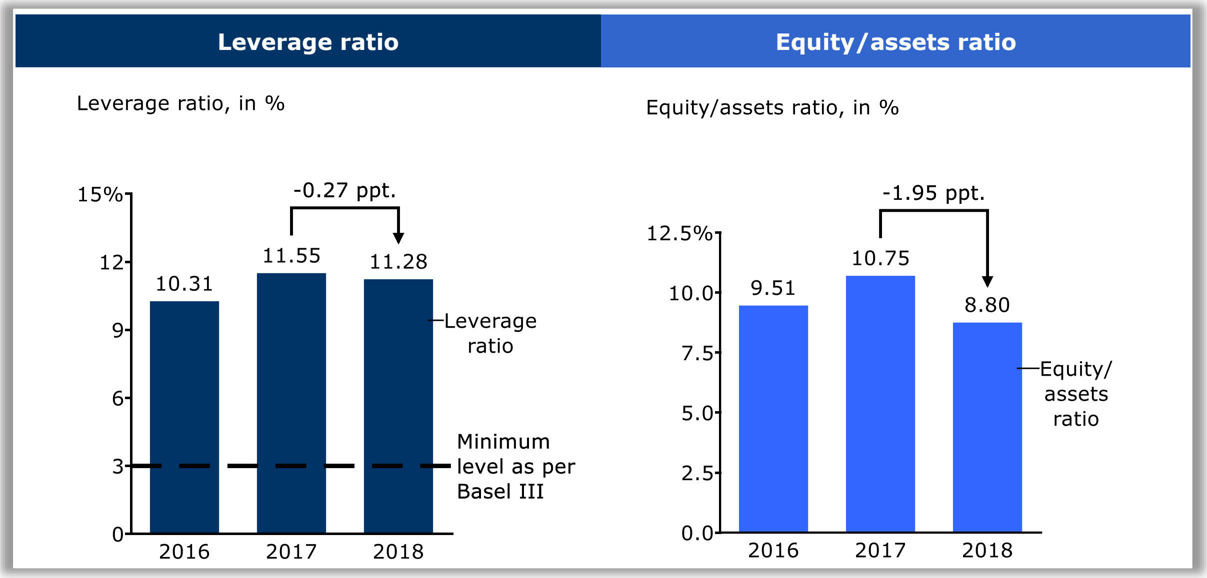
With the aim for protection of the banking system against potential losses arising from accumulated cyclical systemic risk in periods of excessive credit growth, the banks in Bulgaria, incl. Fibank maintains countercyclical capital buffer, applicable to credit risk exposures in the Republic of Bulgaria. Its level is determined by the Bulgarian National Bank each quarter as during the whole of 2018, as well as to the end of third quarter of 2019 is defined at 0%. With a decision of MB of BNB dated from 25.09.2018 and 13.12.2018 the level of countercyclical capital buffer is defined at 0.5% for the fourth quarter of 2019 (in force as of 1.10.2019) and for the first quarter of 2020 (in force as of 01.01.2020).

In addition, the determined by BNB other systematically important institutions (O-SII) in the country among which First Investment Bank AD should maintain a buffer for O-SII with a view on their significance for the national economy and financial system. 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 0.5% for 2018 and it will gradually grow to 1% in 2020. With a decision of MB of BNB dated from 4 October 2018 the levels of the buffer for O-SII applicable for First Investment Bank for the period 2019-2020 were confirmed, as follows: 0.75% for 2019 and 1.0% for 2020.

LEVERAGE

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

First Investment Bank calculates the leverage ratio by matching its Tier 1 capital to the total exposure of the Bank (assets, off-balance sheet items, and other exposures to derivatives and securities financing transactions), subject to the requirements of Delegated Regulation (EU) 2015/62 of the Commission concerning the leverage ratios and the other applicable regulations. As at 31 December 2018, the leverage ratio amounted to 11.28% on an unconsolidated basis compared to 11.55% for the previous period.



First Investment Bank has written rules in place to identify, manage and monitor the risk of excessive leverage resulting from potential vulnerability of the Bank related to the maintained levels of leverage. The risk of excessive leverage is currently monitored based on specific indicators, which include the leverage ratio, calculated in accordance with applicable regulatory requirements, as well as 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 a decrease in the Tier 1 capital resulting from potential losses. The leverage ratio is also part of the capital indicators of the system for ongoing monitoring and early warning, and is incorporated in the framework for risk management at the Bank, including in the management processes in case of potential financial risks.

For more information on capital see the Unconsolidated Financial Statements as at 31 December 2018.

RISK MANAGEMENT

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

In 2018 the Bank performed its activity in line with the approved risk strategy and in accordance with the goals for development, by further enhancing the control mechanisms with respect to risks inherent to the banking activity, including developing additional capital and liquidity buffers, maintaining an effective control environment with respect to the current business processes, as well as refining the internal risk management framework in compliance with the regulatory requirements and standards, incl. IFRS 9.

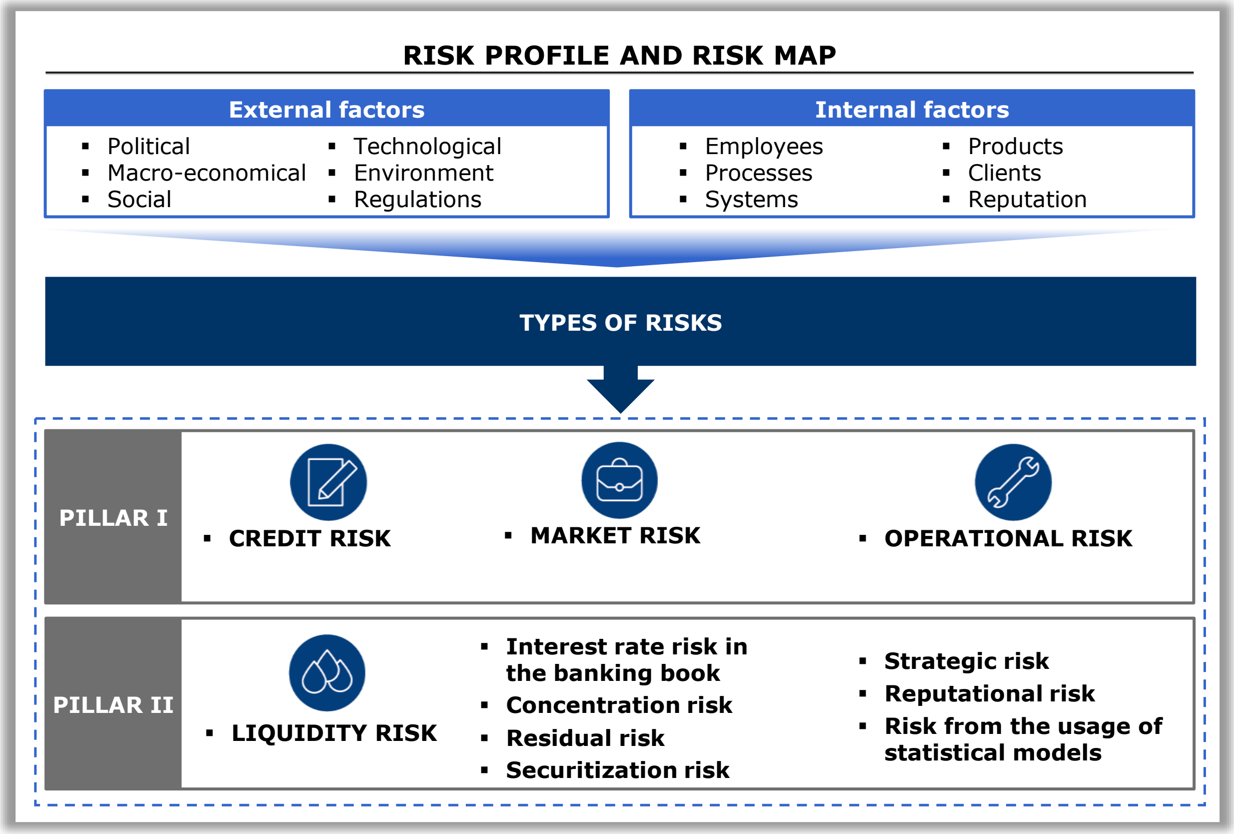
RISK MANAGEMENT STRATEGY

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

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



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

RISK APPETITE

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

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

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

RISK CULTURE

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

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

- risk taking within the approved risk appetite;
- approval of every risk in accordance with the effective approval levels and the internal risk management framework;
- current/ongoing monitoring and risk management;
- responsibility of employees of all levels to the management and escalation of risks, while applying a conservative and future-oriented approach in their assessment;
- effective communication and constructive criticism aimed at making rational and informed decisions, as well as creating conditions for open and positive engagement throughout the organization;
- applying appropriate incentives to contribute to sound and efficient management, discouraging risk-taking in excess of the level acceptable to the Bank.

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

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

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

COLLECTIVE RISK MANAGEMENT BODIES

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

Risk committee advises the Supervisory Board and the Managing Board in relation to the overall current and future strategy on ensuring compliance of the risk policy and risk limits, risk-taking propensity and control on its execution by the senior management. As at 31 December 2018, the Risk Committee consisted of three members of the Supervisory Board of First Investment Bank AD. The Chairman of the Risk Committee is Mr. Evgeni Lukanov, Chairman of the Supervisory Board of the Bank.

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

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

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

The **Restructuring Committee** is a specialized internal bank body responsible for the monitoring, evaluation, classification, impairment and provisioning of risk exposures and commitments. It also gives motivated written proposals to the Managing Board, and decides on restructuring of exposures according to the current authority levels in the Bank. The Chairman of the Restructuring Committee is the Director of the Impaired Assets department, while the rest of its members include: representatives from Credit Risk Management, Monitoring and Provisioning; Corporate Banking; SME Banking; Retail Banking; Legal and Finance departments. In the meetings of the Restructuring Committee don't participate employees of the Bank who were 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 Chairman of Operational Risk Committee is the director of Risk Analysis and Control department and the other permanent members are representatives of the following departments: Card Payments; Compliance – Regulations and Standards; Accounting; Operations and Branch Network. As additional members can participate representatives from Security, Legal and Human Capital Management departments.

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 and control.

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. 106 of the Law on Measures against Money Laundering (LMAML), and exercises control over the application of requirements for combating and preventing fraud. The Compliance function in the Bank also includes specialized units engaged in customer satisfaction and control of investment services and activities. During the year, the Bank implemented a project for bringing its activity in line with the new requirements of the Law on Measures against Money Laundering, transposing in the Bulgarian legislation Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the 4th AML Directive).

SYSTEM OF LIMITS

First Investment Bank applies a system of internal limits for different types of risks, in line with the regulatory requirements and the Bank's risk management strategy, including limits by client/counterparty, type of instrument and portfolio, sector, market, etc. The limits applied are monitored on a regular basis and are subject to periodic review and update in line with the risk appetite, market conditions and current regulatory framework.

For more information on the internal limits for different types of risk, see the subsections on credit risk, market risk, liquidity risk, operational risk, as well as the Unconsolidated Financial Statements for the year ended 31 December 2018.

RECOVERY PLAN

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

In 2018, as part of its annual review process, First Investment Bank updated its recovery plan in line with the regulatory requirements applicable to banks in the country, including those of the Commission Delegated Regulation (EU) 2016/1075 on the regulatory technical standards specifying the content of recovery plans and resolution plans, as well as according to the Guidelines of the European Banking authority in this area. The range of critical functions in the Bank was refined; the recovery options/measures were further developed, including the timeframe for potential implementation of each one of them. The reporting frequency and levels of risk indicators were reviewed bearing in mind the regulatory requirements, macroeconomic environment, accountability and efficiency in managing the financial resources of the Bank. Stress scenarios were updated, and the underlying assumptions were detailed and further developed.

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

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

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

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

CREDIT RISK

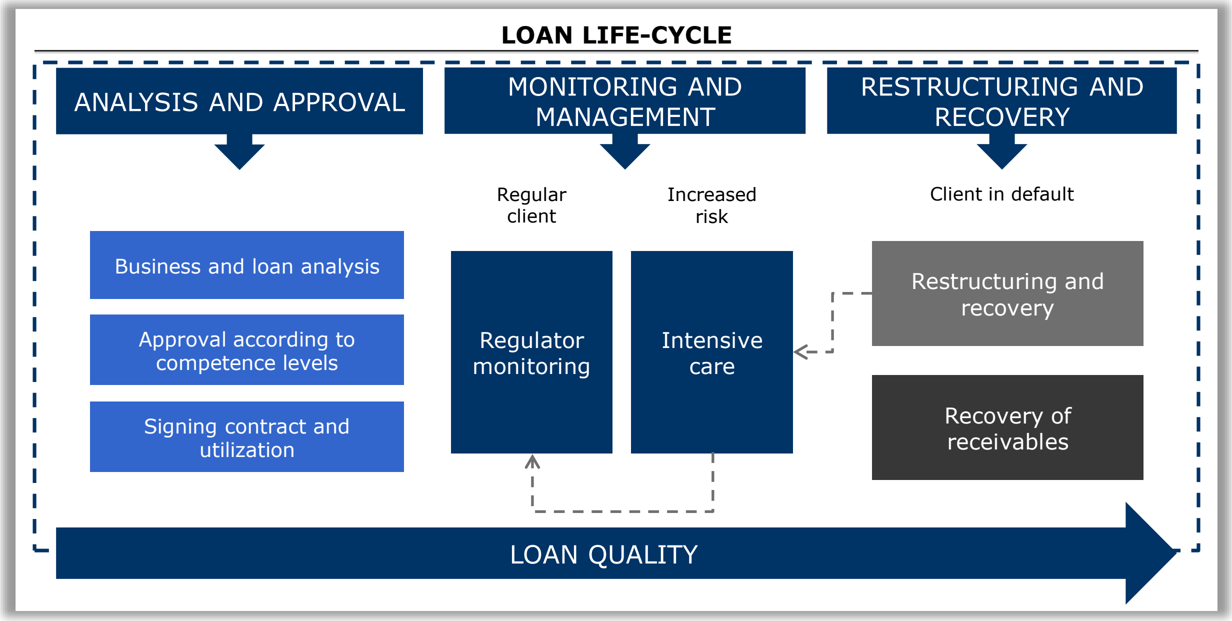
Credit risk is the risk arising from the debtor's inability to meet the requirements of a contract with the bank or inability to act in accordance with the agreed terms. The different types of credit risk include concentration risk, residual risk, dilution risk, counterparty risk, and settlement risk.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

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

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

LOAN PROCESS

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



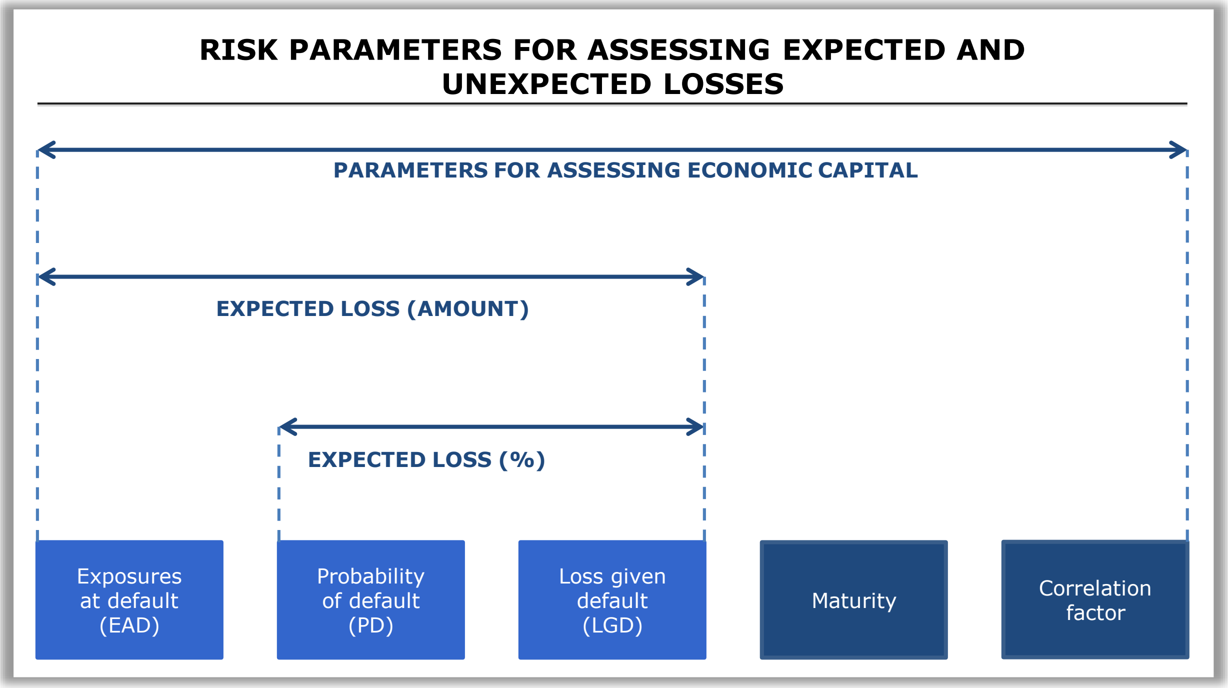
First Investment Bank maintains systems for the ongoing administering and monitoring of different portfolios and exposures to credit risk, including aiming at recognizing and managing exposures in default and performing adequate value adjustments for credit risk. Considering the impact of the economic cycle, Fibank 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 the Bank functions a separate department for Intensive loan management, which manages the exposures of customers transferred from the business units with increased credit risk compared to the initial disbursement of the loan, as well as from the impaired assets unit, when there are indicators for recovery of the exposure and objective possibility for future regular servicing. The department was established as part of the consistent efforts of the Bank for enhancing the effective management of the loan portfolio, the early warning and management of exposures, as well as for decreasing the overall level of credit risk for the Bank.

MODELS FOR CREDIT RISK MEASUREMENT

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

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



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

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

In 2018, the Bank further developed its project finance evaluation models (including for real estate, industrial projects and financing of individual fixed assets), applying quantitative analysis (based on estimated cash flows) and qualitative evaluation of the project and investor management, market environment and credit structuring, as well as a separate evaluation of the assets being funded. The procedure for internal rating of corporate and SME clients of the Bank was refined and improved. The escalation and approval processes and the units responsible were elaborated, as well as the timeframes and obligations for periodic review and update. The scoring procedures for retail customers were automated with a view to increasing efficiency and reducing loan approval times.

During the year, a new process for assessment and validation of the risk management models used by the Bank was introduced to ensure their reliability, accuracy and effective implementation. It envisages the preparation of regular validation reports in the Bank: brief/monitoring quarterly reports and extended annual validation reports, covering both quantitative analysis (statistical, econometric and other quantitative approaches) and analysis of the qualitative (non-statistical) characteristics, in compliance with the current regulatory requirements and good banking practices in the area.

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.

First Investment Bank currently monitors the relative regulations, as well as the acknowledged standards and good practices in this area, aiming constantly further development and enhancement of the rules and processes existing in the Bank with respect to the acceptance, evaluation and management of collaterals, including with regards to the methods for valuation.

PROBLEM EXPOSURES AND IMPAIRMENT

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

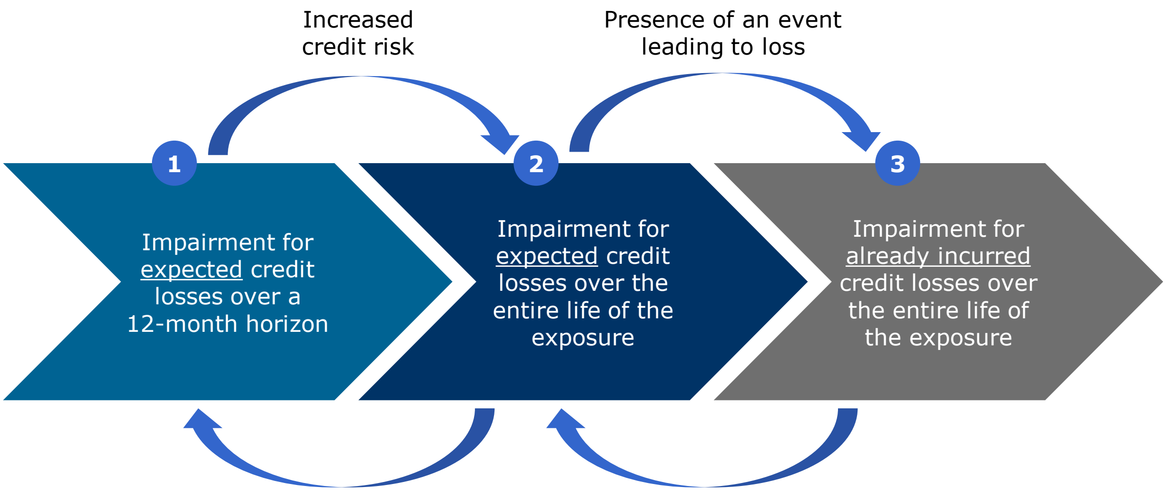
In 2018 the Bank managed the credit risk in line with the risk strategy and external environment, with a view to on-time diagnosis and taking measures in accordance with the customers' capabilities and the Bank's policy on risk taking, including actions for centralized management and early collection of overdue receivables.

As at 31 December 2018, the ratio of exposures over 90 days past due under the FinREP framework decreased by 3.9 percentage points to 10.4% of gross loans and advances, as a result of the credit risk management measures implemented during the year, including sale/assignment of loans and write-off of impaired exposures.

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.

Since 1 January 2018 First Investment Bank has applied new rules for impairment and provisioning of risk exposures in compliance with the requirements of IFRS 9. According to them an allowance for impairment loss is calculated equal to the expected credit losses over the life of the instrument, if the credit risk of the financial instrument has increased significantly since the original recognition. Otherwise, an allowance for impairment losses is calculated equal to the expected credit losses over a 12-month horizon.

IMPAIRMENT OF RISK EXPOSURES



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

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

MARKET RISK

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

The management of market risk is based on applying internal limits and written rules and procedures with respect to the processes and control environment. For the purpose of assessing and minimizing market risk the Bank applies internal models for assessment, which are based on the "Value at Risk"

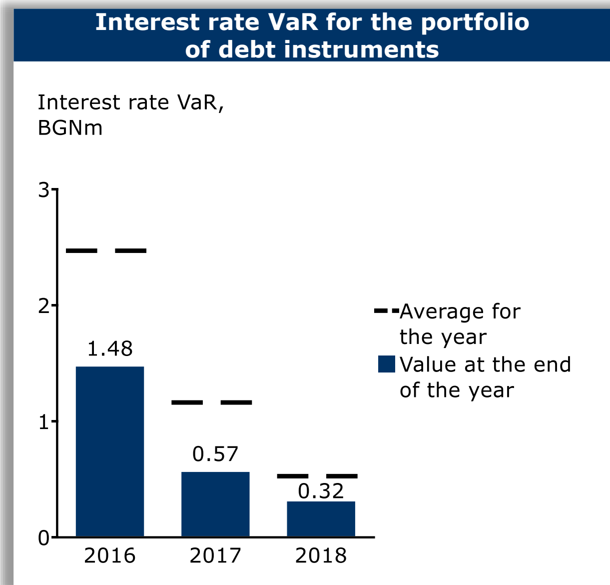
(VaR) concept, as in addition other duration analyses, calculation of stressed VaR, stress tests and scenarios are used.

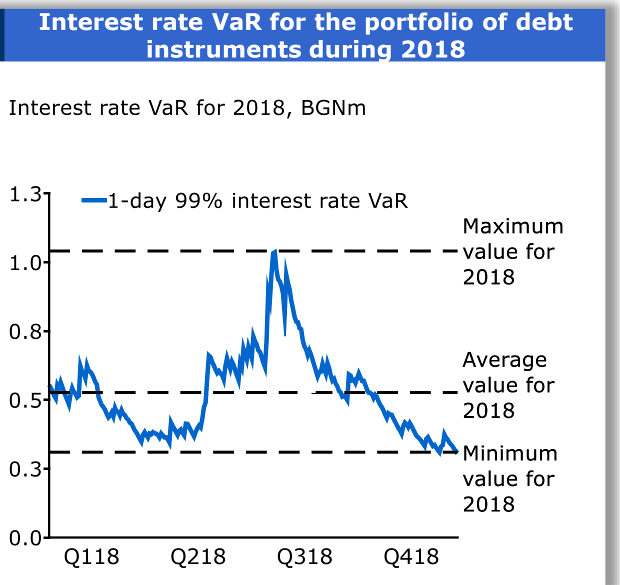
The limits applied by the Bank for debt and capital instruments are structured with the aim for minimizing the risk and implementing a wider and risk-based framework of limits, which are directly connected with the risk profile of the investments, as well as with the dynamics of the risk profile in time.

INTEREST RATE RISK

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

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



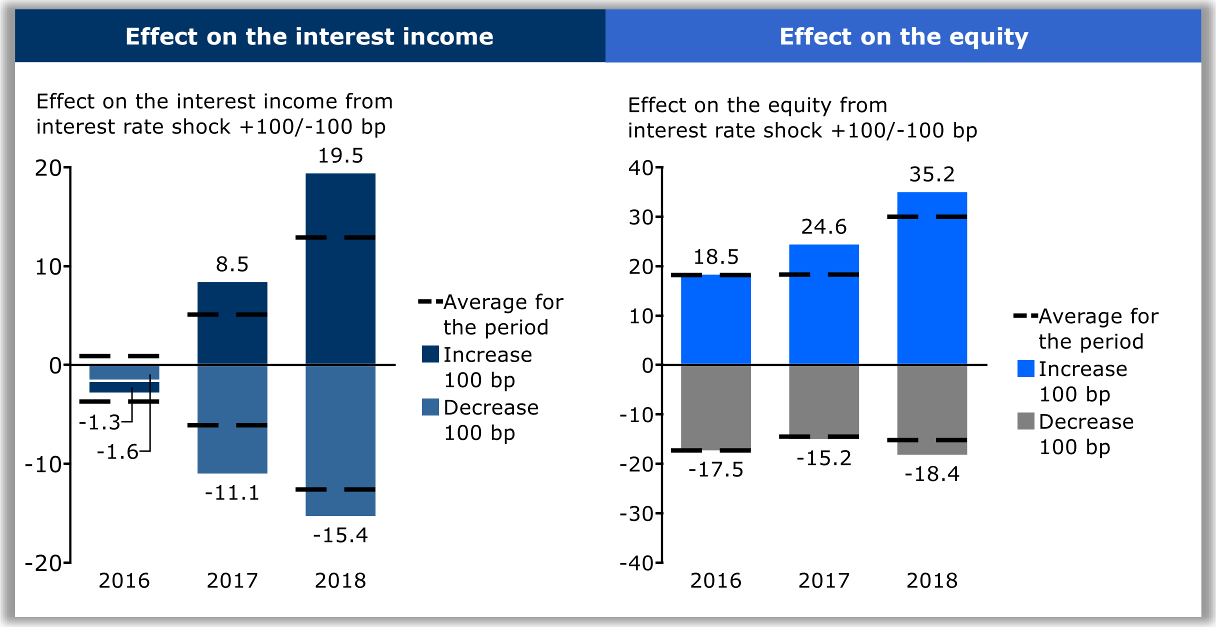


In compliance with the European Banking Authority guidelines, the Bank measures stressed value at risk (sVaR) of the debt securities portfolio, where model inputs are calibrated so as to reflect an extended period of significant stress at the international financial markets.

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 2018 the interest rate risk on the economic value of the Bank following a standardized shock of +100/-100 bp was BGN +35.2/-18.4 million, while on the net interest income one year forward was BGN +19.5/-15.4 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 and applies limits, based on an internal VaR model, regarding the maximum loss that could be incurred within 1 day 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 Unconsolidated Financial Statements as at 31 December 2018.

LIQUIDITY RISK

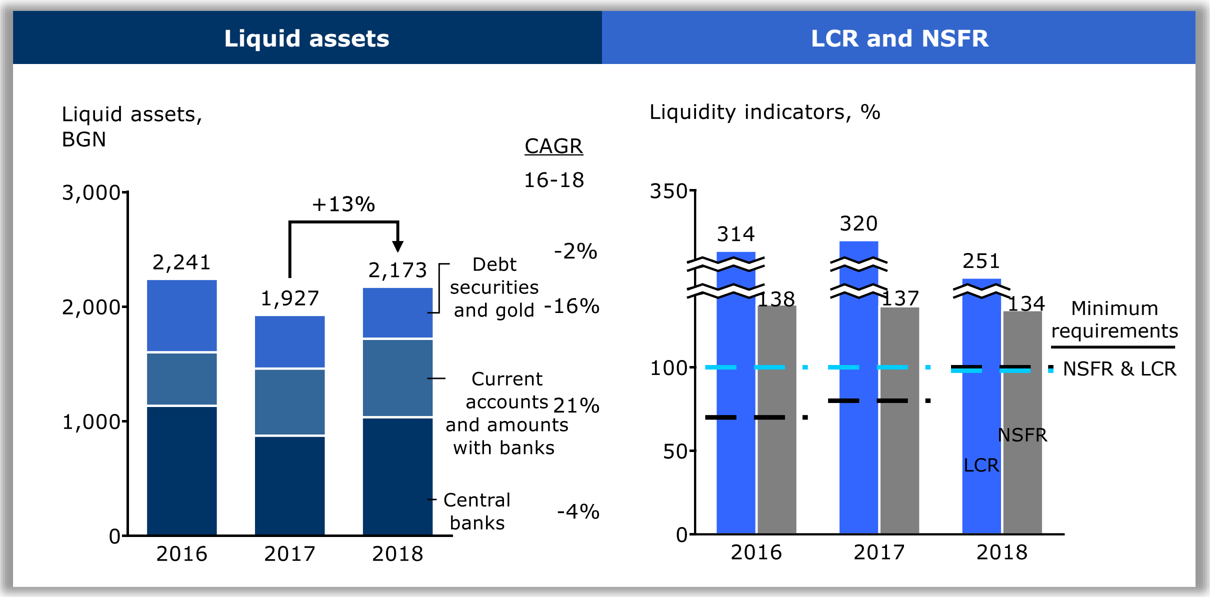
Liquidity risk originates from the funding of the banking business and in positions management. It includes the risk of failure to meet a payment when due, or failure to sell certain assets at a fair price and in the short term to meet an obligation.

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 currency structure of assets and liabilities and maturity ladder, regular gap analysis of inflows and outflows, maintaining a low risk portfolio of assets to meet current liabilities, and operations on the interbank market.

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

During the year, the Bank further developed its liquidity measurement, monitoring and control system, including with respect to the establishment and maintenance of a maturity ladder. It is part of the additional liquidity monitoring indicators and a tool for detailed monitoring of cash inflows and outflows by maturity interval, including their liquidity generation capacity in accordance with the requirements of Commission Implementing Regulation (EU) 2017/2114 and Ordinance No. 11 of the BNB on Bank Liquidity Management and Supervision.

As regards asset/liability and liquidity management policies, as of 1 January 2018 First Investment Bank applies the new business model requirements and the criteria for classification and valuation of financial assets in the Bank's portfolios in accordance with IFRS 9. Based on the purpose for managing the financial assets, the business models applied by the Bank include: 1) business model, whose purpose is the assets to be held to collect contractual cash flows (hold to collect); 2) business model, whose purpose is both to collect contractual cash flows as well as sale of financial assets (hold to collect and sell); 3) other business model, when the purpose is different from the previous two business models (other business model), and which includes the assets held for trading.



Fibank continued to maintain an adequate amount of liquid assets, as at 31 December 2018 the ratio of liquid assets covering the attracted funds due to other customers amounted to 27.09%, which was significantly above the BNB recommended level of 20%. According to the regulatory requirements as of 1 January 2018 the Bank should maintain a buffer of liquid assets to ensure liquidity coverage of net liquidity outflows over a 30-calendar day stress period with a minimum amount of 100%. At the end of the reporting period, the liquidity coverage ratio (LCR) amounted to 251.43% on an unconsolidated basis (2017: 320.22%).

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 134.23% on an unconsolidated basis (2017: 136.52%) and was above the reference value of 100% before its introduction as a binding requirement.

INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS

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

In 2018, as part of its annual review process, the Bank updated its ILAAP report, including as regards the results of the applied stress scenarios and stress tests, as well as the composition of the maintained liquidity buffer. The internal liquidity indicators are set in compliance with the requirements for consistency with the Recovery Plan levels, the latter being part of the monitoring and early warning system incorporated in the Bank's risk management framework.

The assessment takes into consideration the systems and processes existing in the Bank for management of risks related to liquidity and funding, including information on the daily management of liquidity risk and on the allocation of costs and benefits related to liquidity, which are determined based on a methodology for internal transfer prices (ITP) introduced in the Bank. The ILAAP also takes into account the funding strategy of the Bank, including the funding plans within a three-year horizon, as well as the strategy on maintaining liquidity buffers and monitoring of encumbered assets. The quantitative measurements of the readiness of the Bank to deal with a sudden and significant outflow of borrowings (liquidity crisis) are established through stress tests and scenario analyses. For the purposes of ILAAP, First Investment Bank applies a combination of three stress scenarios: of idiosyncratic, market and combined shock, with a horizon of one week and one month, which take into account the stability of the deposit base and the sensitivity of the customers.

To ensure adequate capacity of the Bank to meet all its obligations and commitments, even in the context of a liquidity crisis, First Investment Bank has developed an action plan in case of contingency/ 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 Unconsolidated Financial Statements as at 31 December 2018

OPERATIONAL RISK

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

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

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

In connection with bringing the activity in line with regulatory changes, and in particular with the EBA Guidelines on the security measures for operational and security risks under Directive (EU) 2015/2366 (EBA-GL-2017-17), the internal regulatory framework was updated with procedures and controls for assessment of the impact of operational events and their timely management.

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. According to the good banking practices the self assessment is an important tool for additional evaluation of the Bank’s exposure to operational risk, as well as a tool, contributing the analyses of the effectiveness of existing controls for its mitigation.

INFORMATION SECURITY

First Investment 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.

PERSONAL DATA PROTECTION

In 2018, First Investment Bank implemented a project to meet the requirements of the General Data Protection Regulation (GDPR). As part of its internal organization as a data controller, the Bank further structured and developed the principles and grounds for processing personal data, including with regard to their transparency, legitimacy, rights of data subjects, as well as technical and organizational measures to protect such data.

In compliance with the requirements of the Regulation, a Data Protection Officer (DPO) was appointed in the Bank: Mr. Andrey Filchev (e-mail: dpo@fibank.bg). The DPO has a leading role in ensuring the lawful processing of personal data in the Bank's structure, conducts awareness-raising training and contributes to building a data protection culture. The DPO is a contact person with the Commission for the Protection of Personal Data and on issues related to the exercise of the rights of the data subjects. Mr. Filchev is a seasoned professional with years of experience in the banking system, as well as in the implementation of the Compliance function in First Investment Bank.

BUSINESS CONTINUITY MANAGEMENT

In order to ensure effective management of the business continuity, First Investment Bank has established contingency and business continuity plans, as well as plans for the recovery of all its critical functions and resources, which are regularly tested. Business continuity management ensures sustainability at all organizational levels within the Bank, as well as opportunity for effective actions and reactions in crisis situations. The organization of processes ensured within the Bank aims at protecting the interests of all stakeholders, its reputation, brand and the value-adding activities.

Building an appropriate corporate culture with regard to business continuity management is an important part of the overall risk culture of the Bank. To further integrate information and apply a centralized approach, the internal rules on business continuity were structured into a single document with main content and separate action plans for specific incidents and crisis situations. The organization thus established aims to ensure rapid and effective action for addressing potential crisis situations, as well as timely elimination of any negative consequences.

RISK EXPOSURES

As at 31 December 2018 First Investment Bank applied the standardized approach for the calculation of risk exposures for credit risk, in accordance with Regulation (EU) No 575/2013. Due to the limited volume of financial instruments in the trading book (bonds and other securities) capital requirements are calculated in accordance with the requirements of Regulation (EU) No 575/2013 as applied to the banking portfolio. The Bank applies the basic indicator approach for calculation of the capital requirement to cover the risk of operational losses.

In BGN thousand/ % of total	2018	%	2017	%	2016	%
For credit risk	6,019,548	90.4	5,654,425	89.8	5,494,559	90.9
For market risk	5,300	0.1	6,000	0.1	5,625	0.1
For operational risk	631,550	9.5	636,363	10.1	542,063	9.0
Total risk exposures	**6,656,398**	**100**	**6,296,788**	**100**	**6,042,247**	**100**

In 2018 the structure of risk-weighted assets comprised predominantly of those to credit risk at 90.4% of total exposures (2017: 89.8%), following by those for operational risk at 9.5% (2017: 10.1%) and to market risk at 0.1% (2017: 0.1%), as the Bank continued to maintain a conservative approach in the risk assessment and risk management.

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

INTERNAL CAPITAL ADEQUACY ANALYSIS

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

In 2018 the ICAAP report was updated in line with the risk strategy and the set business goals for development, as well as with the operating environment, incl. the measures applied by the Bank for managing the credit risk and exposures. For the purpose of applying a more conservative approach, the level of confidence in the analysis was increased. Also taken into consideration were the new capital buffer requirements, including the buffer for other systemically important institutions (O-SIIs) applicable to the Bank, as of 1 January 2018. The business model, as well as the internal governance system, incl. the internal audit, risk management and compliance functions are also taken into account and assessed in the analysis.

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

CREDIT RISK

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

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

MARKET AND INTEREST RATE RISK

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

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

OPERATIONAL RISK

For the purposes of ICAAP, First Investment Bank calculates the required economic capital for operational risk according to the guidelines described in Basel III: Finalizing post-crisis reforms (12.2017), applying calculation components that measure the Bank's activity in means of volume and specifics, as well as the level of operational risk inherent in the activity, with a correction factor taking into account the significance of operational events based on historical data.

Furthermore, the Bank uses stress tests for extraordinary but probable events, including different scenarios based on their financial impact and probability of occurrence. The results from these are correlated with the economic capital for operational risk.

LIQUIDITY RISK

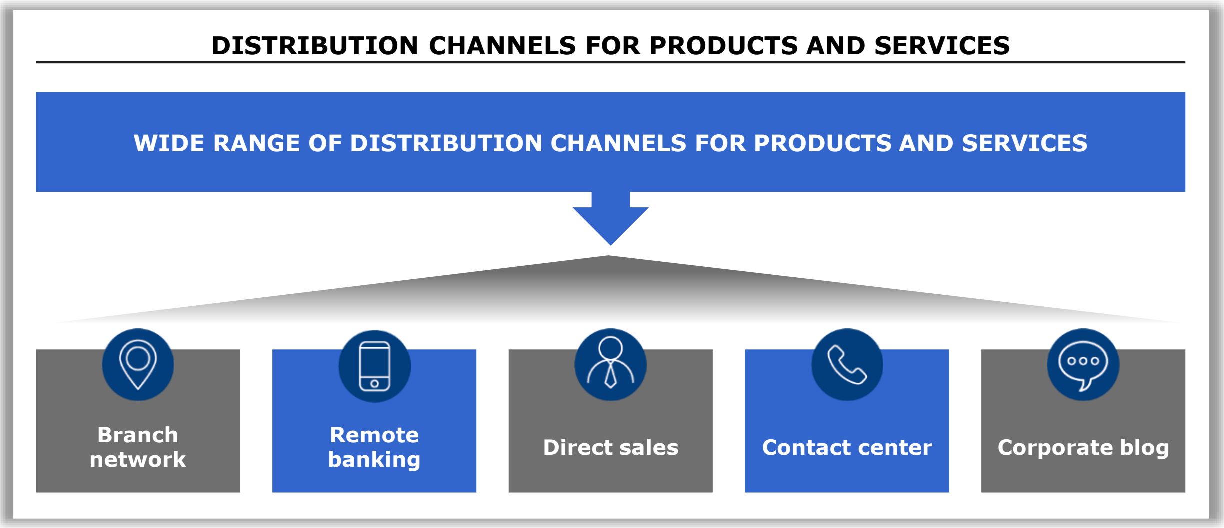
To assess liquidity risk, the Bank differentiates the analysis in two directions regarding the risk of insolvency and the risk of providing liquidity. The risk of insolvency is managed and covered by maintaining an appropriate buffer of unencumbered, highly liquid assets, while the risk of providing 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, (idiosyncratic, market and combined shock), taking into account the cost of repo transactions or liquidating assets to meet the cash outflow, as well as the expected increase in interest expense on borrowings.

OTHER RISKS

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

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

DISTRIBUTION CHANNELS



First Investment Bank maintains a wide range of channels for distribution of the products and services offered, including a well-developed branch network, e-banking, direct sales, contact center and a corporate blog. All channels are constantly improved in line with the current trends in banking, market conditions, technological development and customer needs.

BRANCH NETWORK

The Branch Network is the primary channel for distribution of the banking products and services of First Investment Bank. The Bank strives to maintain an adequate balance between a well-developed network of physical locations and the provision of modern remote banking techniques, including in the context of the growing importance of digital transformation in the banking sector.

During the year the Bank continued to optimize its branch network, taking into account the market environment, the workload of individual locations and the volumes of activity. Four offices were closed during the year, one in Sofia and three in the rest of the country, while three new ones opened in the cities of Sofia, Plovdiv and Popovo.

As at 31 December 2018, the branch network of First Investment Bank comprised a total of 155 branches and offices on a non-consolidated basis (2017: 156), located in more than 60 cities in Bulgaria: 53 in Sofia, 101 branches and the offices in the rest of the country, and one foreign branch in Nicosia, Cyprus.

For the purpose of creating a unified organizational model, more efficient allocation of budget targets, as well as placing an emphasis on attraction of new customers and cross-selling, a new structured model for the branch network functions in Sofia has been established. It includes five functional branches: Central, East, West, North and South, to each of which offices have been attached based on territorial location and business indicators.

As part of the ongoing improvement and optimization of processes and transactions carried out at the Bank's branches, the efforts continue to reduce customer service time and speed up transactions. This will contribute to even better service quality and development of lasting customer relations.

Fibank branches and offices in the country offer the full range of banking products and services to both individuals and business customers. In an effort to better satisfy customer demand, a large part of the branch network operates with extended working hours, while some offices are also open on weekends.

FULL SCOPE OF PRODUCTS AND SERVICES

	RETAIL CLIENTS	BUSINESS CLIENTS
DEPOSIT AND SAVINGS PRODUCTS	✓	✓
PAYMENT SERVICES	✓	✓
PACKAGE PROGRAMS	✓	✓
DEBIT AND CREDIT CARDS	✓	✓
DINERS CLUB CARDS	✓	✓
MORTGAGE LOANS	✓	
CONSUMER LOANS	✓	
LOANS TO BUSINESS CUSTOMERS		✓
TRADE FINANCING		✓
PROJECT FINANCING		✓
FACTORING		✓
EUROPROGRAMS FINANCING		✓
DIGITAL BANKING	✓	✓
INVESTMENT SERVICES	✓	✓
INVESTMENT GOLD AND PRODUCTS OF PRECIOUS METALS	✓	✓

The branch of First Investment Bank in Nicosia, the Republic of Cyprus, has been operating since 1997, initially mainly in the area of corporate lending. Over the years, it has systematically and consistently expanded the range of products and services. At present, the branch offers standard credit and savings products, payment services and e-banking, with a focus on SME customers and retail banking.

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

CONTACT CENTER – *bank (*2265), 0800 11 011

In 2018, Fibank's Contact Center continued to function as an effective channel for communication and targeted selling of products and services. It also contributed to the attraction of new and retention of current customers through the provision of services in accordance with the Bank's established standards and business objectives.

In pursuit of its strategic focus on high standards in customer service, Fibank has consistently worked towards developing and diversifying the services offered through the Contact Center in line with customer needs and new technologies. As a result, a new consumer credit campaign aimed at loyal customers of the Bank was held in 2018. Through the Contact Center, customers may also apply for credit and debit cards, for debit card overdrafts or apply for consumer loans. They may receive up-to-date and timely information on products and services, the Tariff and interest rates of the Bank, the location of branches and their working hours, as well as adequate and professional assistance by employees in case of questions or problems. Customers may communicate remotely with the Bank by phone, email or online chat in real time through the corporate website of the Bank.

Throughout the year, over 60 outgoing campaigns of different nature and topics were conducted through the Contact Center, including information campaigns, direct marketing of products and services, consumer opinion surveys, as well as campaigns in support of loan collection (soft collection). Over 110,000 outgoing calls were made, with a high response rate achieved.

Over the reporting period, the Contact Center received about 74,000 incoming calls, more than 4,000 emails and conducted over 1,300 chat conversations in relation to various inquiries and requests by existing or potential customers, including on general banking information, card services, contact and reference information, product requests, etc.

CORPORATE BLOG

In 2018, the corporate blog of First Investment Bank marked its 10th anniversary. Over the years, the Bank has constantly strived to develop its blog in line with the current trends in internet communication and customer needs. In this context, a new platform was developed and launched in the middle of the year on which the corporate blog is based, aimed at introducing a more intuitive and user-friendly design and functionality. Recognition of the successful development of Fibank's blog during the year was its ranking among the finalists in the Blog category of the Site of the Year awards.

The corporate blog presents the diverse range of social and corporate initiatives of the Bank, financial analyzes and studies related to the market of banking products and services in the country, current news on various topics, as well as useful information for customers. It engages in open dialogue and customer feedback, thus enabling the Bank to explore the usability of products and services, as well as customer satisfaction.

Apart from its corporate blog, First Investment Bank also maintains active online communication in real time with customers and stakeholders through leading social networks such as Facebook, LinkedIn, Instagram, Twitter, and YouTube.

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 2018, First Investment Bank continued to attract new corporate customers from different market segments using direct sales. This approach helps to build long-term relationships with key customers, as well as to obtain direct feedback on the Bank's products and services.

The Corporate Sales and Public Procurement Department in the system of First Investment Bank has considerable experience in servicing corporate and institutional clients, budget spending units, state and municipal enterprises.

DIGITAL BANKING

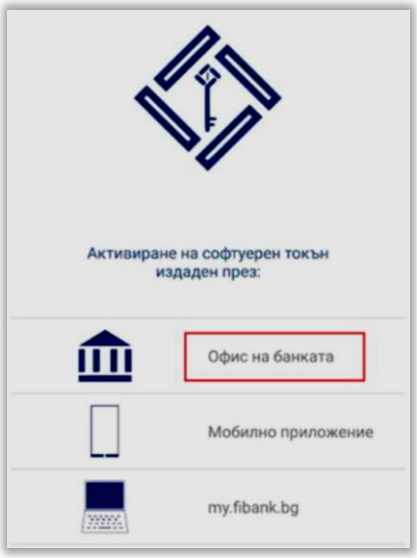
MY FIBANK ELECTRONIC BANKING

The My Fibank electronic banking platform of First Investment Bank has been designed as a single customer service channel and is constantly developed by upgrading and adding new functionalities. The platform is integrated with the Oracle Flexcube core banking IT environment, providing a high level of system security, optimization and greater workflow efficiency, as well as increased productivity.

Through the My Fibank electronic banking, customers may use both active and passive banking according to their needs and depending on their access rights to the system. As part of the active banking, customers can open and close current and deposit accounts, carry out payments in national and foreign currency including mass payments, make utility payments, buy or sell currency. Passive banking allows customers to check transactions and balances on bank accounts and/or payment cards.

It also provides information on locations of branches and ATMs, as well as exchange rates, news and current promotions.

In 2018, First Investment Bank continued to develop its activities related to digital banking. In May 2018 it launched the new software Fibank Token as a means of signature and authentication in the electronic banking system of Fibank, featuring two-factor authentication and QR Code scanning technology. A new electronic deposit product My Deposit was developed, opened and managed entirely online through the My Fibank electronic banking system. New functionalities were added, including online change of payment card transaction limits, push notifications for business and retail customers, as well as extended scope of reference information, including for budget-spending customers.



In implementation of the requirements of the Law on Payment Services and Payment Systems transposing Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market (PSD 2) and Commission Delegated Regulation (EU) 2018/389 supplementing Directive (EU) 2015/2366 with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication, First Investment Bank launched a project to bring online banking in line with the regulatory framework and ensure the provision of payment initiation and account information services.

For the period, a 14% increase was registered in transfers and 20% in utility payments through the integrated My Fibank electronic banking platform, which is emerging as a channel generating a predominant share of the total payment transactions in the Bank.

MY FIBANK MOBILE APPLICATION

The My Fibank mobile application is part of the My Fibank electronic banking providing remote access to the integrated platform through the use of a mobile device. The application is available to customers after installation from the online store for the respective operating system of the device (AppStore, Google Play).

With the mobile application, retail customers to use the same active and passive banking they are registered for in the electronic platform, subject to limits predetermined by the Bank, or by the customer. Business customers may only use passive banking. In addition, the innovative Digital Payments service developed by Fibank allows customers to use a digital bank card through the mobile application and thus to make digital payments with their NFC enabled mobile device at POS terminals supporting contactless payments.

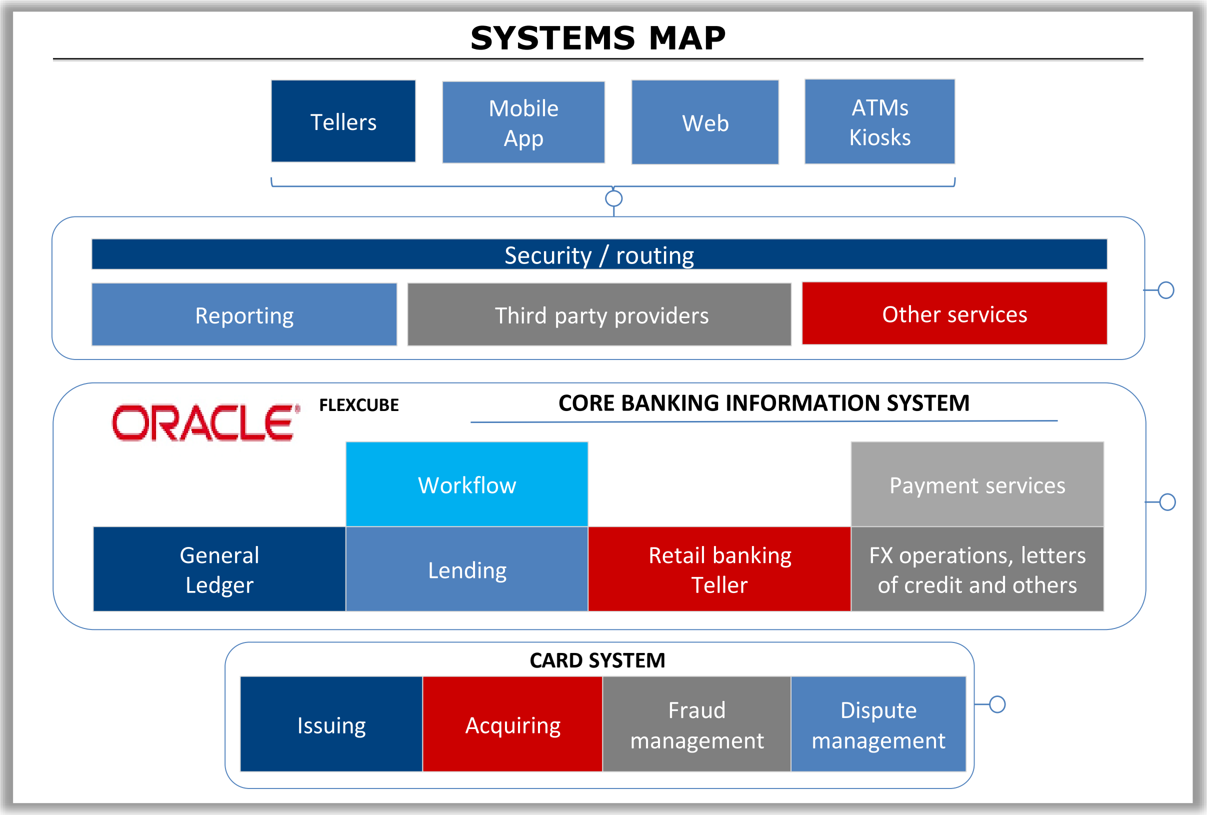
Functionalities were expanded and new features added during the year, such as currency exchange, exchange rate request, online credit card application, credit limit renegotiation, as well as new push notifications and personalized messages.

During the reporting period, a 16% increase in the mobile application downloads was observed.

INFORMATION TECHNOLOGY

Development of information technologies and maintenance of a modern infrastructure, information and technological environment has always been among the strategic priorities of First Investment Bank. Over the years, it has systematically and purposefully invested in technologies consistent with the latest trends in the field, in order to offer innovative products with added value to customers and provide new multifunctional solutions in banking.

In 2018, Fibank continued to develop in this direction, consolidating its position among the most technologically advanced and innovative institutions on the Bulgarian banking market. During the year, First Investment Bank successfully migrated its hardware platform to the latest generation Oracle Exadata X7-8, aiming at delivering higher performance, optimization capabilities, and better database management, including the use of modern cloud-based IT architecture. These steps are a continuation of the larger-scale project of migrating the core banking information system to the highest version of Oracle Flexcube 12, successfully completed in 2017.



The Bank's core information system includes universal modules for retail, corporate and investment banking, as well as an integrated Workflow system which serves for processing and approval of loan applications, acceptance and registration of currency transfers and authorization of other payment transactions. The system is built in compliance with all risk control principles, including the four eyes principle applied in day-to-day banking.

The aims of Fibank are through its centralized and integrated IT infrastructure to provide first-class service and high level of security in the execution of banking transactions, as well as to maintain reliable databases, networks and systems in order to ensure the continuity of service and key processes in the Bank. In the context of the growing importance of digitization in the banking sector over the period, Fibank updated its virtualization environment, including in order enable offering new digital services.

During the year technical support was provided for the implementation of projects for upgrade and implementation of innovative services and new functionalities: a new electronic deposit product My Deposit and a new software Fibank Token in the Bank's electronic banking system; a new cash-in- ATM service, as well as technical implementation of new credit and savings products, bank programs and bundles launched during the period; other projects related to the introduction of new regulations, including IFRS 9, GDPR, MiFID II/MiFIR, PSD2.

In connection with payment services, changes were implemented in the business processes concerning payments in EUR executed through EBA Clearing, the SWIFT service for foreign currency payments, as well as BGN payments through the RINGS system. A cross-border payment monitoring project through the SWIFT global payments innovation (gpi) platform was also launched. Change management processes in the Bank were improved and monitoring of project management and development was enhanced, including for IT related projects.

Ms. Ralitsa Bogoeva was appointed as Chief Information Technology and Operations Officer of the Bank responsible for implementing the overall organization and management of information technology and operations in First Investment Bank, as well as for supporting the efficient implementation of the IT strategy and development objectives. Ms. Bogoeva is an established professional with proven leadership qualities and experience required to effectively carry out such duties.

For yet another year, the Bank took part in the Webit Festival held in Sofia Tech Park, presenting its current technological solutions and innovations in the area of financial products and services.

In fulfillment of its mission, First Investment Bank will continue to develop its systems and infrastructure in order to implement high-tech solutions that enable customers to bank from anywhere in the world and at all times, and will endeavor to be among the most innovative and customer-oriented institutions on the Bulgarian market.

CORPORATE GOVERNANCE

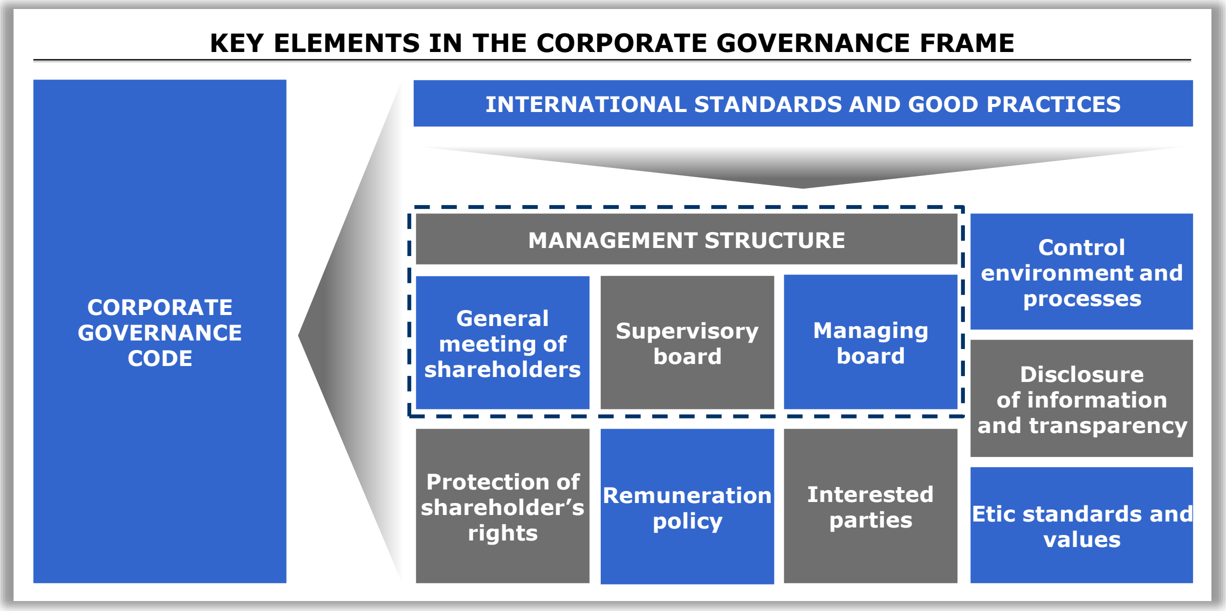
As a public company and public interest entity, First Investment Bank discloses information about its corporate governance practices. This section of the Annual Report represents a

Corporate Governance Statement

pursuant to Art. 100m of the Public Offering of Securities Act and Art. 40 of the Accountancy Act.

CORPORATE GOVERNANCE FRAMEWORK

For First Investment Bank AD good corporate governance is a key element for ensuring 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 financial markets in the country and abroad.



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 the Corporate Governance Code adopted by the Managing Board and approved by the Supervisory Board. It outlines and structures the main components, functions and responsibilities constituting the system of corporate governance of First Investment Bank. In addition to the requirements of applicable 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 recommendations of the National Corporate Governance Code, approved by the Financial Supervision Commission.

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

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

In compliance with the requirements of the applicable legislation, First Investment Bank annually discloses information on the corporate governance practices and meeting the requirements set in the Corporate Governance Code of First Investment Bank applying the “comply or explain” principle. Along with its annual report and financial statements, the Bank discloses to the public also a corporate governance assessment scorecard in compliance with the National Corporate Governance Code.

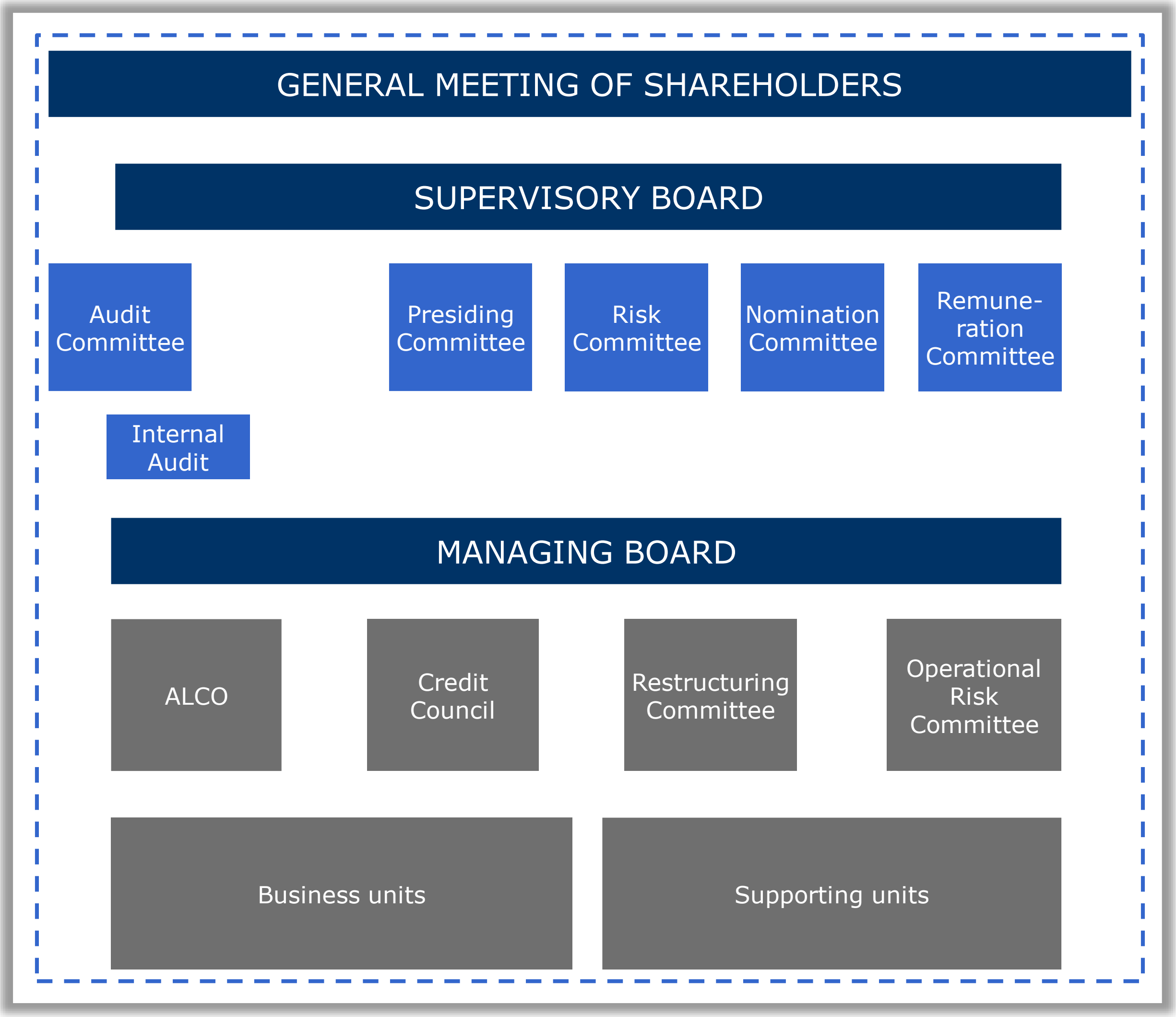
In addition to the Corporate Governance Code, First Investment Bank applies a Disclosure Policy, as both documents are publicly available at the corporate website of the Bank (http://www.fibank.bg/bg/korporativno-upravlenie/page/3589). In 2018, the requirements specified in these were met, including the requirements for disclosure of regulated information and information under the financial calendar of the Bank for 2018.

CODE OF CONDUCT AND WHISTLEBLOWING POLICY

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

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

MANAGEMENT STRUCTURE



SUPERVISORY BOARD

STRUCTURE AND COMPETENCES

In 2018 there were no changes in the composition of the Supervisory Board of First Investment Bank.

Name	Position
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 complies its activity and maintains policies and practicies for ensuring diversity in the composition of its governing bodies, including various aspects such as work experience, educational qualifications, gender, and age.

First Investment Bank maintains a matrix with data on the professional knowledge and skills (Composition Matrix) of the Supervisory Board members for the purpose of support and better identification of the needs for further improvement and development of their professional competencies, and ensuring an effective process of succession in the SB composition. As at 31 December 2018, 33% of the Supervisory Board members were women, which exceeded the average levels in EU (19%) according to the reported data in researches for diversity practices of the European Banking Authority. *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. First investment bank complies with the requirements applicable for public companies, 1/3 of the members of the Supervisory Board to be independent.

EQUITY SHARE

As at 31 December 2018 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	2018	%
Evgeni Krastev Lukanov	337,139	0.31
Maya Lubenova Georgieva	11,388	0.01
Georgi Dimitrov Mutafchiev	9,454	0.01
Radka Vesselinova Mineva	-	-
Jordan Velichkov Skortchev	19,125	0.02
Jyrki Ilmari Koskelo	-	-
Total	**377,106**	**0.34**

FUNCTIONS AND RESPONSIBILITIES

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

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

The meetings of the Supervisory Board are scheduled in advance based on an annual activity plan. In 2018 the Supervisory Board addressed issues of its competence at 14 presence meetings. Focus in the activity throughout the year was set on the exercise of effective control on the execution of the adopted strategy for development for the period 2018-2021, which highlights on expanding the business in the retail and SME segments through additional focus in the development of the consumer financing and transaction business, as well as affirming the opsitions of the Bank as an innovative and technological leader, offering a wide range of digital solutions and first class of customer service. Also discussed were issues related to the risk management strategy, including risk appetite and capital position, credit risk management measures and asset quality, as well as the effective realization of acquired assets. The Supervisory Board continued to oversee the reliability of financial information and accountability, as well as the internal control framework, receiving active assistance to that effect by the Audit Committee. The members of the Supervisory Board were also regularly informed about the development of business operations and their alignment with new regulatory requirements, including with regard to IFRS 9, GDPR, MiFID II/MiFIR, PSD2, internal exposures, corporate governance.

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

ASSESSMENT OF THE ACTIVITY

Once a year, the Supervisory Board performs an assessment of the effectiveness of its own activities as a collective body and individually, assessment of the governance practices and procedures, as well as of the functioning of the Managing Board and the committees to the Supervisory Board. Such assessment is accomplished in the fourth quarter of 2018.

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 2018, the Presiding Committee addressed issues of its competence at 5 meetings, including with regards to the organization of the line responsibilities between the members of the Managing Board, as well as to the newly created position Chief IT and Operations Officer. The committee had also coordinated decisions on the adoption of the budget of the Bank for 2019.

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

During the reporting period, the Risk Committee held 7 meetings. In relation to its competences, it coordinated decisions incl. on further developing the internal bank rules and policies regarding the risk management. The Risk Committee has reviewed also the updated ICAAP and ILAAP reports, the Recovery plan, aiming coordinated execution and consistent application. During the year the committee performed a regular review of the execution of the risk strategy, as well as regarding the effectiveness of the internal risk management and control systems within the Bank, including the Compliance function.

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

In 2018, the Remuneration Committee has addressed issues of its competences with regards to remunerations, including in relation to the changes in the senior management during the year and held 4 meetings for the reporting period.

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

During the year, the Nomination Committee addressed issues of its competence at 11 meetings, including given recommendations in relation to the election and suitability of the new member of the Managing Board and executive director of the Bank appointed throughout the year, as well as with regards to changes in the management of the Internal audit in the Bank and the appointment of new Chief Information Technology and Operations Officer. There were also given recommendations on changes in the composition and structure of the committees to the Managing Board, as well as changes in the governing bodies of the subsidiary companies of the Bank.

As a company of public interest and according with the Law on the Independent Financial Audit (LIFA), the Bank has a functioning **Audit Committee** which is responsible for supervising the financial reporting and the independent financial audit, as well as for the effectiveness of the systems for internal control and risk management in the Bank. The Committee also makes a recommendation in the selection and remuneration of the registered auditors to perform the independent financial audit of the Bank and monitors their independence in accordance with the applicable European and national regulations, as well as with the Code of Ethics for Professional Accountants. The activity of the Audit Committee is structured based on written defined competencies, rights and responsibilities, included in its rules of procedure (stature under the meaning of Art. 107 of LIFA) in compliance with the requirements of the Law on the Independent Financial Audit and Regulation 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities.

In May 2018, on the General Meeting of Shareholders changes were made in the composition of the Audit Committee, as Mrs. Radina Beneva was replaced with a new independent member – Mr. Georgi Trenchev, with a 3-year mandate, who shall also chair the Committee. Mr. Trenchev possesses high financial competencies as well as the knowledge, professional experience and qualifications in the field of accounting and financial audit necessary for the effective performance of his duties.

During the year, 10 Audit Committee meetings were held and various matters of its competence were addressed, including recommendations on the selection of statutory auditors, ongoing monitoring of financial reporting and independent financial audit, monitoring the effectiveness of the internal audit function and control systems, incl. through regular meetings were held with the Chief Financial Officer, the Director of Internal Audit, as well as with representatives of the statutory auditors of the Bank.

MANAGING BOARD

In 2018, changes were made to the composition of the Management Board of First Investment Bank. In February 2018 Mr. Chavdar Zlatev was appointed as Chief Corporate Banking Officer and registered as member of the Management Board and Executive Director of First Investment Bank AD, his role being to build on the Bank’s achievements and help maintain its leading position in corporate banking. Mr. Zlatev is a long-time employee of the Bank who has held a number of senior positions and possesses extensive experience in corporate banking and high professional qualification.

In the first half of the year, Mr. Svetoslav Moldovanski was released as member of the Management Board and Executive Director of the Bank. The management of Fibank expressed gratitude for his contribution to the institution's development and respected his choice to seek new professional challenges.

STRUCTURE AND COMPETENCES

At the end of 2018 the Managing Board of First Investment Bank AD 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 the senior management personnel.

Name	Position
Nedelcho Vasilev Nedelchev	Chief Executive Officer (CEO), Chairman of the Managing Board
Sevdalina Ivanova Vassileva	Chief Retail Banking Officer (CRBO), Member of the Managing Board and Executive Director
Svetozar Alexandrov Popov	Chief Risk Officer (CRO), Member of the Managing Board and Executive Director
Chavdar Georgiev Zlatev	Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director
Jivko Ivanov Todorov	Chief Financial Officer (CFO) and Member of the Managing Board
Nadia Vasileva Koshinska	Member of the Managing Board and Director of SME Banking Department

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

The Management Board members are elected for 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, aiming to achieve the objectives and the development strategy.

As at 31 December 2018 in accordance with the policies and practices 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 2018 the members of the Managing Board held a total of 1107 shares of Fibank and none of them owned more than 1% of the issued share capital.

Number of shares / % of issued share capital	2018	%
Nedelcho Vasilev Nedelchev	350	0.00
Sevdalina Ivanova Vassileva	-	-
Svetozar Alexandrov Popov	-	-
Chavdar Georgiev Zlatev	523	0.00
Jivko Ivanov Todorov	-	-
Nadia Vasileva Koshinska	234	0.00
Total	**1,107**	**0.00**

FUNCTIONS AND RESPONSIBILITIES

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

In accordance with the principles of good corporate governance, an open dialogue is maintained between the Supervisory Board and the Managing Board of First Investment Bank. Besides 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 Managing Board is supported by collective bodies, including 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“*.

Other internal collective bodies also operate in the Bank. In July 2018, with a view to enhancing the change management processes, a Change Management Committee was set up. The Committee is an auxiliary body to the MB, responsible for monitoring the implementation of the Bank's IT strategic program, and to manage and control the project portfolio, the targeted use of resources and the approved budget in this area. The Committee is chaired by the CEO of the Bank, the other members including the Chief Financial Officer, the Chief Retail Banking Officer, the Chief IT and Operations Officer, as well as the directors of Operations, Risk Analysis and Control, and Strategic Planning and Development departments.

During the year, in line with the long-term priorities aimed at reducing non-interest-bearing assets and ensuring their effective realization, a Commission for management and sale of assets was created. Its role is to assist the Management Board in relation to the management, administration and sale of acquired assets, in accordance with the Levels of authority established in the Bank. The Commission is chaired by a member of the Management Board, while the other members include the directors of the Impaired Assets, Asset Management and Administrative departments, as well as the Head of the Asset Valuation division to the Finance department.

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, the Audit Committee 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 June 2018, an Annual General Meeting of Shareholders was held, which represented 87.90% of the share capital and voting rights, at which a decision was taken that the entire net profit of the Bank for 2017 shall be capitalized, and no dividends shall be paid or other deductions made from the profit for 2018, with the aim for its inclusion in the common equity tier 1 capital of the Bank. BDO Bulgaria OOD and Mazars OOD were appointed as auditing companies to perform an independent financial audit of the financial statements of the Bank for 2018. The companies were selected after preliminary approval by the Bulgarian National Bank and upon recommendation by the Audit Committee of the Bank, according to selection criteria approved by the BNB in coordination with the Commission for Public Oversight of Statutory Auditors. Changes in the composition of the Audit Committee were also made *– for more information, see the „Supervisory Board“ section.*

The General Meeting of Shareholders also adopted amendments to the By-laws of First Investment Bank, clarifying certain texts and technical references concerning the scope of the Bank's activity, in order to comply with the amendments to the Law on Credit Institutions and the Markets in Financial Instruments Act.

With a view to greater efficiency and facilitating the implementation of certain decisions, the General Meeting of Shareholders with its previous decisions of 29.05.2017 and 16.05.2016 has authorized the Management Board, with the prior approval of the Supervisory Board, to adopt resolutions for increase, through issuance of new shares, of the Bank’s capital until it reaches an aggregate nominal amount of BGN 210,000,000.00 (within a period of 5 years as from 23.06.2017), as well as for the issuance of debt instruments, including subordinated term debt and debt/equity (hybrid) instruments, up to the aggregate amount of BGN 2 billion or its equivalence in another currency (within a period of 5 years as from 16.06.2016).

CONTROL ENVIRONMENT AND PROCESSES

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

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

First Investment Bank applies written policies and rules regarding the disclosure of conflicts of interest, and organization of the processes in the Bank is established in such a way as to avoid the possibility of conflict of interest. A Whistleblowing policy is also in place, aimed to systematize the means and procedures for internal sharing of information where there are suspicions of unlawful actions, or problems related to the work process, whereby to ensure their transparent and fair consideration and resolution.

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 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 financial and management information, and compliance of activity with current legislation and the existing policies, plans, internal rules and procedures.

The 2018 General Meeting of Shareholders of First Investment Bank approved the 2017 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. Changes were also made in the Internal Audit management, Mr. Plamen Dimitrov being appointed as its new Director. Mr. Dimitrov has high competences and extensive experience in the field of internal audit, necessary for the effective performance of his duties.

REGISTERED AUDITORS

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

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

The registered auditors selected to perform independent financial audit of the annual financial statements of the Bank for 2018 are:

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

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

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

PROTECTION OF SHAREHOLDERS' RIGHTS

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

CONVENING OF GMS AND INFORMATION

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

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

MAIN TRANSFER RIGHTS AND RESTRICTIONS

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

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

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

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

MINORITY SHAREHOLDERS AND INSTITUTIONAL INVESTORS

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

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

In 2018 the Bank continued to organize and hold meetings with minority shareholders, with a view to furthering transparency and creating an opportunity for open dialogue and feedback between them and the senior management of the Bank, as well as their opportunity to contribute and work actively for the successful development of First Investment Bank AD.

During the year on 15.11.2018 was held a meeting with minority shareholders of the Bank, which on behalf of Fibank's senior management were present the Chief Retail Banking Officer (CRBO), the Chief Corporate Banking Officer (CCBO), the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO). They presented minority shareholders with the current financial results and business development of the Bank. Discussions were held on important topics and questions, including the possibility of dividend payments and the expected results of the asset quality review of the banking system organized in connection with Bulgaria's intention to join the European Exchange Rate Mechanism II (ERM II) and the Single Supervisory Mechanism (SSM)/ close cooperation mechanism. 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 and issuer, Fibank discloses to the public (through www.x3news.com) periodic information, including annual financial reports audited jointly by two registered auditors, as well as interim financial and activity reports. The scope of periodic information disclosed by First Investment Bank exceeds the requirements of national legislation, as the Bank has decided to publicly disclose quarterly financial activity reports in compliance with Art. 100n[1], par.7 of LPOS and Art.33a[2], par.2 of Ordinance №2 of the FSC, that are with more detailed content as the one in its half-year reports, instead of the more concise public notifications for financial condition for the first, third and fourth quarter.

First Investment Bank prepares this Annual Report in Bulgarian and English, which contains detailed information on the development and competitive position of the Bank and its financial results, implementation of objectives and review of business by type of activity, as well as information on the management structure, the corporate governance framework (Corporate Governance Statement pursuant to the Public Offering of Securities Act and the Accountancy Act), risk management and non-financial information (Non-financial statement within the meaning of the Accountancy Act). With respect to the report the registered auditors shall gave their opinion whether it corresponds to the financial statements and is prepared in compliance with the applicable regulatory requirements.

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

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

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

INVESTOR RELATIONS DIRECTOR

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

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

In execution of the applicable regulatory requirements, in June 2018 the Investor Relations director of the Bank reported her activity during 2017 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 / ir@fibank.bg.

In the beginning of 2018, First Investment Bank developed and launched a new mobile investor relations application providing quick access to financial information, the financial calendar of the Bank, as well as other data and news of interest to investors.

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.

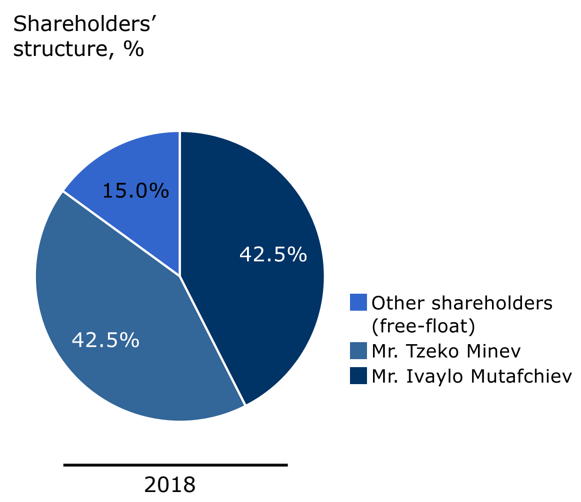
Periodically, in accordance with the legal requirements and best practices, First Investment Bank discloses information of a non-financial nature, including on the social responsibility of the Bank and its participation in the social life of the country. The Bank supports socially significant projects 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 ten 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.

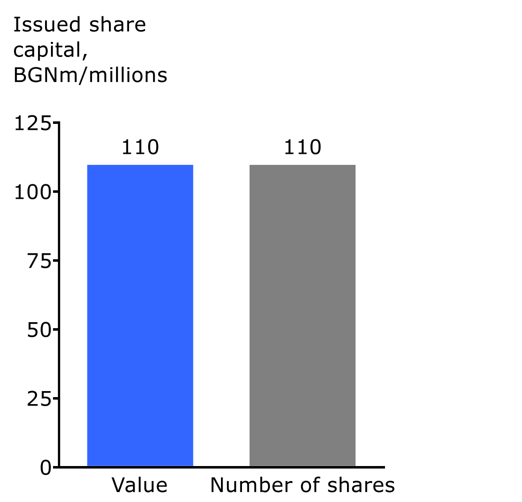
SHAREHOLDERS' STRUCTURE

As at 31 December 2018 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 (free-float). At the end of the year the total number of shareholders is over 1,900 which include both individuals and legal entities, incl. institutional investors.

Shareholders' structure at end-2018



Issued share capital at end-2018

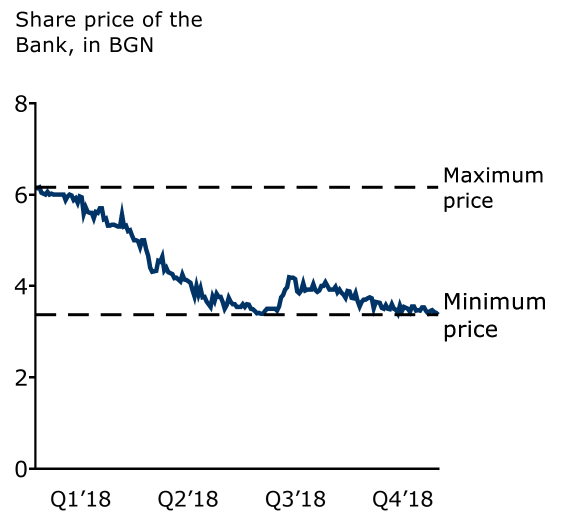


During the reporting period First Investment Bank did not acquire or transfer own shares, and at the end of the reporting period the Bank did not have own shares.

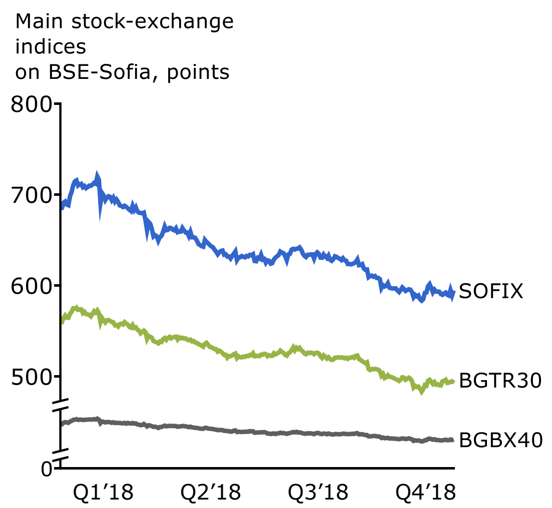
SHARE PRICE AND MARKET CAPITALISATION

In 2018, the share price of the Bank fluctuated in the range between BGN 3.37 to BGN 6.16. The last price of the shares of First Investment Bank for the reporting period was BGN 3,370 (2017: BGN 5,656) and the market capitalization of the Bank, calculated on this basis amounted to BGN 370,700 thousand. (2017: BGN 622,160 thousand). A total of 1,453 transactions were concluded with the shares of the Bank on the regulated market BSE, amounting to a turnover of BGN 3,075 thousand, compared to 3,022 transactions and BGN 10,607 thousand turnover a year earlier.

Share price of the Bank during 2018



Main stock-exchange indices on BSE-Sofia



As at 31 December 2018, 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 2018, human capital management processes and activities evolved in response to the growing business demands and dynamic labor market developments, focusing on innovative upgrading, optimization and implementation of long-term projects.

In 2018, training initiatives were implemented, as follows:

- Training to develop attitudes, knowledge and skills required for offering and selling retail credit products – for 530 front office employees;
- Training on topics related to regulatory changes, customer procedures, offering and selling banking products and services – for 360 front office employees;
- Seminar on cash activities, currency handling, cash transaction security, offering and selling of precious metal products – for 320 cashiers;
- Training on "Measures, requirements and specifics arising from the legislative amendments related to the process of preventing and counteracting money laundering" – for 220 employees from various departments of the Bank;
- Effective communication and negotiation skills for implementation of the Smart Lady program; transition to holistic banking – for 180 business lending employees;
- Development of knowledge and skills for offering and selling the insurance products of FiHealth Insurance – for 115 employees from the branch network of the Bank;
- Training of newly recruited employees under interactive training programs developed over the year – for 150 front officers and cashiers.

During the year, the implementation continued of key objectives and priorities in human resource management related to proactive support of business, including optimization of the HR processes in selection, training, organizational and structural development and performance evaluation, with a view to achieving higher efficiency and added value. The project was completed for structuring/updating and introducing new bonus schemes to stimulate target groups of employees to achieve maximum performance areas of importance for meeting the Bank's objectives, while at the same time not stimulating risk taking in excess of the levels acceptable to the Bank. Two new projects were developed with forthcoming launch in 2019: a Trainee Program and an Internal Trainer Development Program.

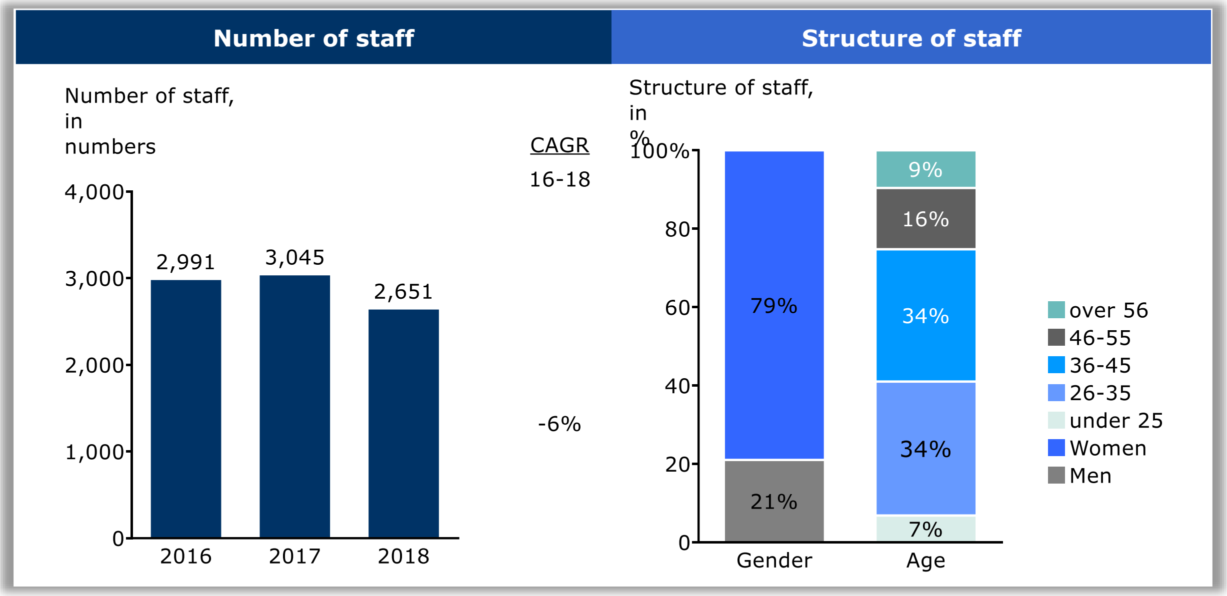
The implementation of the training project "Knowledge Development for Future Management" started with the financial support of the Human Resource Development Operational Program 2014-2020, co-financed by the European Social Fund of the European Union. Under the project agreement, the Bank was granted funding in excess of BGN 220,000. The project envisages

English language training for 210 employees and training in office software applications for 240 employees.

During the year, a total of 2,766 employees participated in different forms of training (including persons attending more than 1 training), or 104% of the total number of staff.

In 2018, work on long-term projects continued focused on development of internal communication, acknowledging and promoting the team and individual potential of employees, and integrating education and business:

- **Intranet portal** – the project was successfully completed for creation and implementation of a modern and innovative channel for internal communication to support the effectiveness of work processes and develop the quality of service;
- **Recognition program "Together We Can Do More"** – aimed at motivating and encouraging employees to excel, acknowledging their personal contribution, as well as promoting work behaviors important to the success of the Bank. During the year, 20 employees of the Bank were recognized and awarded;
- **Master's program in Bank Management and Investment Activity** – developed and implemented jointly with the Higher School of Insurance and Finance and aimed at building partnership relations and sustainable integration between business and education. To date, a total of 50 students have graduated the program, 34 of which employees or interns of the Bank.



As at 31.12.2018, the number of First Investment Bank personnel on an unconsolidated basis amounted to 2,651 employees, compared to 3,045 a year earlier. The decrease reflects the outsourcing of the activities of maintaining physical security of the branches and buildings of the Bank to a licensed security company, realized in October 2018. At year end, 41% of the staff were under 35, and 75% under 45 years of age. In line with the general trends, 79% of the Bank's employees were women.

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 for 2018 amounted to BGN 7,480 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. 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

Non-financial statement

within the meaning of Art. 48 of the Accountancy Act.

In 2018, First Investment Bank maintained its image as a socially responsible institution implementing various projects in the spheres of education, culture and sport as part of its corporate social responsibility program.

First Investment Bank continued its joint initiative with the National Center for Transfusion Hematology (NCTH), conducting for yet another year a campaign for free and voluntary blood donation in which a number the Bank employees took part. The main goal of the campaign was to promote voluntary blood donation in Bulgaria which is vital to saving thousands of lives.

During the year, as a long-term partner of the national organization Little People of Bulgaria, the Bank participated in the raising of funds for construction and repair activities of a new Center for the Issues of Little People in Bulgaria intended to provide a range of services for support and mutual assistance of people with short stature in the country. First Investment Bank also took part in the national campaign “Easter for Everyone” under the auspices of the Ombudsman of the Republic of Bulgaria, which provides funds in support of disadvantaged and vulnerable groups of society.

In implementation of its long-term program for supporting and stimulating the development of Bulgarian education and young people, during the period 2017-2018, Fibank organized a number of initiatives focused on promoting financial literacy among children from a very young age. That included the development of early financial education books and movies titled "Kids and money", short videos in the social networks about the benefits of debit cards for children and teens, a parents’ handbook for development of financial literacy in children titled "10 Myths about Children and Money", as well as participation in thematic events such as the European Money Week and the Webit for children. As an acknowledgment of the successful development of its program for early financial education, the Bank was awarded as Benefactor for Innovative Education at the seventh edition of the DigitalKidZ conference.

The first International conference "Women in Business" was held during the period, as part of Fibank's Smart Lady program designed to support women entrepreneurs in Bulgaria. In fulfillment of the social element of the program, the Bank is planning to hold a series of conferences, trainings and information seminars where business ladies can exchange experience and obtain professional advice.

As the largest Bulgarian-owned bank, Fibank continued its efforts to preserve and develop Bulgarian traditions and culture. The Bank supported Bulgarian cinema through a number of initiatives, as well as a set of musical events and festivals, including the Bansko International Jazz Festival where Fibank provided free entrance to visitors for the performances of talented jazz musicians from around the world.

The development of Bulgarian sport and the support of young talents are among the important causes that First Investment Bank seeks to maintain in pursuit of its social responsibility program. In this connection, Fibank awarded for their excellent performance the Bulgarian athletes who won 5 gold, 3 silver and 2 bronze medals in different disciplines of the Youth Olympic Games in Buenos Aires. For the second consecutive year, First Investment Bank was general sponsor of the Snowboard World Cup held in late January 2018 in our country.

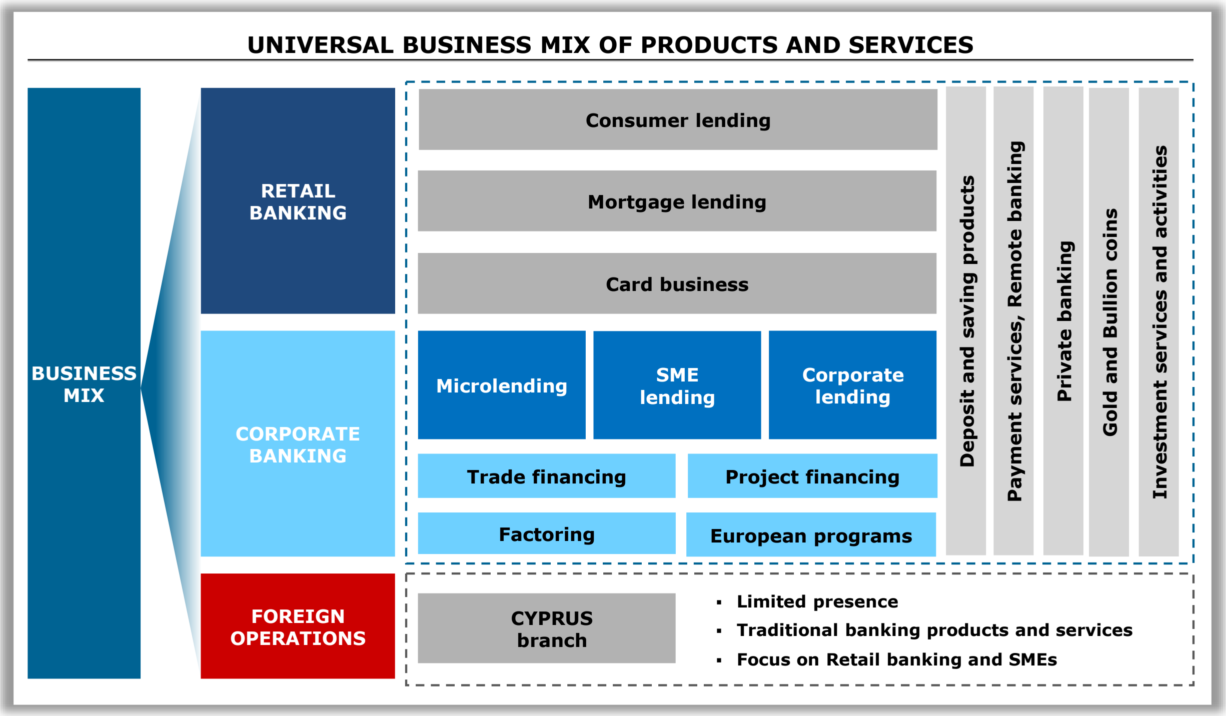
As a general sponsor of the Bulgarian national team of rhythmic gymnastics, in September 2018 during the World Cup in Sofia, First Investment Bank awarded all 73 Bulgarian rhythmic gymnastics champions with a special gold medal made on a graphic project designed by the Bulgarian Rhythmic Gymnastics Federation in partnership with experts from Fibank and the Swiss refinery PAMP.

At the end of 2018, First Investment Bank presented its charity calendar for 2019 which is part of a social project aimed at young and talented Bulgarian athletes, supporting the Bulgarian Rhythmic Gymnastics Federation (BRGF). The calendar is distributed through the branch network of the Bank across the country, and Fibank has committed to double the donations collected for the charity cause.

For another year, Fibank organized the competition Best Bulgarian Firm of the Year, aimed at supporting Bulgarian companies and creating increased confidence among them, as well as at drawing attention to positive and successful business examples in the country that may become a source of inspiration to others.

In accordance with legal regulations and good practices, First Investment Bank discloses in its Annual Reports non-financial information that represents a *Non-financial statement* within the meaning of Art. 48 of the Accountancy Act, including with regard to the corporate social responsibility policies of the Bank and its participation in the public life of the country, as well as matters related to employees, diversity policies in place, description of business development and products, corporate governance practices and development objectives. *For more information, apart from the Social Responsibility section, see also sections Mission, Bank profile, Highlights 2018, Distribution channels, Information technology, Corporate governance, Human capital, Business overview, Goals for development during 2019.*

BUSINESS REVIEW



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

RETAIL BANKING

DEPOSITS

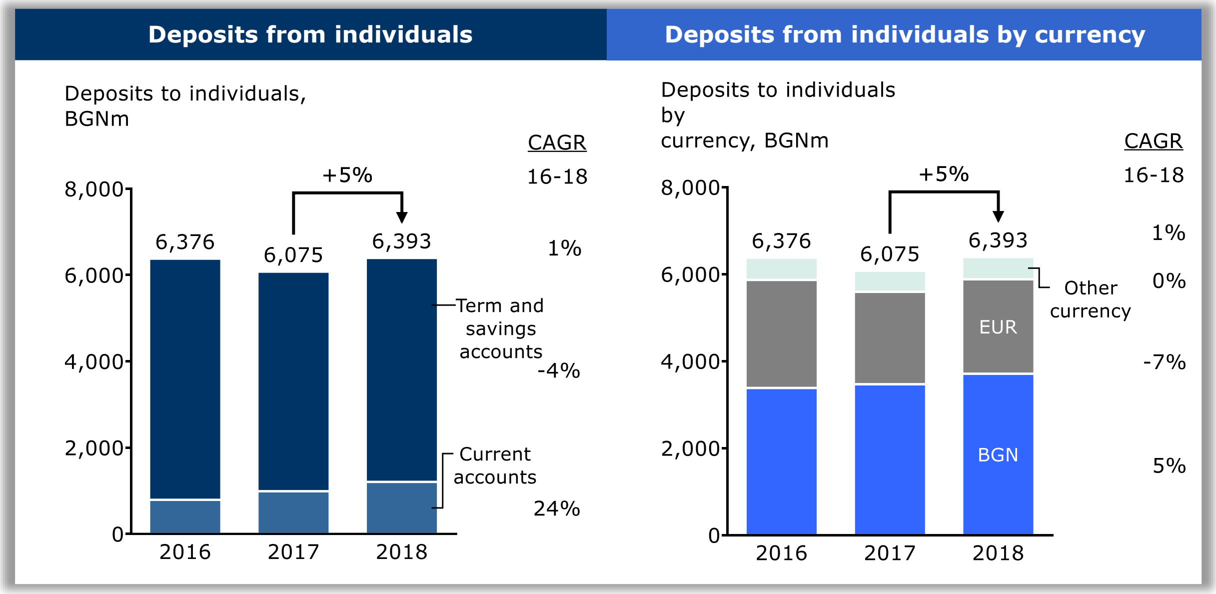
In 2018, attracted funds from individuals increased and reached BGN 6,392,855 thousand compared to BGN 6,075,112 thousand a year earlier, mainly driven by the 21.8% increase in current accounts which reached BGN 1,204,229 thousand (2017: BGN 988,942 thousand). Such results were determined by the consistent policy of the Bank for establishing long-term customer relationships, while developing cross-selling and transaction business.

During the year, a new retail product Profitable Account was developed, featuring a current account linked to a term deposit where interest bonus is paid depending on the current account balances. The parameters of banking packages for individuals offered by the Bank were further adapted to the changing market conditions and customer needs.

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, private enforcement agents.

The Bank's policy is aimed at building a stable deposit base by offering diverse and flexible deposit products, while maintaining high standards of customer service. In 2018, Fibank optimized the terms of its deposit products in line with the market environment and the downward trend in interest rates. It continued to work actively towards building and maintaining lasting customer partnerships.

By the end of the year, term deposits and savings accounts increased to BGN 5,188,626 thousand (2017: BGN 5,086,170 thousand), with borrowings from individuals retaining a major share at 81.2% (2017: 83.7%). During the period, on the occasion of the anniversary of the Bank, promotional savings products were developed, including the deposit 25 Years Fibank featuring a 25 bp higher interest rate. In April 2018, a new My Deposit electronic product was launched, opened and managed entirely online via the My Fibank e-banking platform. A new child savings account was also developed as an additional product to the Smart Lady program designed to support female entrepreneurs.



With a view to diversifying its sources of funds, the Bank participates in the international platform WeltSparen aimed at attracting deposits from foreign persons.

In terms of attracted funds from individuals First Investment Bank was placed third among banks in the country (2017: third). As at the end of 2018 the market share of the Bank amounted to 11.98% on an unconsolidated basis (2017: 12.28%).

LOANS

The gross loan portfolio of individuals increased with 12.0% to BGN 1,629,047 thousand compared to BGN 1,454,273 thousand for the previous year, as a result of an increase in all major product lines.

In BGN thousand/ % of total	2018	%	2017	%	2016	%
Consumer loans	734,928	45.1	612,970	42.2	491,101	34.8
Mortgage loans	700,311	43.0	591,830	40.7	547,690	38.8
Credit cards	187,577	11.5	246,291	16.9	243,425	17.2
Other programs and secured financing	6,231	0.4	3,182	0.2	130,568	9.2
Total retail loans	**1,629,047**	**100**	**1,454,273**	**100**	**1,412,784**	**100**

CONSUMER LOANS

Consumer loans increased by 19.9% to BGN 734,928 thousand (2017: 612,970 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 the new specialized consumer loan Restart, designed for refinancing and consolidation of obligations. With a simplified application procedure and terms, it is aimed at reducing the monthly installments paid by customers, as well as at saving costs and increasing the convenience of service.

First Investment Bank continued to promote the opportunity for fully online application for consumer loans on its website at www.credit.fibank.bg. The process is integrated into the automated Workflow system of the Bank and, upon approval, applicants can choose a banking office of their convenience to sign the required documents.

First Investment Bank's market share in this segment amount to 9.27% (2017: 9.72%) at the end of the year, and Fibank hold fifth place (2017: fourth) 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 187,577 thousand at the end of the period (2017: BGN 246,291 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 11.5% (2017: 16.9%).

A number of promotional offers were launched during the year in connection with Fibank's 25th anniversary, including in the area of credit cards and overdrafts. In pursuance of its strategic plans, the Bank continued to develop its operations with a view to more effective management of the customer portfolio and targeting individual customer groups, as well as identifying additional cross-selling opportunities. *For further information see section „Card payments“.*

MORTGAGE LOANS

As at the end of December 2018, mortgage loans increased by 18.3% to BGN 700,311 thousand compared to BGN 591,830 thousand a year earlier, forming a 43.0% share in the portfolio of loans to individuals (2017: 40.7%). As at 31 December 2018, the market share of the Bank in this segment increased to 6.68% (2017: 6.39%), as Fibank was placed sixth among banks in the country on an unconsolidated basis (2017: seventh).

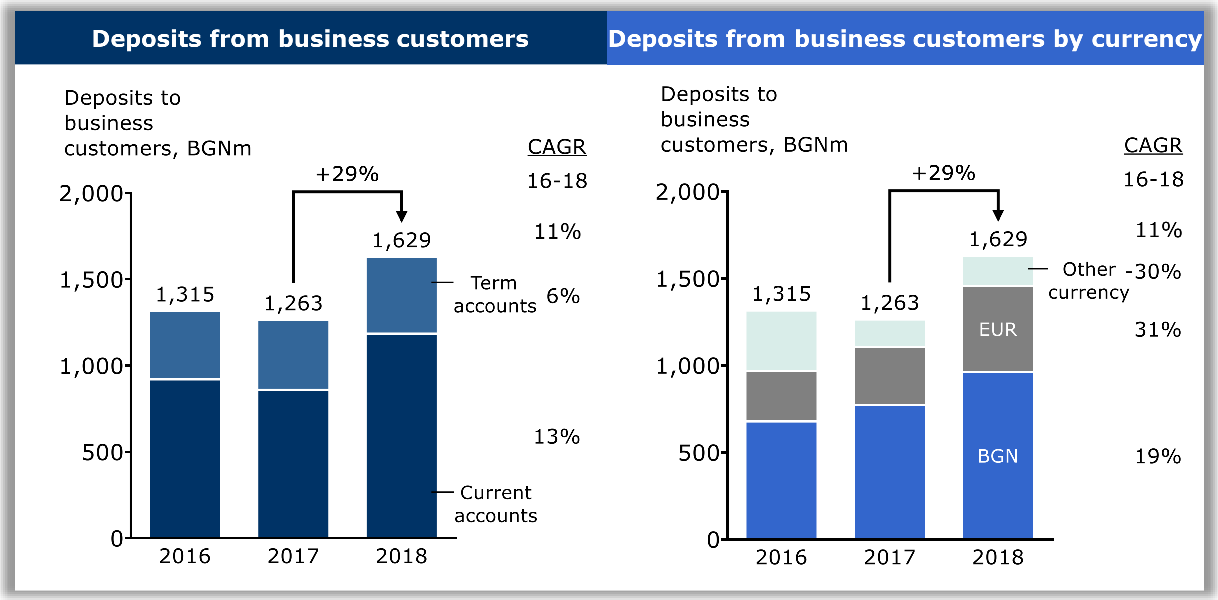
Throughout the year in implementation of its strategy for development of the retail banking segment, Fibank continued to offer mortgage loans under competitive conditions as well as to organize promotional campaigns, aiming to stimulate sales. During the period in compliance with the market environment the conditions on the mortgage loan "Right of choice" were updated, with fixed interest for the first 12 months and no commission for the disbursement, management or engagement.

In 2019, the Bank will continue to develop and offer flexible credit products for individuals with the aim at attracting new clients and offering supplementary products and services.

CORPORATE BANKING

DEPOSITS

Attracted funds from corporates and institutions in 2018 increased with 28.9% (BGN 365,321 thousand) to BGN 1,628,584 thousand (2017: BGN 1,263,263 thousand). The increase in volume reflected mainly in the current accounts reaching BGN 1,184,170 thousand at the end of 2018 (2017: BGN 858,977 thousand) and forming 72.7% of the attracted funds from business customers and institutions (2017: 68.0%).



Term accounts increased as well and reached BGN 444,414 thousand (2017: 404,286 thousand) at the end of the period, forming 27.3% of the attracted funds from corporates and institutions (2017: 32.0%). First Investment Bank offers a variety of deposit and savings accounts, and package programs for business customers which constantly adapt to market conditions and specific company requirements.

In 2018, Fibank developed new saving product for business clients "Free deposit+", including 1-month term deposit in BGN and EUR, linked to a current account, to which accrued interest is paid. During the period, the terms on the combined packages of bank products and services for business clients were updated, aiming to be in line with the market environment and to secure maximum satisfaction of customer needs. These give the opportunity for optimizing the expenses and the procedures for using different types of bank services.

By 31 December 2018, funds attracted by the thirty biggest non-banking clients represented 4.93% of the total amount due to other customers (2017: 4.20%).

LOANS

CORPORATE LENDING

The portfolio of loans to corporates amounted to BGN 4,636,557 thousand at the end of 2018, compared to BGN 4,155,884 thousand a year earlier. The segment of corporate customers increased as an absolute amount, including due to an increase mainly in the receivables related to financial leasing, at the same time decreasing as a share in the corporate portfolio to 80.8% at the end of the year (2017: 81.6%). The loans to other business lines – small and medium enterprises and microlending, grew, as they increased their share in the structure of loans to companies to 16.2%, (2017: 15.5%) and to 3.0% (2017: 2.9%) respectively, as part of the policy for portfolio diversification and priority development in these segments.

In BGN thousand/ % of total	2018	%	2017	%	2016	%
Corporate customers	3,745,434	80.8	3,391,558	81.6	3,714,238	85.3
Small and medium enterprises	751,180	16.2	643,444	15.5	531,839	12.2
Microlending	139,943	3.0	120,882	2.9	107,744	2.5
Total loans to corporates	**4,636,557**	**100**	**4,155,884**	**100**	**4,353,821**	**100**

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

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

During the year, a campaign was launched to present the factoring services offered by the Bank to existing and potential business customers, including companies delivering of goods or providing services with deferred payment in the country or abroad. First Investment Bank is a member of Factors Chain International (FCI), a global network of leading commercial finance companies and can provide export factoring without recourse, as well as import factoring. The Bank also maintains co-operation with leading factoring insurance companies.

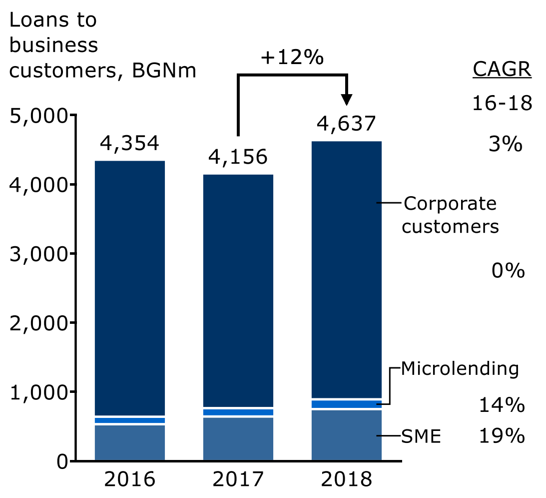
The Bank continued to be among the leading institutions in the country in the area of commercial finance. At the end of the year, in accordance with the renewal option, an extension was signed to the framework agreement with the Taiwan export insurance agency Eximbank Taiwan for financing deliveries of goods from Taiwanese suppliers to customers of First Investment Bank in Bulgaria or abroad.

The market share of Fibank at the end of the year amounted to 12.82% of loans to corporates in the banking system (2017, 12.10%), Fibank retained its second place (2017: second) among banks in the country on an unconsolidated basis.

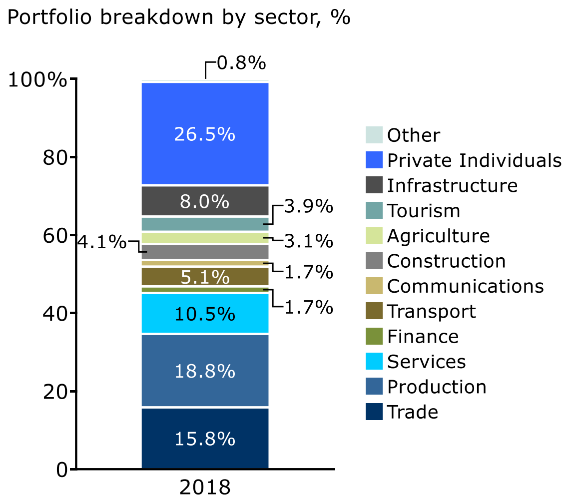
As at 31.12.2018, loans to the manufacturing sector had a leading share in the portfolio structure (2018: BGN 1,179,765 thousand, 2017: BGN 845,189 thousand), followed by the trade sector (2018: BGN 992,286 thousand, 2017: BGN 973,958 thousand) and the services sector (2018: BGN 655,577; 2017: BGN 614,790 thousand), forming respectively 18.8%, 15.8% and 10.5% of total loans (2017: 15.1%, 17.4% and 11.0%). Such dynamics reflect the positive trends of economic activity in the country, in line with the Bank's development goals. An increase was also reported in the sectors of construction – up to BGN 258,219 thousand (2017: BGN 192,606 thousand) and infrastructure – up to BGN 500,735 thousand (2017: BGN 467,483 thousand), as a result of the recovery of these sectors and their contribution to value added in the economy over the period. Positive indications and data in the tourism sector contributed to the development of loans in this segment, which reached BGN 244,533 thousand at the end of the period against BGN 168,356 thousand a year earlier. Loans in communications increased to BGN 106,858 thousand (2017: BGN 46,577 thousand), driven by the Bank's focus and specialized credit products offered, as well as by the sector’s contribution to the growth of the services industry in the country.

During the year decrease was registered in loans in the sphere of agriculture (2018: BGN 194,749 thousand; 2017: BGN 207,877 thousand), in transport sector (2018: BGN 316,628 thousand; 2017: BGN 319,282 thousand) and finance (2018: BGN 107,517 thousand, 2017: BGN 110,290 thousand).

Business loan portfolio



Portfolio breakdown by sector



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

SME BANKING

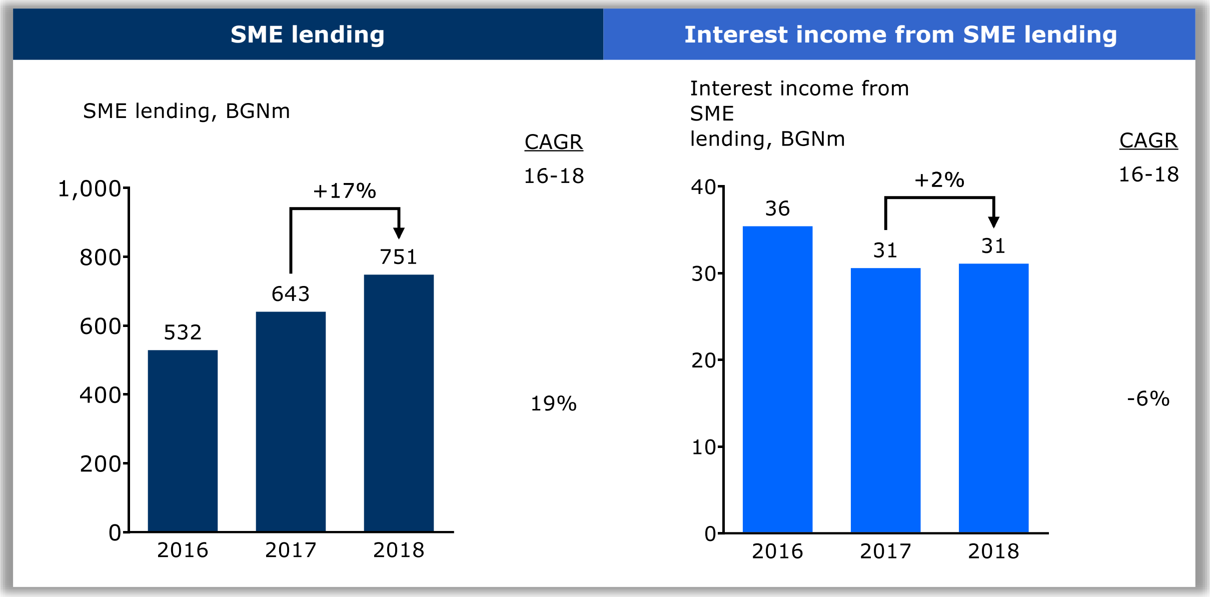
In 2018, loans to small and medium enterprises[10] increased with 16.7% to BGN 751,180 thousand compared to BGN 643,444 thousand a year earlier in implementation of the Bank's plans for development of this business segment. The increase was influenced also by the competitive terms offered in the products for SME clients, as well as the various solutions related to the programs and funds of the EU and the other guarantee schemes and financing.

In the beginning of the year, based on an agreement with the National Guarantee Fund (NGF) for financing under the COSME guarantee scheme, Fibank started providing investment and working capital loans to small and medium-sized enterprises in the amount of up to EUR 1.5 million for a term of up to 60 months, and EUR 750,000 for a term of up to 120 months. In December 2018, First Investment Bank signed a new agreement with the Bulgarian Development Bank under a program for indirect financing of SMEs with a guarantee facility and a counter-guarantee under the EIF COSME Program, supported by the European Fund for Strategic Investments (COSME+ program).

In the second half of 2018, First Investment Bank also launched investment and working capital loans to SMEs registered in Bulgaria with a maximum amount of up to EUR 500,000 with attractive interest rates and reduced collateral requirements. The loans were part of an on-lending agreement with the Bulgarian Development Bank under a joint program with KfW, aimed at supporting the micro, small and medium-sized enterprises in the country. *For more information see section „Europrograms".*

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

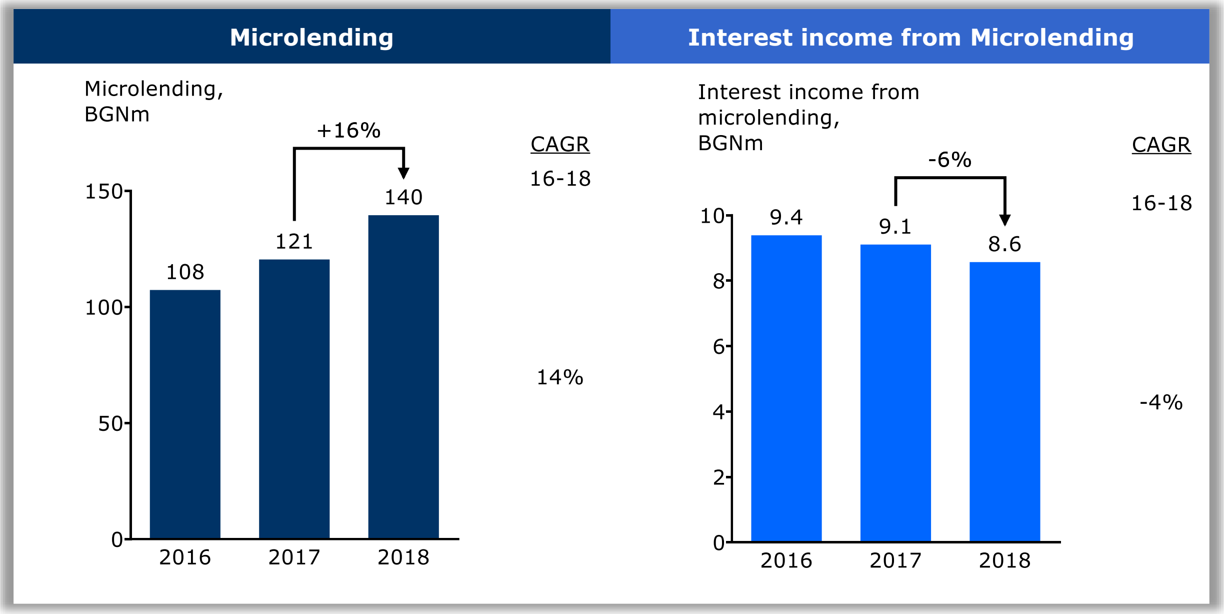
[10] Enterprises with annual income of sales up to BGN 15 mln. regarding the internal criteria for segmentstion of customers.



Throughout the year, Fibank continued to promote its credit products tailored to specific sectors or areas of business, such as office purchase/repair, or working capital for small and medium-sized companies operating in the field of information technology. A new campaign was launched for business credit cards, with pre-approved limits for SME customers of the Bank. The Bank also increased its efforts in offering factoring services to Bulgarian companies as an alternative to working capital loans.

MICROLENDING

In 2018, the microlending portfolio grew by 15.8% reaching BGN 139,943 thousand compared to BGN 120,882 thousand a year earlier, in line with the Bank's targeted efforts for development and growth in this segment.



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.

In 2018, an emphasis in microlending activity was placed on the new Smart Lady program directed at female entrepreneurs. The program targets companies managed or owned by women, as well as businesses producing goods or providing services for women. Financing solutions include investment and working capital loans, bundled offers with Diners Club First Lady credit cards, medical insurance from FiHealth Insurance AD, child savings accounts, as well as debit cards for children and teens. As part of the program, the Bank plans to hold conferences, trainings and information seminars where the female entrepreneurs can exchange experience and obtain professional advice. An electronic platform will also be built for distance learning and providing information on topical issues.

During the period, the Bank continued to support agricultural producers, including by providing loans secured with pledge of subsidies under schemes and measures of EU's common agricultural policy. Up to a 100% of the expected subsidy payments are financed under this program. As part of its efforts to offer tailored financing solutions to individual sectors or business areas with high development potential, the Banks has credit products in place especially designed for IT companies, as well as for medical and dental practices.

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.

At the beginning of the year, First Investment Bank and the National Guarantee Fund (NFP) signed a new agreement under the COSME guarantee scheme, which aims to facilitate the access of SMEs to funding, as well as to support productive investments within the European Union. During the period, the term was extended of two other guarantee agreements with the NGF providing financing to SMEs, including to agricultural producers and companies approved for assistance under the Rural Development Program.

In August 2018, First Investment Bank and the Bulgarian Development Bank signed an agreement for provision of financing in support of micro, small and medium enterprises under a joint program with KfW. Under the program, the Bank will offer investment and working capital loans to SMEs registered in Bulgaria with a maximum loan amount of EUR 500,000.

In December 2018, First Investment Bank signed an agreement with the Bulgarian Development Bank under a program for indirect financing of SMEs with a guarantee facility and a counter-guarantee under the EIF COSME Program, supported by the European Fund for Strategic Investments (COSME+) which provides, in addition to direct financing, also a guarantee on the loans granted.

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

PAYMENT SERVICES

In 2018 First Investment Bank was a member and participant in payment systems and agent of other payment service providers, as follows:

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

In 2018, the Bank reported an increase in the number of transfers (incoming and outgoing) in local and foreign currency. This was due to the competitive terms offered by the Bank and to the high quality of customer service. During the year, the Bank launched a project to introduce the new regulatory requirements arising from the Law on Payment Services and Payment Systems (LPSPS) and Ordinance No 3 of the BNB implementing the requirements of Directive (EU) 2015/2366 on payment services in the internal market (PSD2).

CARD PAYMENTS

In 2018, First Investment Bank continued to develop its card business in line with customer needs and modern technologies, including through offering innovative card products and services on the Bulgarian market, relevant to the context of the increasing digitization in banking.

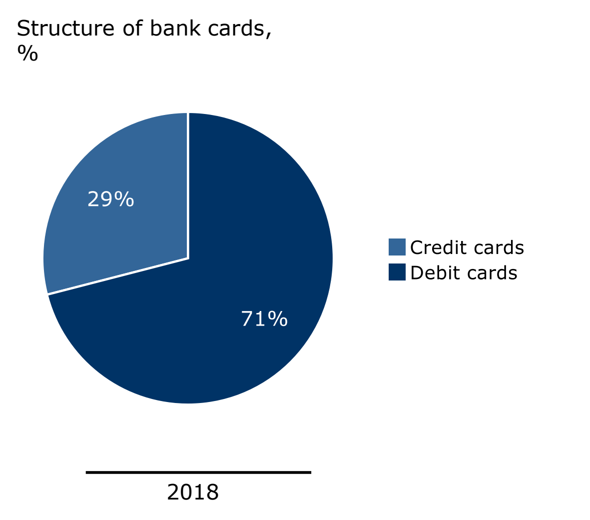
During the year, with the support of Fibank the innovative Evolve credit card was developed. This new generation card unites two global brands, Diners Club and MasterCard, into one payment instrument. Holders of Evolve credit cards can choose which of the two brands to use when making a payment, as well as benefit from a number of additional services, including a cashback program, a Concierge program and participation in other award programs and discounts. First Investment Bank also started offering and a new Cash-in service for cards issued by Fibank at ATMs of the Bank, which creates further convenience for cardholders allowing them to deposit cash to their card accounts without visiting an office of the Bank.

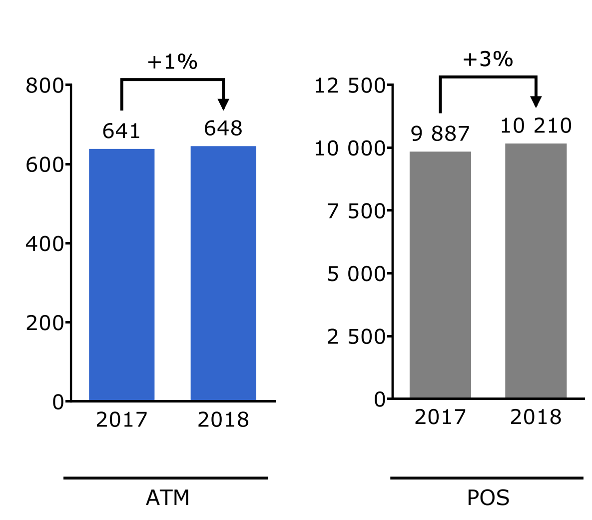
Fibank continued to develop its digital card services, offering customers a new generation digitalized card representing a digital version of a plastic credit/debit card issued by Fibank.

During the year, the Bank continued to promote its innovative micro-cards, issued as an additional accessory to the Debit MasterCard Pay Pass kids/teen. Built into a bracelet or keychain, they feature contactless payment functionality. Issuance of this type of cards is part of the Bank's program for early financial education which it actively developed during the period 2017-2018. That included a number of initiatives such as the development of early financial education books and movies titled "Kids and money", short videos in the social networks about the benefits of debit cards for children and teens, a parents’ handbook for development of financial literacy in children titled "10 Myths about Children and Money", as well as participation in thematic events such as the European Money Week, the DigitalKidz conference and the Webit for children.

As at 31 December 2018, the most significant increase in the number of cards issued was observed in MasterCard debit cards which feature contactless payment functionality, allow online payments and are part of Fibank's YES loyalty program.

In order to stimulate card payments and contactless payments in particular, various promotional and product campaigns were organized during the period, including joint initiatives with the card organisations. Fibank was the first bank in Bulgaria to start the issuance of the contactless cards MasterCard PayPass (since 2010) and Visa payWave (since 2012). It was also among the first 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.





In 2018, the Bank’s ATM network reached 648 units, compared to 641 a year earlier. This reflects the development of its terminal network, including the installation of new devices with Cash-in functionality, while maintaining optimal efficiency according to specific locations, workload and volume of transactions. As at 31 December 2018, the POS terminal network of First Investment Bank increased to 10,210 units compared to 9,887 in the previous year. Fibank aims to develop and offer competitive conditions to both merchants and cardholders in order to further stimulate this type of payments.

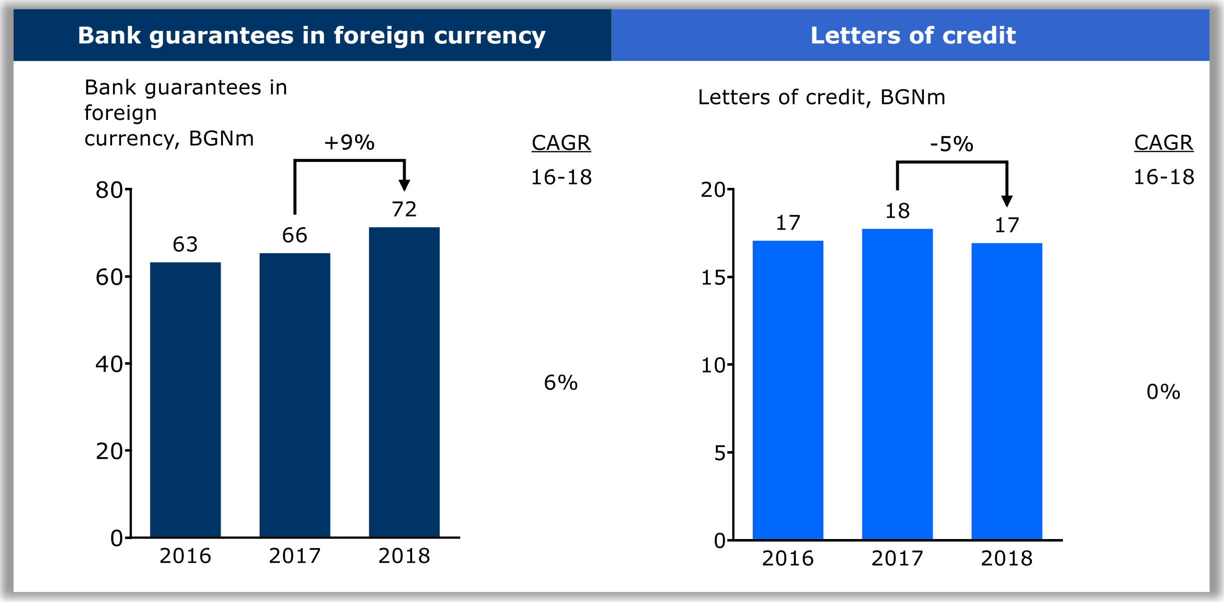
INTERNATIONAL PAYMENTS

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 2018, the Bank reported an increase in incoming and outgoing foreign currency transfers in terms of both number and account. This was due to the increased customer base, the competitive conditions offered by the Bank and the high quality of customer service. First Investment Bank has a wide network of correspondent banks through it which carries out international payments and trade finance operations in almost all parts of the world. The Bank executes cross-border currency transfers through SWIFT, as well as the TARGET2 and BISERA7-EUR payment systems and since April 2017 the Bank executes credit transfers as a direct participant in the system STEP2 operated by EBA Clearing. Fibank operates in issuing checks and performing various documentary transactions.

During the year, First Investment Bank opened a Chinese Yuan correspondent account with Industrial & Commercial Bank of China Limited, with a view of facilitating payments and supporting Bulgarian businesses in commercial and structured finance transactions. A new cross-border payment monitoring project through the SWIFT global payments innovation (gpi) platform was also launched.

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



During the reporting period, the letters of credit and bank guarantees in foreign currency issued by the Bank to guarantee the performance of its customers to third parties amounted to BGN 88,515 thousand (2017: BGN 83,379 thousand), forming 11,7% of the off-balance sheet commitments of the Bank (2017: 10.2%).

GOLD AND COMMEMORATIVE COINS

In 2018, First Investment Bank retained its leading positions in Bulgaria in terms of transactions and advice related to investment gold and other precious metal products. Fibank continued to develop its Gold & Silver online selling platform by constantly updating individual sections and adding new products.

For the reporting period, revenues from sales of gold and precious metal products amounted to BGN 643 thousand compared to BGN 725 thousand a year earlier, reflecting the dynamics of demand and precious metals prices over the year.

Fibank offers its customers products of investment gold and other precious metals since 2001. Over the years, it 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.

Along the lines of traditional cooperation with the New Zealand Mint, a new silver coin was designed dedicated to the Year of the Pig, exclusively offered in Fibank's offices. The distribution started of gold coins for newborns, designed under Fibank's project in partnership with the New Zealand Mint, which represent a novelty for the Bulgarian market.

During the period, jointly with the Swiss refinery PAMP, a new gold coin was created depicting the Three-handed Virgin Mary which ranked among the most popular products of the Bank for 2018.

In pursuance of its long-standing policy of support for Bulgarian production, in early 2018 Fibank signed an agreement with the Bulgarian National Bank for the distribution of Bulgarian commemorative coins and coin sets issued by the central bank.

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

PRIVATE BANKING

First Investment Bank offers private banking for individuals since 2003, and for corporate clients since 2005. Private banking features servicing by a designated personal officer, who is responsible for the overall banking solutions provided to a customer.

A highlight in private banking for 2018 was the introduction and active offering of new investment products, allowing customers under the conditions of a low-interest rate market to diversify their portfolios at various levels of risk. Along these lines, in June 2018 First Investment Bank established a partnership with Erste Asset Management aimed at offering on the Bulgarian market the mutual funds managed by this Austrian company. Based on the signed agreement, Fibank offered four euro-denominated mutual funds as follows:

- ESPA Bond Euro Corporate – a bond fund investing in corporate bonds of European companies with high credit rating;
- ESPA Portfolio Balanced 30 – a balanced fund with moderate risk;
- ESPA Stock Europe – an equity fund investing in European companies;
- ESPA Stock Global – an equity fund investing in companies around the world.

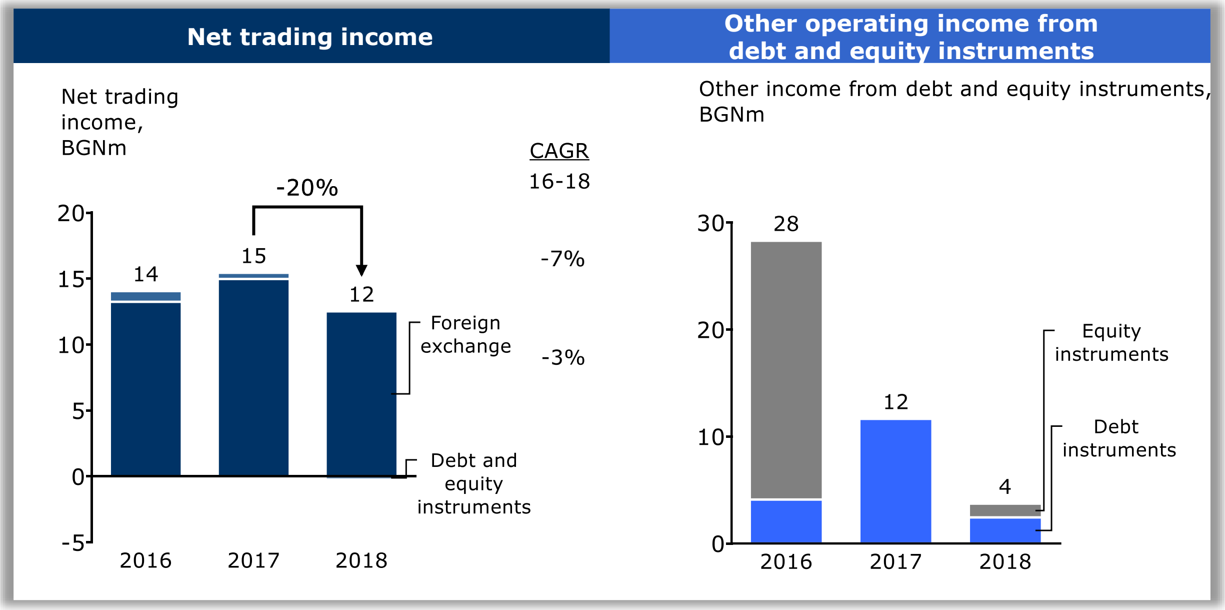
Units of these funds are offered to existing and potential customers through the branch network of Fibank, at specially designated locations in Sofia and the country.

The Bank continues to develop its private banking activities, including through expanding the range of products and services offered, with a view to attracting more customers from this segment, as well as increasing the deposit base and operating income. During the year, private banking customers were also offered lending programs and pre-approved credit limits tailored to their needs and to the market conditions.

CAPITAL MARKETS

In 2018 net trading income amounted to BGN 12,279 thousand (2017: BGN 15,435 thousand), mainly as a result of the lower income from trade operations related to exchange rates and debt and equity instruments. Other net operating incomes, arising from debt and capital instruments, amounted to BGN 3,717 thousand compared to BGN 11,644 thousand a year earlier.

The securities portfolio at the end of 2018 amounted to BGN 681,464 thousand, compared to BGN 699,560 thousand a year earlier, of which BGN 656,038 thousand measured at fair value through other comprehensive income (2017: BGN 673,039), BGN 748 thousand measured at amortized cost (2017: BGN 19,615 thousand), and BGN 24,678 thousand measured at fair value through profit or loss (2017: BGN 6,906 thousand).



As from 1 January 2018, First Investment Bank applies the new business model requirements and criteria for classifying financial assets in the Bank's portfolios according to IFRS 9. Depending on the purpose of financial asset management, those include: 1) a business model whose objective is to hold assets in order to collect the contractual cash flows (hold to collect); 2) a business model whose objective is to both collect contractual cash flows and sell of financial assets (hold to collect and sell); 3) another business model, where the purpose is different from the two above business models (other business model), where assets held for trading are also included.

In implementation of the requirements arising 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 Legal Entity Identifier (LEI) code 549300UY81ESCZJ0GR95, issued by the Global Markets Entity Identifier (GMEI) Utility.

In compliance with the new regulatory requirements arising from the European legal framework in the field of financial markets – Directive 2014/65/EU of the European Parliament and of the Council and Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments (MiFID II/MiFIR package), in 2018 First Investment Bank implemented a project to bring its activity in line with the Markets in Financial Instruments Act and the other applicable regulations, including with regard to the Bank's internal regulatory framework as an investment firm, as well as the terms and conditions and other documentation for customers and potential investors. Technological solutions are also expected in connection with the accounting of the financial instruments, the maintenance of portfolios and client records, including extending the possibility for generation of reports and access to a range of legally required samples and documents, needed for the organization of the activity.

In its capacity as an investment intermediary and a primary dealer of government securities, First Investment Bank carries out transactions with financial instruments in the country and abroad including transactions in government securities, shares, corporate and municipal bonds, compensatory instruments as well as money market instruments. The Bank also offers trust portfolio management, investment consultation, as well as depositary and custodian services to private individuals and corporates, including maintaining registers of investment intermediaries, of accounts of securities, income payments and servicing payments under transactions in financial instruments. As part of the Compliance function, the Bank has a specialized unit "Compliance – Investment Services and Activities" which controls and 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. At certain locations, distribution is also carried out of four mutual funds managed by Erste Asset Management (ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H): ESPA Bond Euro Corporate, ESPA Portfolio Balanced 30, ESPA Stock Europe and ESPA Stock Global.

MEETING THE 2018 GOALS

No	Goal	Achievement
1	Emphasize on the development of retail and SME banking	Retail, micro and SME loans increased their share in the Bank's total loan portfolio to respectively 26.0%, 2.2% and 12.0% at the end of 2018, compared to 25.9%, 2.2% and 11.5% a year earlier. Retail, micro and SME portfolios also increased in absolute amount, up to BGN 1,629 million, BGN 140 million and BGN 751 million. In line with customer needs, new credit products and programs for these segments were developed during the year. Competitive lending terms were offered according to the market environment, including the Restart loan, the Smart Lady program and the updated Right of Choice housing loan. The market shares of the Bank in these strategic segments are 9.27% for consumer loans and 6.68% for mortgage loans. *For more information, see the Financial review section*
2	Keep the focus on high quality of service and customer satisfaction	Acknowledgment of the achievements in this direction are the awards received during the year, including for Innovation and Continuous Improvement of the Quality of Products and Services in the Company of the Year competition organized by Business Lady magazine; as Favorite Brand of Bulgarians in the Banks category of the competition My Love Marks; and in the Innovations category of the international Efma-Accenture DMI Awards 2018. *For more information, see the Awards 2018 section.*
3	Expand market presence through new sales channels and methods	The Bank developed its My Fibank mobile application as an alternative banking channel. Digital banking is constantly improved, upgrade and new functionalities are added. First Investment Bank elaborated the channels for online loan applications at its website: www.credit.fibank.bg. New products were developed providing additional opportunities for cross-selling, including active offering of banking programs and packages and promotion of factoring services. *For more information, see the Distribution channels section.*
4	Offer new products and service packages tailored to the needs of customers	A new Smart Lady program was launched aimed at supporting female entrepreneurs. The program mainly targets micro, small and medium-sized businesses run by women, as well as businesses producing products and services designed for women. A new Cash-in service was introduced in 2018, using cards issued by Fibank at ATMs of the Bank. A new retail product Profitable Account was offered, featuring a current account linked to a term deposit. An innovative Evolve credit card of a new generation was developed, combining three brands (Fibank, Diners Club and MasterCard) into a single payment instrument. *For more information, see the Business overview section.*

No	Goal	Achievement
5	Continue to develop innovative e-services based on high technology solutions	In May 2018, a new software Fibank Token was launched as a means of signature and authentication in the electronic banking system. A new electronic deposit product My Deposit was launched, opened and managed entirely online through the My Fibank electronic banking system A new generation digitalized card representing a digital version of a plastic credit/debit card issued by Fibank. New functionalities were added such as online change of payment card transaction limits, push notifications, currency exchange via the mobile application, etc. *For more information, see the Digital banking section.*
6	Maintain stable capital ratios and capital buffers above the regulatory requirements	Plans for capital levers in key areas were implemented, including through profit retention, diversification of the loan portfolio and conservative risk management. From 1 January 2018, First Investment Bank maintains a new capital buffer for other systemically important institutions (OSII) in the amount of 0.5% for 2018, which will gradually increase to 1% in 2020. At the end of 2018, the Bank's capital ratios were well above the statutory requirements: Common Equity Tier 1 capital ratio 13.37%, Tier 1 capital ratio 16.31% and total capital ratio 16.31%, with minimum requirements under Regulation (EU) No 575/2013 being respectively 4,5%, 6% and 8%. *For more information, see the Capital section.*
7	Maintain a moderate risk profile and an effective risk control environment	In 2018, Fibank carried out its activities in line with the adopted risk strategy and business objectives, with the aim of further enhancing the safeguards against inherent risks. A new process was introduced to measure and validate the risk management models used by the Bank for the purpose of ensuring their reliability, accuracy and effective implementation. The Bank's valuation models for project financing were improved. Automation of scoring processes for retail customers was carried out in order to enhance the efficiency of credit approval. The liquidity measurement, monitoring and control system was further developed, including by development and maintenance of a maturity ladder as part of the additional liquidity monitoring indicators. *For more information, see the Risk management section.*
8	Apply high corporate standards in line with best international practices and the applicable regulatory requirements	First Investment Bank developed and launched a new mobile investor relations application, providing quick access to financial information, the Bank's financial calendar, as well as other data and news of interest to investors. The Bank holds regular meetings with minority shareholders as part of its transparency policy, providing an opportunity for open dialogue between them and the senior management of the Bank.

		In 2018, the General Meeting of Shareholders elected a new independent member of the Audit Committee who was also appointed its Chair. First Investment Bank implemented a project to bring its business in line with the requirements of the General Data Protection Regulation (GDPR). A Data Protection Officer (DPO) was appointed at the Bank, playing an instrumental role in ensuring the lawful processing of personal data. *For more information, see the Corporate governance section.*
9	Strengthen the position as a good and preferred employer through new initiatives and activities in the management of human capital	During the year, First Investment Bank provided a number of trainings to its employees in order to increase their professional qualification and achieve better performance and customer satisfaction. In 2018, the project for development and implementation of a new Intranet portal was successfully completed. The portal will increase the efficiency of work processes and further enhance the quality of service. The successful practice continued to distinguish employees with key contribution to delivering high performance, customer service development and team interaction through the recognition program "Together We Can Do More". The Bank was granted funding in excess of BGN 220,000 under the training project "Knowledge Development for Future Management", implemented with the financial support of the Human Resource Development Operational Program. *For more information, see the Human capital section.*
10	Continue the socially responsible policy, supporting socially significant projects and initiatives	In 2018, First Investment Bank continued its social policy by supporting a number of projects, such as raising funds for the construction and repair of a new Center for the Issues of Little People in Bulgaria, as well as conducting for yet another year a campaign for free and voluntary blood donation. Fibank organized a number of initiatives focused on promoting financial literacy among children from a very young age. The first International conference "Women in Business" was also held during the period, as part of Fibank's Smart Lady program designed to support women entrepreneurs in Bulgaria. In December 2018, First Investment Bank presented its charity calendar for 2019 which is part of a social project aimed at young and talented Bulgarian athletes, supporting the Bulgarian Rhythmic Gymnastics Federation (BRGF). *For more information, see the Social responsibility section.*

SUBSEQUENT EVENTS

There are no subsequent events after the end of the reporting period, which require additional disclosure.

DEVELOPMENT GOALS FOR 2019

- To continue to develop as a universal, customer-oriented bank with a focus on retail and SME banking.
- To introduce new market-oriented services that will contribute to long-term customer relationships.
- To further develop its distribution channels with a view to providing full banking service both through the branch network and the remote banking platform.
- To implement new solutions for optimizing the performance of operations in line with the changing environment and future development trends.
- To introduce the new technologies aiming at outpacing development of digital services.
- To maintain a sustainable business model and sound capital ratios in line with regulatory requirements.
- To develop its ethical values and corporate governance standards in line with applicable European guidelines and international practices.
- To maintain a conservative approach and effective control environment in risk management.
- To implement new initiatives in human capital management aimed at upgrading the skills and enhancing the career development of employees, at creating positive working environment and corporate values.
- To continue its socially responsible policy supporting significant social projects and initiatives.

OTHER INFORMATION

MEMBERS OF THE SUPERVISORY BOARD

Evgeni Lukanov - Chairman of the Supervisory Board

Mr. Lukanov joined First Investment Bank AD in 1998 as Deputy Director, and later as Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was Director of the Bank's Vitosha Branch (Sofia).

Mr. Lukanov has occupied a number of senior positions with First Investment Bank AD. From 2003 to 2007 he was Director of the Risk Management Department and Member of the Managing Board. From 2004 to 2012 - Executive Director and Member of the Managing Board of First Investment Bank AD.

During his years of work in First Investment Bank AD, Mr. Lukanov has been Chairman of the Credit Council and the Liquidity Council of the Bank. He has been in charge of the following departments: Risk Management, Impaired Assets and Provisioning, Loan Administration, Specialized Monitoring and Control, Retail Banking, Methodology, and Liquidity.

Mr. Lukanov has also been member of the Managing Board of First Investment Bank – Albania Sh.a.

At the beginning of February 2012, Mr. Lukanov was elected as Chairman of the Supervisory Board of First Investment Bank AD and as Chairman of the Risk Committee to the Supervisory Board of the Bank.

Mr. Lukanov holds a Masters Degree in Economics from the University of National and World Economy, Sofia. Prior to joining First Investment Bank AD, Mr. Evgeni Lukanov worked as currency broker with First Financial Brokerage House OOD.

Besides his position on the Supervisory Board of the Bank, Mr. Lukanov is also Chairman of the Board of Directors of Fi Health Insurance AD. He is owner of ET Imeksa-Evgeni Lukanov and holds more than 10% of the capital of Avea OOD.

Maya Georgieva - Deputy Chair of the Supervisory Board

Prior to joining First Investment Bank, Ms. Maya Georgieva worked with the Bulgarian National Bank for 19 years where she gained considerable experience in international banking relationships and payments, banking statistics and firm crediting. Her last appointment with BNB was as Head of the Balance of Payments Division.

Ms. Maya Georgieva joined First Investment Bank AD in 1995 as Director of the International Department. From 1998 to 2012 she served as Executive Director of First Investment Bank and Member of the Managing Board. During her years of work in 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.

She was granted several times with the "Banker of the Year" award of the Bulgarian financial weekly "Banker" - in 2001 and 2011, as well as in 2018 for overall contribution to the development of the banking system.

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.

Mr. Mutafchiev is not an owner and does not own controlling share in companies.

Radka Mineva - Member of the Supervisory Board

Prior to joining First Investment Bank AD, Ms. Mineva worked as a capital markets dealer at the Bulgarian National Bank where she gained considerable experience in banking. During the time spent with the Central Bank, she specialized at the Frankfurt Stock Exchange and the London Stock Exchange as a capital markets dealer.

Ms. Mineva started her career with the foreign trade enterprise Main Engineering Office, where she worked for 9 years; she also spent three years as an expert at RVM Trading Company.

Since 2000, Ms. Mineva has been a Member of the Supervisory Board of First Investment Bank AD.

She is a graduate of the University of National and World Economy in Sofia, with a degree in Trade and Tourism.

Besides her position on the Supervisory Board of the Bank, Ms. Mineva is Manager of Balkan Holidays Services OOD - a company with activities in the sphere of tourism, transportation, hotel business, tour operation, and tour agency services. Ms. Mineva is also Manager of Balkan Holidays Partners OOD - a company engaged in international and domestic tourism services, foreign economic transactions, and financial management. Ms. Mineva owns more than 25% of the capital of Balkan Holidays Partners OOD. She is also Member of the Managing Board of the non-profit organization “National Board of Turism”.

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 2001 to 2012 Mr. Skortchev was Member of the Managing Board and Executive Director of the Bank. During his years of work in the Bank, Mr. Skortchev has been responsible for the following departments: Card Payments, Operations, Gold and Numismatics, Internet Banking, Dealing, Security and Office Network-Sofia.

Alongside his responsibilities at the Bank, Mr. Skortchev has also occupied other senior executive positions. Mr. Skortchev has been Chairman of the Supervisory Board of UNIBank, Republic of Macedonia, member of the Supervisory Board of CaSys International, Republic of Macedonia, member of the Board of Directors of Diners Club Bulgaria AD, member of the Board of Directors of Bankservice AD, member of the Board of Directors of Medical center FiHealth AD, and Manager of FiHealth OOD.

In the begining of February 2012, as a Member of the Supervisory Board of the First Investment Bank AD, Mr. Skortchev was elected as Chairman of the Remuneration Committee to the Supervisory Board of the Bank.

Mr. Skortchev holds a Masters Degree in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. He has specialized in banking in Luxembourg, in swap deals at Euromoney, and in futures and options at the Chicago Stock Exchange.

Mr. Skortchev holds more than 10% of the capital of Investment intermediary Delta Stock AD.

Jyrki Koskelo – Member of the Supervisory Board

Mr. Jyrki Koskelo was elected as member of the Supervisory Board of First Investment Bank AD in June 2015. In his capacity as an independent member Mr. Koskelo supports the Supervisory Board in setting up the business objectives and the strategy of the Bank, the corporate culture and values, as well as in overseeing good corporate governance practices and effective risk management. Mr. Koskelo has long-term experience in banking and global financial markets, as well as wide professional practice in different geographical regions.

Mr. Koskelo worked in the International Finance Corporation (IFC - a member of the World Bank Group) for 24 years, from 1987 to late 2011. The first 13 years he worked as an Investment Officer covering the Central and Eastern Europe and Africa regions. In 2000, he was appointed as Director Work-out Loans and in 2004 he became Director Global Financial Markets. In 2007, he was appointed as Vice President (reporting to the CEO) and a member of the IFC’s Management Committee. Mr. Koskelo led the formulation and implementation of the IFC’s investment strategy, policies, and practices across industries and regions, including in Central and Eastern Europe, Latin America and Africa. His major legacies include IFC’s entry to Global Trade Finance Programs, decentralization of the organization with significant staffing across emerging markets, IFC’s leading role in private sector side of Vienna Initiative to support Central Europe banks after Lehman Crisis and establishment of IFC’s Asset Management subsidiary’s first $3 billion fund for capitalization of weak banks in poor countries.

Prior to joining the IFC, he spent close to 10 years in senior management positions in the private sector in the Middle East and in USA.

Mr. Koskelo currently holds a number of senior and advisory positions in European and African organizations and financial institutions including:

- AATIF (Africa Agriculture and Trade Investment Fund), Luxemburg – Member of the Board of Directors, Chairman of the Investment Committee;
- EXPO Bank, Czech Republic – Member of the Supervisory Board;
- Invest Solar Africa, Botswana – Chairman of the Board of Directors.

During the period 2012 - 2017 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, as well as senior adviser in Al Jaber Group, UAE.

Mr. Koskelo holds a Master of Science (M.Sc.) degree in Civil Engineering from the Technical University of Helsinki, Finland and a Master of Business Administration (MBA) in International Finance from the Massachusetts Institute of Technology (MIT), Sloan School of Management in Boston, USA.

MEMBERS OF THE MANAGING BOARD

Nedelcho Nedelchev – Chief Executive Officer (CEO) and Chairman of the Managing Board

Mr. Nedelcho Nedelchev was appointed Chief Executive Officer (CEO) and Chairman of the Management Board of First Investment Bank AD in May 2017. During the 2007-2012 period Mr. Nedelchev was member of the Supervisory Board of First Investment Bank AD, and in 2013 he managed the project of acquisition of Unionbank EAD, and was member of its Supervisory Board until its merger into Fibank.

Mr. Nedelchev started his career in the Aval In brokerage house. In 1997 he was financial analyst in First Financial Brokerage House OOD, was soon thereafter promoted to Head of Analysis, and in 2001 became one of its managers. In 2003 he was appointed Deputy Minister of Transport and Communications of the Republic of Bulgaria, and in the 2003-2005 period was also Deputy Chairman and Chairman of the Board of Directors of Bulgarian Telecommunications Company AD. From September 2005 to March 2006, Mr. Nedelchev was an adviser to the Minister of State Administration. During his professional career he has been involved in the management of a number of companies operating in the energy and telecommunications sector in Bulgaria, as well as in the field of financial consulting.

Mr. Nedelchev holds a Master's degree in International Economic Relations from the University of National and World Economy in Sofia and has professional licenses and certifications in the field of international financial and commodity markets, investment services and activities, management, business planning, issued by internationally recognized institutions such as the World Bank, the Wholesale Markets Brokers' Association (London) and others.

In the Bank he is responsible for the Compliance function, the Corporate Communication Department, the Marketing and Advertising Department, the Human Capital Management Department, the Administration Department, the Strategic Planning and Development Department, the Asset Management Department and the Protocol and Secretariat Department.

Besides his position in the Bank, Mr. Nedelchev is a Chairman of the Managing Board of First Investment Bank – Albania Sh.a., a Member of the Board of Directors of Borica AD and Member of the Board of Directors of Flips Media EAD. He owns more than 25% of the capital of Project Synergy OOD.

Sevdalina Vassileva – Chief Retail Banking Officer (CRBO), Member of the Managing Board and Executive Director

Mrs. Sevdalina Vassileva joined First Investment Bank AD in 2017 as Director of the Strategic Planning and Development Department. She was subsequently appointed as Executive Director, member of the Management Board of First Investment Bank AD and Chief Retail Banking Officer (CRBO).

The professional experience of Mrs. Vassileva in the banking sphere started in 2007 in Eurobank EFG Bulgaria AD (Postbank) as Director, Consumer Lending and Executive Director of one of the group's companies. From 2010 to 2016 she was Retail Banking Manager at Alpha Bank – Bulgaria Branch. Her career began in 1998 at Coca - Cola Hellenic Bottling Company Bulgaria AD, where she held various management positions in marketing and sales for 6 years. From 2004 until 2007 she was a member of the management team of United Milk Company EAD. Prior to joining First Investment Bank AD, Sevdalina Vassileva was part of the team of Bella Bulgaria AD, serving as Director of Business Development and Expansion.

Outside her strictly professional duties, in her spare time she mentors entrepreneurs and start-ups, assisting them in the development and realization of their ideas, mainly in the field of new technologies.

Sevdalina Vassileva is the Chair of the Management Board of the Alumni Association of the Faculty of Economics and Business Administration at the Sofia University St. Kliment Ohridski, where she works towards improving the professional orientation and training of young people, as well as promoting the contacts and cooperation between the business, academia and institutions.

Mrs. Vassileva has graduated from the Faculty of Economics and Business Administration of Sofia University, with an MBA degree in Management Information Systems. In 1996 she specialized in Marketing and Management at Lund University, Sweden.

In the Bank she is responsible for the Retail Banking Department, the Private Banking Department, the Organisation and Control of Customer Service Department, the Branch Network Department, the Card Payments Department, the Gold and Commemorative Coins Department, the Digital Banking Department and the Vault.

Besides her position in the Bank, Mrs. Vassileva is a Member of the Board of Directors of Diners Club Bulgaria AD and Member of the Board of Directors of Balkan Financial Services EAD.

Svetozar Popov – Chief Risk Officer (CRO), Member of the Managing Board and Executive Director

Mr. Svetozar Popov joined First Investment Bank AD in 2004 as part of the Risk Management Department, and was shortly thereafter promoted to Head of the Credit Risk Division. From 2006 to 2008 he served as Deputy Director of Risk Management, during which period he also chaired the Bank's Credit Council. From 2016 to 2017, Mr. Popov held the office of Chief Compliance Officer (CCO), and in May 2017 he was appointed as Chief Risk Officer (CRO), Member of the Management Board and Executive Director of First Investment Bank AD.

From 2008 to 2015, Mr. Popov was member of the Managing Board and Executive Director of Universal Investment Bank AD, Macedonia, where he gained significant management experience and was responsible for the areas of risk management, credit administration, and finance. Prior to joining First Investment Bank AD, Mr. Popov worked at Raiffeisenbank (Bulgaria) EAD as an SME loan officer.

Mr. Popov holds a Master's degree in Finance from the University of National and World Economy in Sofia, and has obtained additional qualifications in the field of financial analysis from the European Bank for Reconstruction and Development (EBRD) and other internationally recognized institutions, as well as practical experience in foreign banks.

In the Bank he is responsible for the Risk Analysis and Control Department, the Credit Risk Management, Monitoring and Provisioning Department, the Impaired Assets Department, the Loan Administration Department, Security Department and the specialized unit Information Security.

Besides his position in the Bank, Mr. Popov is a Chairman of the Supervisory Board of UNIBank, Republic of Macedonia and a Manager of Debita OOD.

Chavdar Zlatev - Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director

Mr. Chavdar Zlatev joined the team of First Investment Bank AD in 2004 as Chief specialist in the SME Lending Department. Soon afterwards he was promoted to Deputy Director of the Department. From 2006 to 2009 he was manager of the Vitosha branch of First Investment Bank AD. He was subsequently appointed Deputy Director of the Branch Network Department, and in 2010 promoted to Director of the Department. In early 2011, he was appointed Director of the Corporate Banking Department, and has participated in the development and implementation of a number of banking products. In November 2014 Mr. Zlatev was elected member of the Managing Board of First Investment Bank AD, and from February 2018 was appointed as Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director.

Prior to joining First Investment Bank AD, Mr. Zlatev worked in CB Unionbank AD as a senior bank officer, Corporate clients. He holds a master‘s degree in Macroeconomics from the University of National and World Economy in Sofia. He has specialized loan products and practices in Bank of Ireland, as well as contemporary banking practices in Banco Popolare di Verona.

Responsibilities in the Bank – Corporate Banking Department, Corporate Sales and Public Procurements Department.

Besides his position with the Bank, Mr. Zlatev is a member of the Management Board of First Investment Bank – Albania Sh.a. and a member of the Board of Directors of FiHealth Insurance AD. He is manager and sole owner of Elea Property EOOD.

Jivko Todorov – Chief Financial Officer (CFO) and Member of the Managing Board

Mr. Jivko Todorov joined First Investment Bank AD in June 2014 as Chief Financial Officer. At the end of 2015, Mr. Todorov was elected Member of the Managing Board of the Bank.

Prior to joining First Investment Bank AD, Mr. Todorov worked as Chief Financial Officer (CFO) for Alpha Bank Bulgaria (2012-2014) and for ING Bank NV – Sofia Branch (2004-2012), where he started his banking career in 1997.

Mr. Jivko Todorov holds a Master’s degree in Accounting and Control from the University for National and World Economy in Sofia and is an Executive MBA at HULT International Business School, London UK.

In the Bank he is responsible for the Finance Department, the Accounting Department, the Treasury Department, the Investor Relations Department and the Financial Institutions, Correspondent Banking Department and Intensive Loans Management Department.

Mr. Todorov is a member of the CFO Club in Bulgaria. In 2018, he was awarded in the competition “CFO of the Year 2018”, organized by EY Bulgaria with first award in the category “Strategy for development of the financial function”.

Besides his position in the Bank, Mr. Todorov is a Member of the Board of Directors of Balkan Financial Services EAD.

Nadia Koshinska – Member of the Managing Board and Director of SME Banking Department

Ms. Nadia Koshinska joined Fibank in 1997 as a corporate loan expert. In 2002, she was appointed Deputy Director Loan Administration and held this position until 2004. In 2004 Nadia Koshinska was appointed Director SME Lending Department responsible for increasing the market share of the Bank through implementing special programs and dedicated products for SMEs. Also in 2004, she was appointed as a member of the Credit Council. At the end of 2015, Ms. Koshinska was elected as Chief Retail Banking Officer (CRBO) and Member of the Managing Board, while since September 2017 is a Member of the Managing Board and Director of SME Banking Department.

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

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

In the Bank she is responsible for the SME Banking Department.

Ms. Koshinska does not hold outside professional positions.

The present Activity report (on an unconsolidated basis) for 2018 was approved by the Managing Board of First Investment Bank AD in accordance with the Bank's internal regulations at a meeting dated 04 April 2019.

Signed

Nedelcho Nedelchev

Chief Executive Officer,

Chairman of the Managing Board

Signed

Chavdar Zlatev

Executive Director,

Chief Corporate Banking Officer,

Member of the Managing Board

Signed

Jivko Todorov

Chief Financial Officer,

Member of the Managing Board

ACTIVITY REPORT

(ON A CONSOLIDATED BASIS)

OF FIRST INVESTMENT BANK AD

FOR 2018

APRIL 2019

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, approved by the Financial Supervision Commission.

In 2018
First Investment Bank celebrated
its *25th anniversary.*

*The reasons Fibank became "**My bank**"
to each one of its customers:*

During these 25 years First Investment Bank participated actively in the formation and development of the banking market in Bulgaria, contributing with innovative products and perspective decisions.

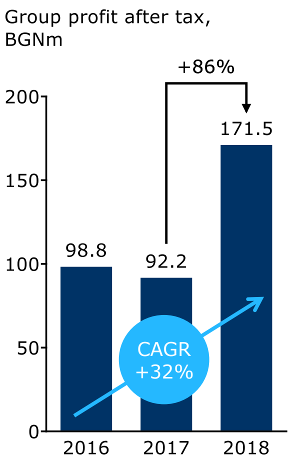
*We are consistently developing our **business**, following our **business principles**:*

- Retail banking
- Microlending
- SME banking
- Corporate banking
- Card payments
- Digital banking
- Trade financing
- International settlements
- Money and capital markets
- FX trade
- Gold and numismatics

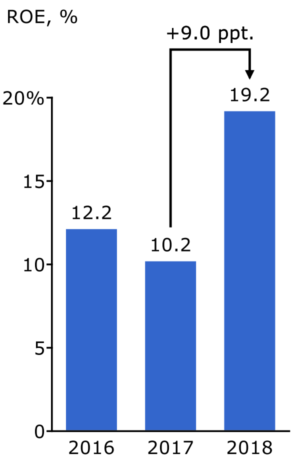
- We believe that trust is the basis of long-term relations.
- We strive not only for the best practices and results, but we have the goodwill and discipline to achieve them.
- We appreciate and respect our business partners.
- We strive for development and proactive solutions.
- We are engaged in social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

SELECTED INDICATORS

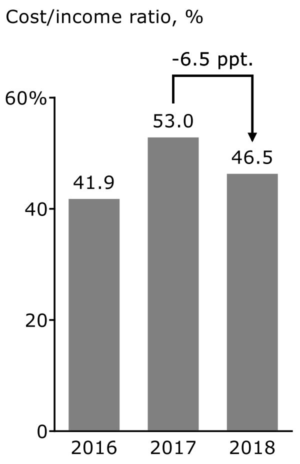
Group profit after tax



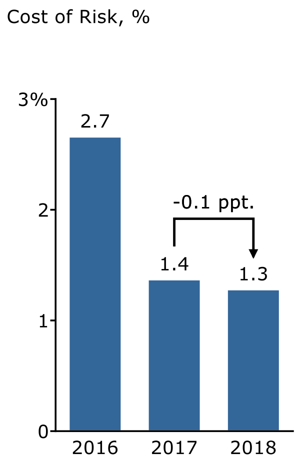
Return on equity (ROE)



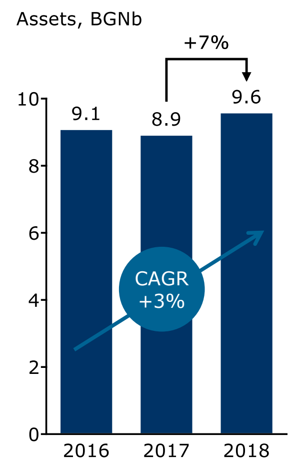
Cost/income ratio



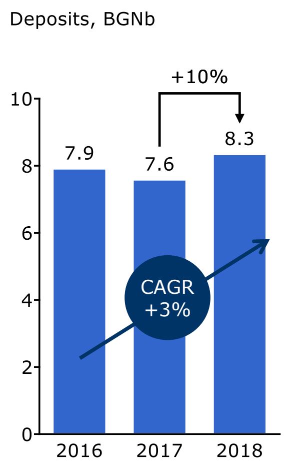
Cost of Risk



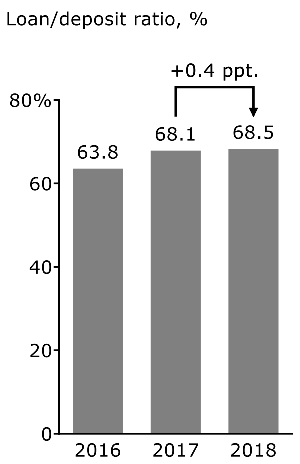
Assets



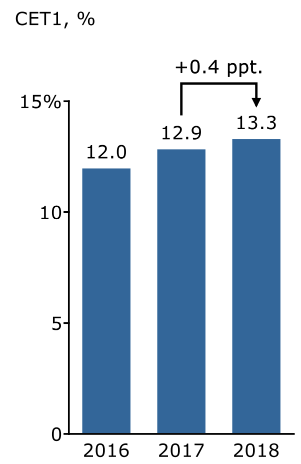
Deposits



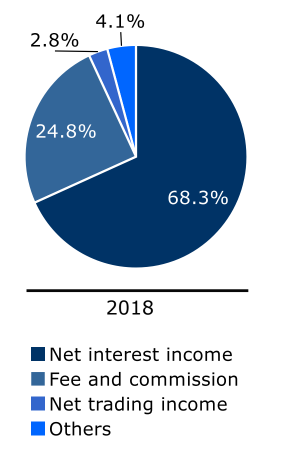
Loan/deposit ratio



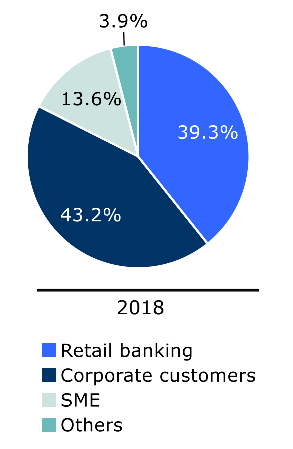
CET1 ratio



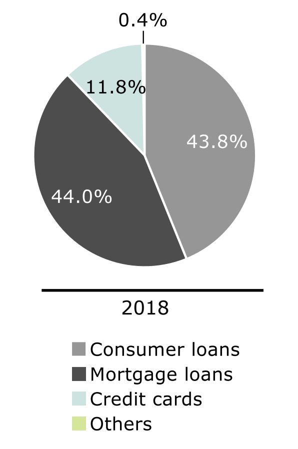
Operating income by type of income



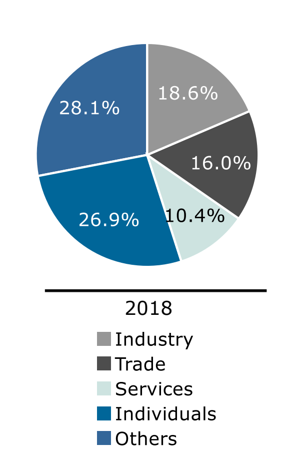
Operating income by business lines



Loans for individuals



Portfolio by sectors



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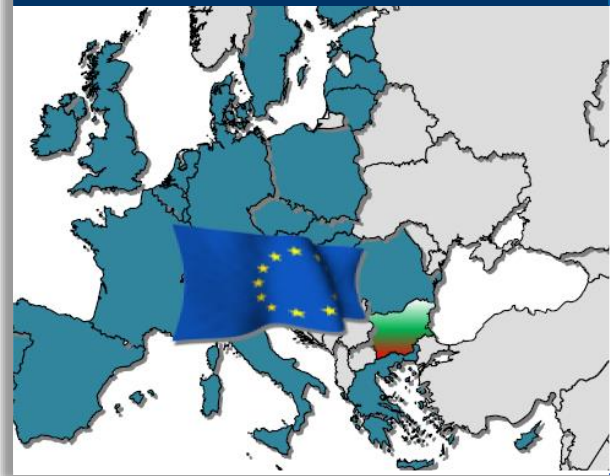
MACROECONOMIC DEVELOPMENT

Republic of Bulgaria



Indicators	
Population	7,05 mln. people
Area	110,994 km^2
Member of the European Union	2007
Member of NATO	2004
Exchange rate EUR/BGN (fixed)	1.95583
Flat tax rate	10%
Moody's	Baa2, stable
Fitch Ratings	BBB, stable
S&P	BBB-, positive

In 2018, notwithstanding some particular signs of instability in the external environment and indications of slowing growth in the euro area, the Bulgarian economy reported a positive development as a result of an increase in private consumption and investment activity, as well as the continuing trend towards improving labor market indicators. The existing Currency Board arrangement in the country and the fiscal position contribute to maintaining the macroeconomic stability. Steps in this direction were the officially declared intention of the country in 2018 to join the European Exchange Rate Mechanism II (ERM II) and the Single Supervisory Mechanism (SSM) through close cooperation with the European Central Bank.

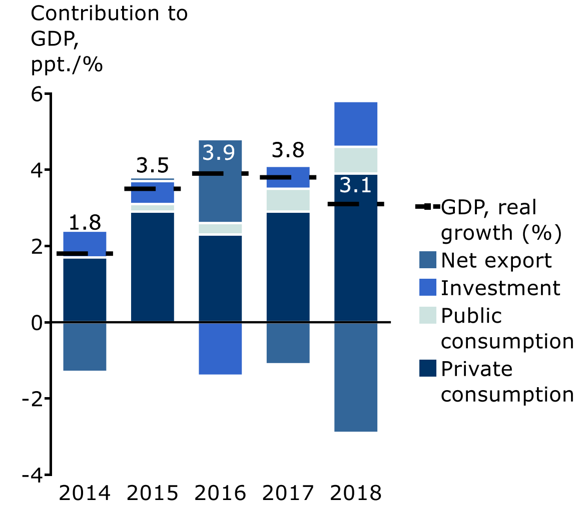
	2018	2017	2016	2015	2014
Gross domestic product (BGN million)	107,925	101,043	94,130	88,575	83,756
Gross domestic product, real growth (%)	3.1	3.8	3.9	3.5	1.8
- Consumption, real growth (%)	6.0	4.3	3.3	3.8	2.2
- Fixed capital formation, real growth (%)	6.5	3.2	(6.6)	2.7	3.4
- Net export, real growth (%)	(4.5)	(1.7)	3.6	0.3	(2.1)
Inflation, at period-end (%)	2.7	2.8	0.1	(0.4)	(0.9)
Average inflation (%)	2.8	2.1	(0.8)	(0.1)	(1.4)
Unemployment, at period-end (%)	6.1	7.1	8.0	10.0	10.7
Current account (% of GDP)	4.6	6.5	2.6	0.0	1.2
Trade balance (% of GDP)	(4.1)	(1.5)	(2.0)	(5.8)	(6.5)
International reserves of BNB (EUR million)	49,039	46,279	46,742	39,675	32,338
FDI in Bulgaria (% of GDP)	2.8	2.7	2.1	5.3	0.8
Gross external debt (% of GDP)	59.3	64.6	71.1	74.0	91.9
Public and publicly guaranteed debt (% of GDP)	22.2	25.3	29.1	26.3	27.2
Consolidated budget balance (% of GDP)	0.1	0.8	1.6	(2.8)	(3.7)
Exchange rate of USD (BGN for USD 1)	1.71	1.63	1.86	1.79	1.61

Source: NSI, BNB, MF, Employment agency

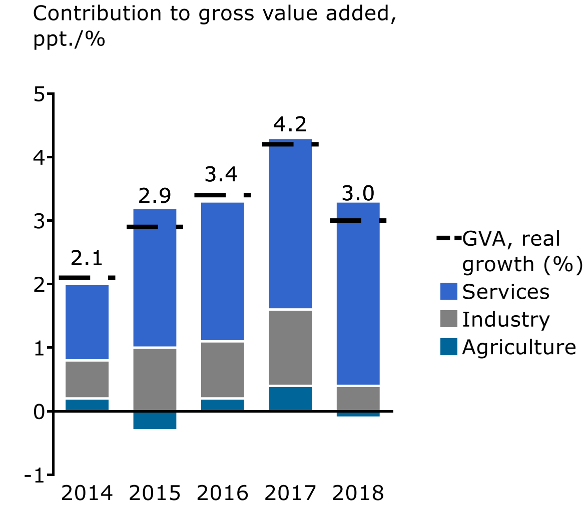
In 2018, the growth rate of the country's economy was 3.1% (2017: 3.8%), in line with certain slowdown of the economic activity dynamics in the EU and the Eurozone, as well as instability on a global scale related to protectionist measures and trade conflicts, as well as the uncertainties surrounding the Brexit talks. The main driver for the economy was final consumption, in particular that of private households, where a 6.3% growth was reported (2017: 4.5%). This was a result of the higher domestic demand and the positive labor market indications. An additional growth factor were capital investments which grew by 6.5% for the period (2017: 3.2%). Private investments played a major part, reflecting the developments in key macroeconomic indicators and the expectations of businesses in the country.

Net exports remained a limiting factor for growth, down by 4.5% in 2018 (2017: -1.7%), driven by both the decrease in exports (2018: -0.8%) and the increase in imports (2018: 3.7%), conditioned by the domestic demand for goods and services, as well as by the rising income of the population.

Components contribution to GDP



Sector contribution to gross value added

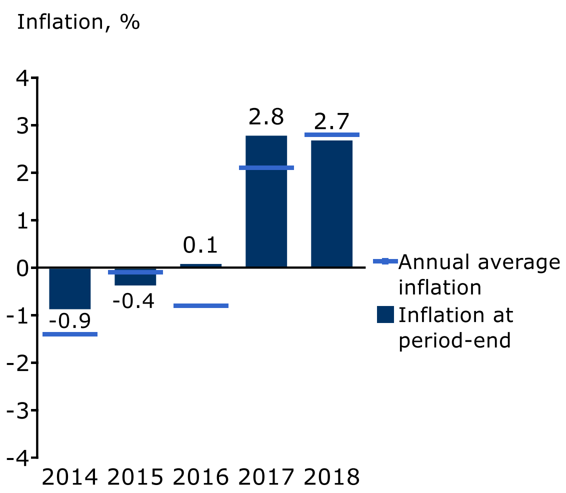


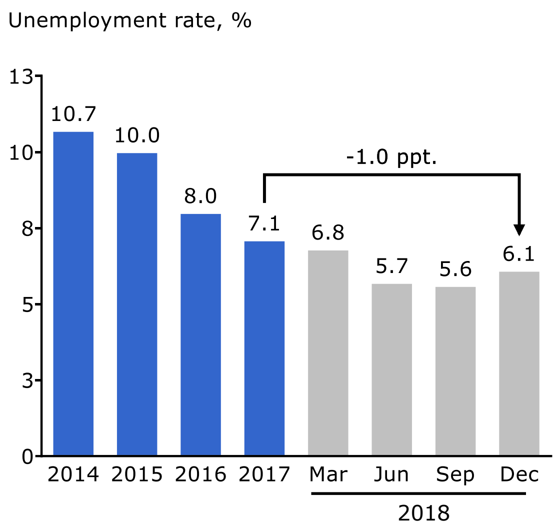
During the year, the gross value added in the economy grew by 3.0% (2017: 4.2%). In the services sector, a real growth of 4.3% was reported (2017: 4.0%) including in the trade, transport and tourism sectors (2018: 2.0%), accounting for 33% of the value added in this sector. Real estate transactions reported an increase of 9.3% for the year as a result of the resurgence in the property market and the construction sector. In 2018, the house price index increased by 6.3% year on year in the third quarter, of which 7.2% for newly built apartments and 5.8% for existing housing.

The industrial sector also had a positive impact on value added in the economy, increasing by 1.4% (2017: 4.1%). A weaker growth of 0.8% was observed in the mining and processing industries, including in the main export-oriented sectors. Those were influenced by the unstable economic environment in the international context, as well as by the unfavourable development of the economic situation in Turkey, given its share in the trade with Bulgaria. Value added in construction also provided a positive contribution of 4.0% over the year (2017: 4.4%), reflecting the positive dynamics and indications of recovery in this sector. A negative result of -1.1% was reported in the agricultural sector (2017: 8.9%), mainly due to the lower production output in plant production, in particular industrial and fodder crops, and vegetables.

In 2018, the labor market continued to show positive indications, including in seasonal employment. The unemployment rate declined to 6.1% at the end of the period (2017: 7.1%, 2016: 8.0%, 2015: 10.0%, 2014: 10.7%), in line with the growing expectations of companies regarding investments and costs. The number of employed persons reached 3,149 thousand in the fourth quarter of 2018, with employment rate reaching 67.7% or 0.2% higher than a year earlier. At the end of the year, 63.6% of people employed worked in the services sector, 30.2% in industry and 6.1% in agriculture.

Inflation	Unemployment rate



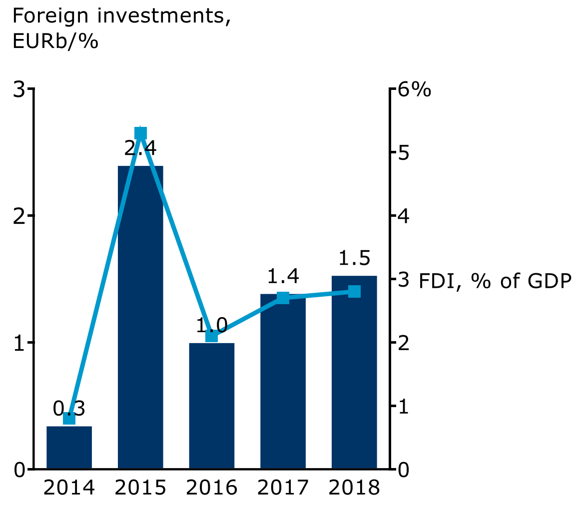


During the year, inflation in the country followed an upward trend, with the average annual inflation for the period standing at 2.8% (2017: 2.1%). Inflation at year-end was 2.7% (2017: 2.8%). Such a trend was driven by price increases in almost all major subgroups following the increase in consumer demand, including in the services sector (4.3%), catering (4.3%), as well as food (2.6%) water, electricity and gas (4.6%), the last two having predominant weight in the consumer basket (31.3% and 18.2% respectively). Domestic prices were also affected by the prices of raw materials in the international markets, including oil prices. Harmonized inflation, which is one of the criteria for price stability for joining the Eurozone, was 2.3% at the end of the period (2017: 1.8%) and 2.6% on average for the year (2017: 1.2%).

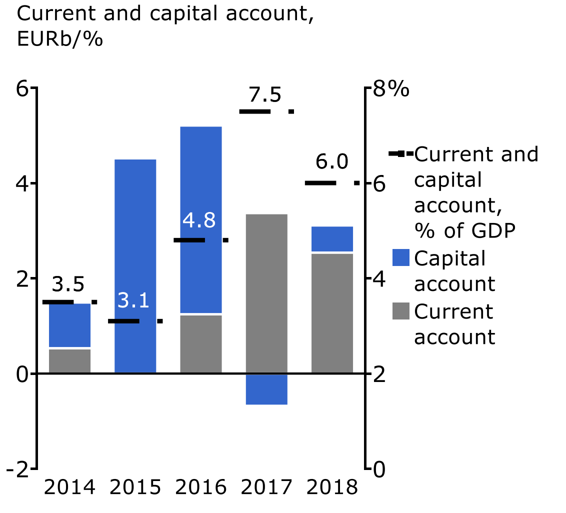
During the year, foreign direct investment in the country amounted to EUR 1,533 million (2.8% of GDP) at the end of 2018 (2017: EUR 1,390 million or 2.7% of GDP). Such dynamics was mainly due to higher equity investment and retained earnings, rather than investment in debt instruments (bonds, financial and commercial loans). By country, most investments were attracted from the Netherlands (EUR 1,087 million), followed by Germany (EUR 154 million) and Belgium (EUR 94 million).

The faster growth in imports (7.1% y/o/y, to EUR 29,676 million) increased the trade deficit to EUR -2,248 million or -4.1% of GDP at the end-2018 (2017: EUR -766 million, or -1.5% of GDP). As a result the balance on the current and capital account on annual base decreased to EUR 3,317 million or 6.0% of GDP, despite the higher income in the services (tourism and travelling) and in the capital transfers, incl. under the EU programs.

Foreign investments in the country

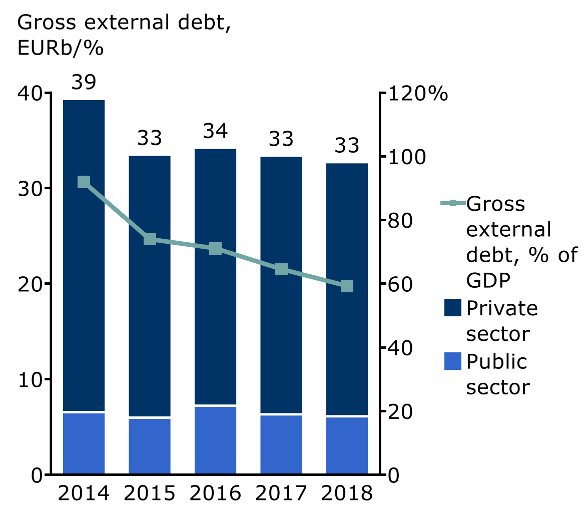


Current and capital account

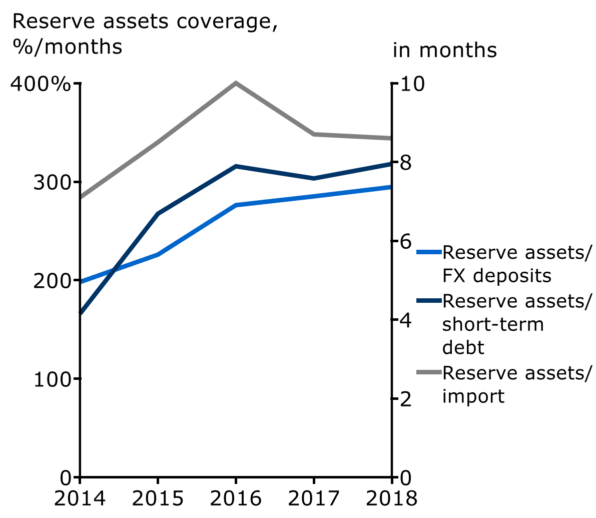


Bulgaria's gross external debt declined to EUR 32,716 million at the end of 2018, or 59,3% of GDP (2017: EUR 33,397 million or 64.6% of GDP), decrease being reported in both the private and public sectors. Public external debt continued to decline to EUR 6,121 million or 11.1% of GDP as at December 2018, remaining among the lowest in the EU. The total government and government guaranteed debt, including debt issued on the domestic market, also declined to 22.2% of GDP (2017: 25.3%), compared to an average of 81% for the EU and 86% for Eurozone countries. BNB reserve assets covered 318.0% of the short-term debt (2017: 303.3%) and 294.6% of the foreign currency deposits (2017: 285.1%) in the country.

Gross external debt

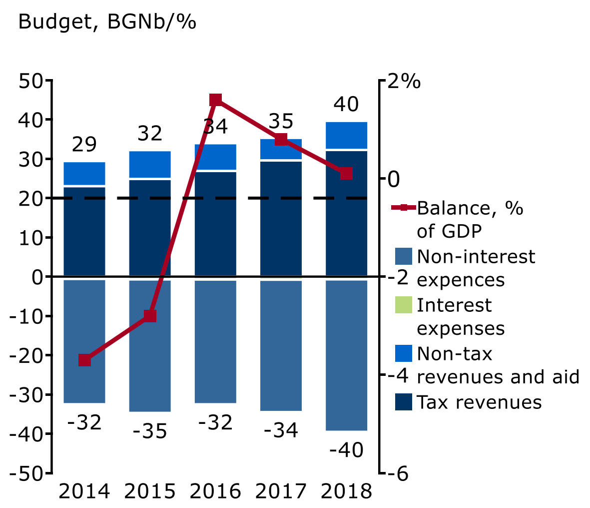


Reserve assets coverage

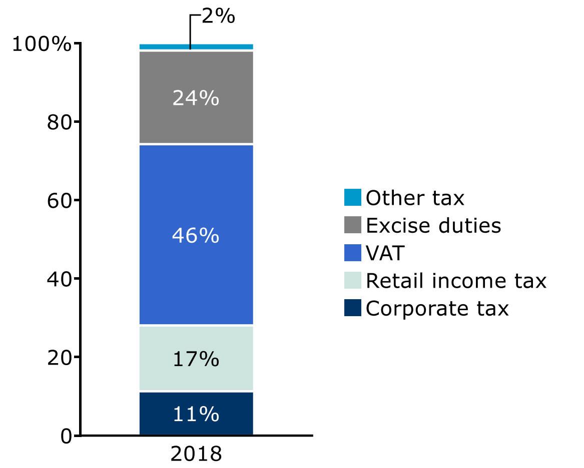


In 2018, the consolidated budget surplus declined to BGN 137 million or 0.1% of GDP (2017: BGN 845 million or 0.8% of GDP), reflecting the higher growth in expenses – by 14.6% to BGN 39,509 million, mainly as a result of the increase in pensions during the year and the associated higher social and health insurance payments, as well as the costs of remuneration in the secondary education system and energy subsidies. Capital expenditures also increased to BGN 5,322 million (2017: BGN 3,750 million), mainly related to priority infrastructure and other investment projects, as well as to the higher absorption of EU funds and more active implementation of EU projects for the program period 2014-2020 and the related co-financing provided by the State.

Consolidated budget



Structure of tax revenues



Tax revenues increased by 9.0% to BGN 32,236 million. An increase was reported in all major revenue groups, including corporate tax (6.8% to BGN 2,465 million), personal income tax (10.1% to BGN 3,648 million), VAT (8.0% to BGN 10,064 million), excise duties (4.4% to BGN 5,203 million) and customs duties (by 16.4% to BGN 226 million). Social security contributions also increased, amounting to BGN 9,458 million, of which BGN 6,825 million social contributions and BGN 2,633 million health insurance contributions.

In 2018, the international rating agency Standard & Poor's upgraded the outlook for Bulgaria's credit ratings from stable to positive. The long-term foreign and local currency credit ratings remained unchanged by year-end: Moody's Investor Service (Baa2, stable), Fitch Ratings (BBB, stable), Standard & Poor's (BBB-, positive).

At the beginning of 2018, Bulgaria took over the rotating presidency of the Council of the European Union. For half a year, the country hosted a significant number of meetings, events and working groups of the EU bodies. The main priorities of the Bulgarian Presidency were aimed at young people, their social cohesion and economic growth; at ensuring security and stability in a strong and united Europe; at improving the European connections and perspective for the Western Balkans, as well as at the development of digital economy and skills of the future.

In 2018, as a step in the direction of Bulgaria's accession to the Eurozone, the country officially declared its intention to join the European Exchange Rate Mechanism II (ERM II) and the Single Supervisory Mechanism (SSM) through close cooperation with the European Central Bank.

Forecasts for 2019 include maintaining the growth in private consumption and domestic demand, as well as increasing public investment and consumption in connection with the more active absorption of funds under EU funds and programs, while inflation rates are expected to remain at their current level. The estimates of the Ministry of Finance (spring macroeconomic forecast) are for real GDP growth of 3.4% in 2019 and a slowdown to 3.3% over the 2020-2022 period, in line with the economic activity trends in the EU and the Eurozone, and the risks associated with the international environment.

THE BANKING SYSTEM

In 2018, the banking system in Bulgaria reported stable indicators and improved financial performance against the background of sustainable deposit growth and revival of lending activity driven by the favorable macroeconomic developments. The external environment and low interest rates continued to have an effect on banking activity, as well as the actions for management of credit risk, including in the context of the introduction of new regulatory and accounting standards (IFRS 9) effective from 1 January 2018. The broad regulatory framework and the continuing integration with the European financial infrastructure had an additional effect on the development of banking policies.

A further step in this direction was the formal application sent in July 2018 to establish close cooperation with the European Central Bank (ECB) within the framework of the Single Supervisory Mechanism (SSM), which is part of the roadmap for the accession of Bulgaria to the euro area and of the Bulgarian lev to the European Exchange Rate Mechanism II (ERM II).

in % / change in ppt	2018	2017	2016	18/17	17/16
CET 1 ratio	18.99	20.41	20.41	(1.86)	0.00
Tier 1 capital ratio	19.41	20.86	20.88	(1.89)	(0.02)
Capital adequacy ratio	20.38	22.08	22.15	(2.07)	(0.07)
Leverage ratio	10.47[1]	10.68	10.89	(0.21)	(0.21)
Liquidity coverage ratio (LCR)	294.1	347.6	-	(53.5)	-
Loan/deposit ratio[2]	72.02	71.53	73.48	0.49	(1.95)
Return-on-equity (ROE)	12.11	9.32	10.40	2.79	(1.08)
Return-on-assets (ROA)	1.59	1.20	1.37	0.39	(0.17)
Non-performing loans and advances[3]	7.63	10.17	12.85	(2.54)	(2.68)

Source: Bulgarian National Bank

The total capital ratio for the system was 20.38% at the end of 2018 (2017: 22.08%) while the Tier 1 capital ratio was 19.41% compared to 20.86% at the end of 2017, both indicators well above the regulatory requirements. Such dynamics were mainly driven by the increase in CET 1 capital, including paid-in capital and retained profit during the year, which was outpaced by the increase in risk-weighted assets. The leverage ratio, used as an additional regulatory indicator comparing Tier 1 capital to the total on- and off-balance sheet exposures of banks, was 10.47% as at September 2018 compared to 10.68% as at 31.12.2017.

In order to mitigate the impact of cyclical risks on financial stability, in September 2018 the BNB decided to introduce a 0.5% counter-cyclical capital buffer applicable to local credit risk exposures, in force from October 2019. From 1 January 2018, a capital buffer for other systemically important institutions (O-SIIs) of 0.125% to 0.50% was introduced, as a key macroprudential tool to address structural risks. In November 2018, the BNB announced its annual review of that buffer, identifying

[1] Data as at 30 Sep 2018.
[2] Gross loans and advances (without central banks and credit institutions)/deposits (without credit institutions)
[3] Non-performing loans and advances/gross loan and advances

ten banks as O-SIIs and determining individual buffer levels for 2019 ranging from 0.25% to 0.75%, and for 2020 – from 0.50 % to 1%.

During the year, liquidity remained at high levels notwithstanding the indications of resurgence in lending. The loan/deposit ratio remained at 72.02% (2017: 71.53%), reflecting the sustained conservative approach in risk management. New liquidity reporting requirements were introduced since the beginning of 2018, including with respect to the liquidity coverage ratio (LCR), correlating the liquidity buffers supported by banks against net outflows over a period of 30 calendar days. At the end of 2018 the ratio was 294.1% compared to 347.6% a year earlier, exceeding the minimum requirements of 100%. The ratio of liquidity buffer to balance sheet assets for the system was 25.9% at the end of September 2018.

In 2018, the banking system generated a net profit of BGN 1,678 million, or 42.9% higher than in 2017. Increase was reported in all major operating income categories, as well as a decrease in impairment charges to BGN 479 million (2017: BGN 745 million).

BGN million /change in %	2018	2017	2016	18/17	17/16
Net interest income	2,742	2,675	2,805	2.5	(4.6)
Net fee and commission income	1,066	996	921	7.0	8.1
Administrative expenses	1,717	1,613	1,587	6.4	1.6
Impairment	479	745	807	(35.7)	(7.7)
Net profit	1,678	1,174	1,262	42.9	(7.0)

Source: Bulgarian National Bank

Net interest income increased by 2.5% y/o/y to BGN 2,742 million (2017: BGN 2,675 million), while net fee and commission income increased to BGN 1,066 million (2017: BGN 996 million). The latter accounted for 25.2% of the total operating income of the system (2017: 25.6%). The financial results reported for 2018 provided a return on assets (ROA) of 1.59% (2017: 1.20%) and return on equity (ROE) of 12.11% (2017: 9.32%), serving as proof of the banking sector's ability to generate high returns, in line with the current developments and opportunities.

Total balance-sheet assets grew by 7.9% y/o/y to BGN 105,557 million (2017: BGN 97,808 million). Changes in the balance sheet structure of the system included an increase in the share of loans to 63.3% of total assets (2016: 61.0%). Cash and balances with central banks accounted for 19.3% of assets, and investment in securities – for 13.1%, mainly including debt securities issued by central governments.

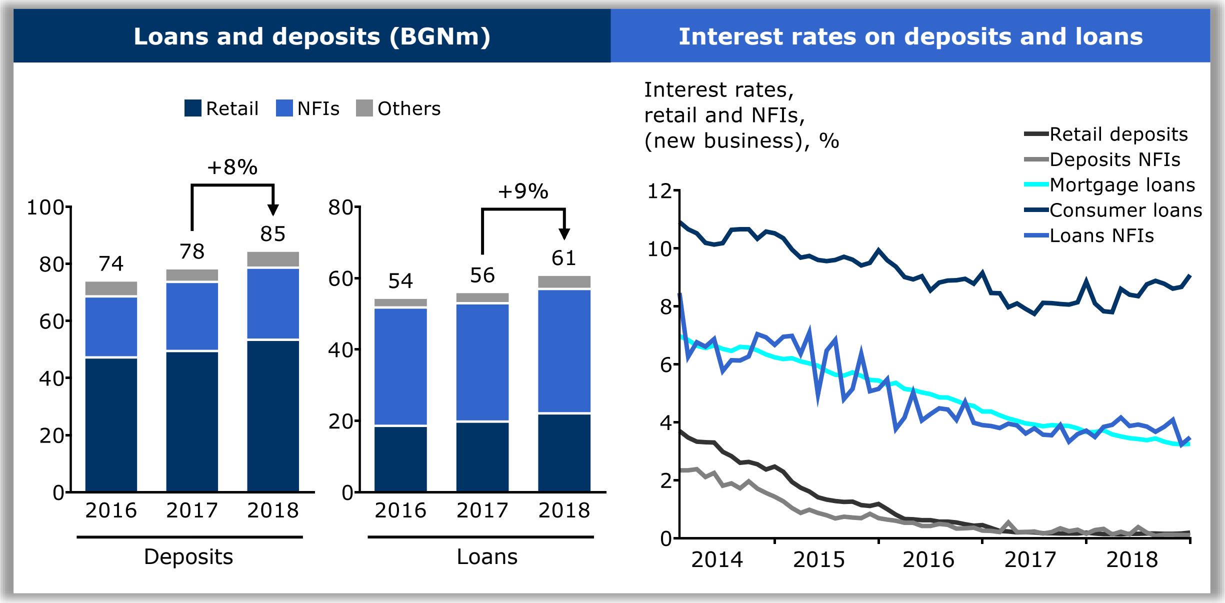
The gross loan portfolio (without credit institutions and central banks) during the year increased by 8.6% to BGN 60,908 million at the end of the period (2017: BGN 56,084 million). Increase involved all segments, and especially household loans which accounted for 36.2% of the total portfolio (2017: 35.3%). Residential mortgage loans grew by 15.3% to BGN 10,906 million (2017: BGN 9,460 million) and consumer loans – by 12.9% to BGN 10,333 million (2017: BGN 9,151 million) at the end of the year. Loans to non-financial corporations retained their major share of 57.3% of total loans to customers, reaching BGN 34,871 million (2017: BGN 33,160 million), while those to other financial corporations grew to BGN 3,220 million (2017: BGN 2,530 million).

BGN million /change in %	2018	2017	2016	18/17	17/16
Assets	105,557	97,808	92,095	7.9	6.2
Loans to non-financial corporates	34,871	33,160	33,180	5.2	(0.1)
Loans to individuals, incl:	22,075	19,789	18,575	11.6	6.5
- Mortgage loans	10,906	9,460	8,772	15.3	7.8
- Consumer loans	10,333	9,151	8,677	12.9	5.5
Deposits from non-financial corporates	25,278	24,190	21,375	4.5	13.2
Deposits from individuals	53,383	49,456	47,196	7.9	4.8

Source: Bulgarian National Bank

The share of non-performing loans and advances continued to decline to 7.63% of gross loans and advances (2017: 10.17%). Non-performing loans were adequately covered by impairment allowances and the additionally accumulated buffers in the system. Loans to non-financial corporations accounted for the largest share in the structure of non-performing loans (68.5%), followed by loans to households (29.0%) and other financial corporations (2.3%).

In 2018, borrowed funds in the banking system (excluding credit institutions and central banks) continued their upward trend, growing by 7.9% to BGN 84,571 million (2017: BGN 78,406 million). An increase was reported in deposits of both non-financial corporations (by 4.5% to BGN 25,278 million) and households (by 7.9% to BGN 53,383 million), retaining a dominant share of 63.1% of all attracted funds. Deposits of other financial corporations reached BGN 3,213 million, and those in the government sector BGN 2,697 million. In the currency structure of deposits, the share of BGN deposits increased to 61.7% (2017: 60.4%) at the expense of EUR deposits which decreased to 30.6% (2017: 31.5%), while those in other currencies amounted to 7.7% (2017: 8.1%).



In the course of the year, the downward trend in interest rates remained in line with the dynamics in the Eurozone and the EU countries. In 2018, average weighted interest rates on deposits (new business[4]) of households and non-financial corporations fell to 0.15% and 0.21% respectively (2017:

[4] Term deposits in BGN up to 1 year

0.20% and 0.25% respectively). Decrease was also observed in interest rates on loans (new business[5]); for non-financial corporations – down to 3.75% on average for the year (2017: 4.01%) and for mortgage loans – down to 3.42% (2017: 3.94%). A slight increase was reported in consumer loans to 8.50% (2017: 8.13%).

At year-end, 25 credit institutions operated in the country, including 5 branches of foreign banks. Subsidiaries of EU banks accounted for 71.6%[6] of the system's assets, local banks – for 22.3%, while branches of EU and non-EU-owned banks formed the remaining 6.1%. The share of the other systemically important institutions (O-SII) in the country accounted for 83.8% of the banking assets.

Consolidation processes will continue to pose a challenge to the banking system, mirroring those in the European Union, along with the digitization and technological development, the volume of regulations affecting the competitive advantages of banks, as well as the risks of instability internationally.

REGULATORY FRAMEWORK DEVELOPMENTS

In 2018, implementation of the single European regulatory rules by transposing them into the national legislation continued to be a priority among the legislative initiatives in the area of banking.

The new requirements of the International Financial Reporting Standard 9 Financial Instruments (IFRS 9), effective from 1 January 2018, introduced a new impairment model based on expected loss, to replace the IAS 39 model of incurred loss. The new standard also introduced requirements and guidance on the classification and measurement of the quality of financial assets. A new Regulation (EU) 2017/2395 of the European Parliament and of the Council introduced the possibility for banks to apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on regulatory capital. A five-year transitional period is envisaged, during which banks may include in their Common Equity Tier 1 capital the amount calculated in accordance with the approach chosen (static approach or static approach with a dynamic component) and apply transitional treatment factors of 0.95 for 2018, 0.85 for 2019, 0.70 for 2020, 0.50 for 2021, and 0.25 for 2022.

In February 2018, a new Law on Markets in Financial Instruments was adopted transposing the requirements arising from the European financial market legal framework: Directive 2014/65/EU of the European Parliament and of the Council and Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments (MiFID II/MiFIR package). The changes are aimed at enhancing investor protection and improving the performance of market participants in the trading and clearing of financial instruments as well as introducing new disclosure and transparency standards in relation to investment services and activities.

In March 2018, a new Law on Payment Services and Payment Systems (LPSPS) was adopted which, together with the additional technical standards and guidelines of the European Banking Authority, aims to implement in the national legislation the requirements arising from Directive (EU) 2015/2366 on payment services in the internal market (PSD2). The new regulations, in line with the changes in technology development, introduce new payment services executed entirely in the internet environment: payment initiation services and account information, as well as means and methods for enhancing the security of online payments. In this regard, new Ordinance No. 3 and Ordinance No. 16 of the BNB were adopted. A challenge for banks in the area of payment services for 2019 remains the application of the requirements related to Commission Delegated Regulation (EU) 2018/389 with

[5] Loans by original maturity in BGN
[6] Data as at the end of the third quarter of 2018.

regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication.

Since the end of May 2018, the requirements are in force of Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data (General Data Protection Regulation – GDPR). It introduces a number of new requirements, including broadening the definition of personal data, pseudonymisation, data protection at the design stage and by default, profiling, new data subject rights, etc.

In July 2018, a new Ordinance No 37 of the BNB on the Internal Exposures of Banks was adopted, including requirements for banks' internal rules and procedures for the formation, identification, monitoring and reporting of internal exposures, manner of calculating their value, and form and content of their reporting.

The same month, amendments were adopted to Ordinance No. 11 of the BNB on Bank Liquidity Management and Supervision. The changes were due to the full entry into force of the liquidity coverage requirements, eliminating the option of applying national regulations in the field of liquidity reporting and introducing uniform European reporting models. Changes also included the introduction of a maturity ladder in accordance with Commission Implementing Regulation (EU) 2017/2114 of 9 November 2017 amending Implementing Regulation (EU) No 680/2014 as regards templates and instructions.

During the year a new Law on Measures against Money Laundering was adopted, transposing in the Bulgarian legislation Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (Directive (EU) 2015/849). At the end of the year, a new Implementing Regulation of the Law on Measures against Money Laundering was also adopted (promulgated SG No. 3 / 08.01.2019), clarifying and further developing certain requirements in the area.

In December 2018, amendments were adopted to the Law on the Bulgarian National Bank concerning the role of the European Central Bank in the national framework for supervision of banking institutions, in relation to the stated intention of Bulgaria to join the Single Supervisory Mechanism through the establishment of close cooperation with the ECB. Changes to the Law on Credit Institutions were also made, providing for the possibility to exercise macro-prudential supervision of banks at systemic level, as well as changes aimed at introducing the new requirements stemming from the EBA Guidelines on internal governance (EBA/GL/2017/11) and the EBA and ESMA Guidelines to assess the suitability of members of management bodies and key function holders (EBA/GL/2017/12).

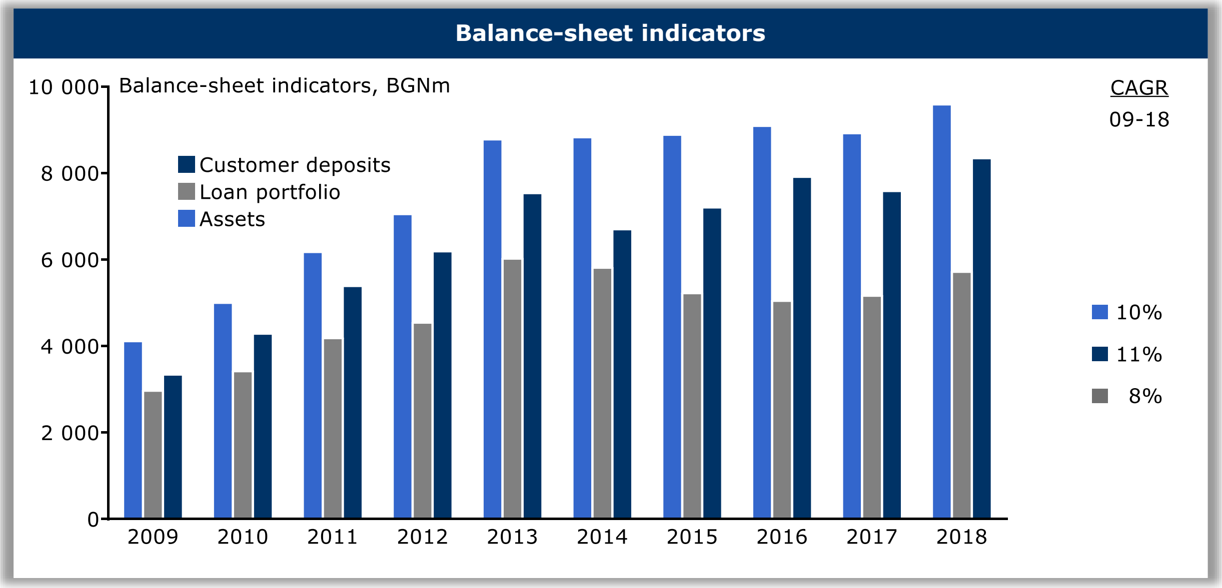
MISSION

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.

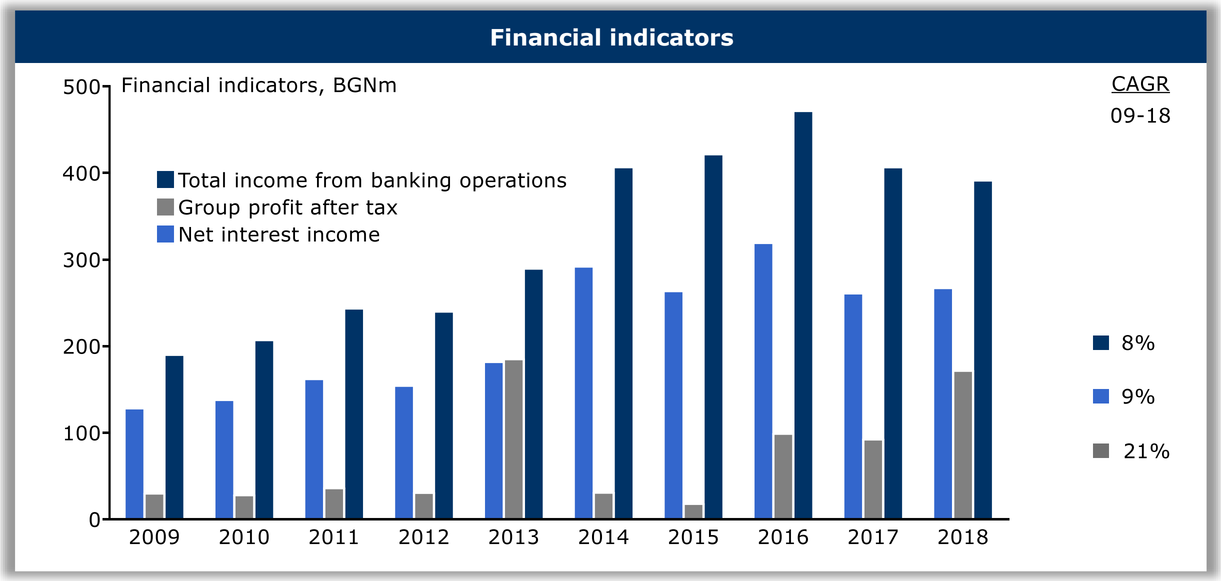
25 YEARS FIBANK

In 2018, First Investment Bank celebrated the 25th anniversary since its establishment. Over this period, it reasserted as the largest Bulgarian-owned bank in the country and with a standing as an innovative and dynamic institution with own image and trademark for high quality of service.

During these years of progress and growth, First Investment Bank became a preferred bank for the population, supporting good projects and forward-thinking ideas. As a pioneer institution in the areas of information technology, bank cards and international payments, it built a sound base allowing it to upgrade and advance its business model in line with the best practices and innovations in banking.



Today, with assets of BGN 9.6 billion, Fibank is the fourth largest bank in Bulgaria with a significant market share in the priority segments of consumer and mortgage lending. Its plans involve further expansion in the small and medium enterprise segment, as well as maintaining its position among the leading in corporate banking.



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.

PARTICIPATIONS AND MEMBERSHIPS

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

MARKET POSITION[7]

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

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

MARKET SHARE[8]

- 8.82% of bank assets in Bulgaria
- 10.69% of loans in the country
  - 12.82% of corporate lending
  - 9.27% of consumer lending
  - 6.68% of mortgage lending
- 9.57% of deposits in the country
  - 11.98% of deposits from individuals

CORRESPONDENT RELATIONS

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

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

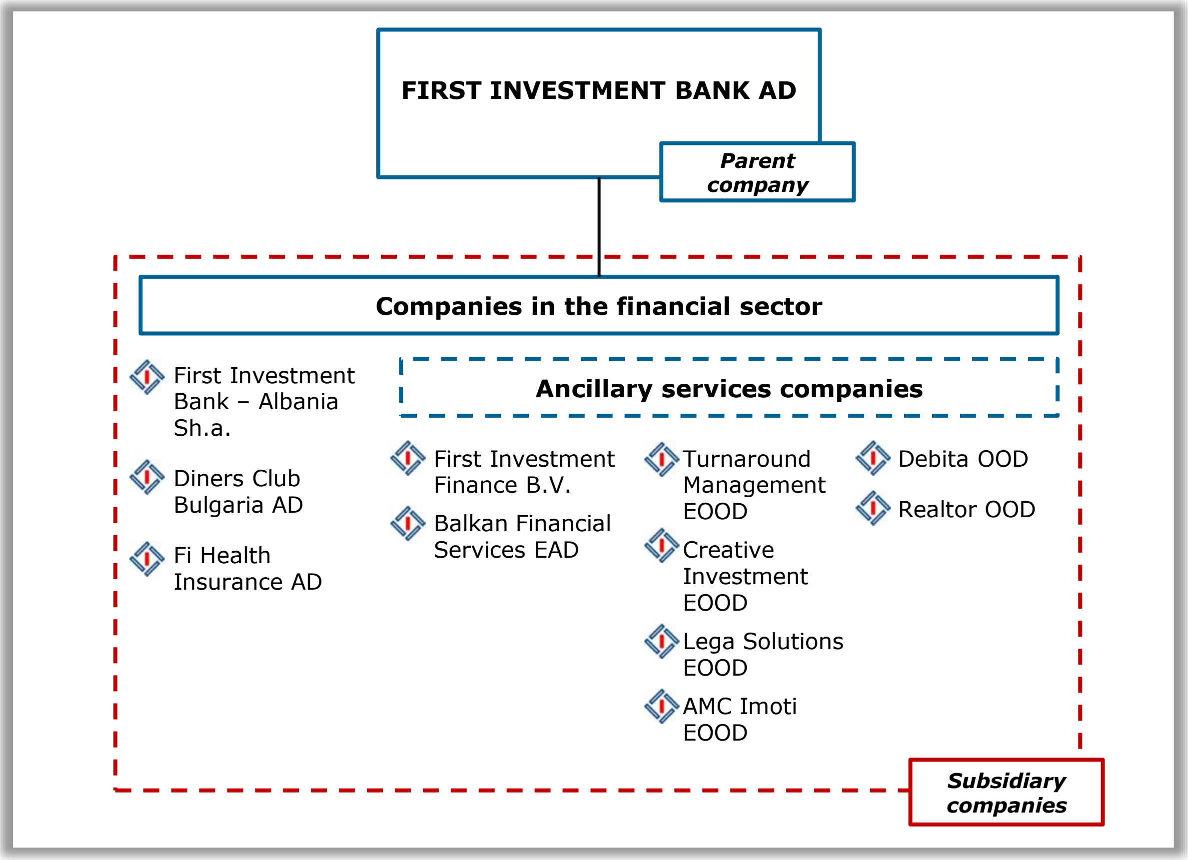
BRANCH NETWORK

As at 31 December 2018 the Group of First Investment Bank had a total of 168 branches and offices: 154 branches and offices, incl. Head Offices, throughout Bulgaria and a foreign branch in Cyprus, as well as Head Office and 12 branches of the subsidiary bank First Investment Bank – Albania Sh.a.

For further information regarding the branch network see section „Distribution channels", as well as section „Business review of subsidiary companies".

[8] Market shares are based on unconsolidated data from the BNB.

SUBSIDIARIES



First Investment Bank AD had eleven subsidiary companies as at 31 December 2018: 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%).

As at 31.12.2018 the following subsidiaries are included in the consolidated financial statements of the Goup of First Investment Bank: First Investment Bank - Albania Sh.a., Diners Club Bulgaria AD, Fi Health Insurance AD and First Investment Finance B.V. The rest of the subsidiary companies are not included in the consolidated financial statements, as they are considered immaterial to the financial position, financial results and the cash flow of the Group for the year ended 31 December 2018. The assessment for consolidation of the subsidiaries is reconsidered at each reporting date.

For further information regarding subsidiary companies see section „Business review of subsidiary companies", as well as note 36 "Subsidiaries" of the Consolidated Financial Statements as at 31 December 2018.

AWARDS 2018

- First Investment Bank was awarded as Favorite Brand of Bulgarians in the Banks category of the competition My Love Marks. The Bank also ranked among the top three in two other categories: Favorite Employer and Innovative Brands.
- Fibank won second place in the Innovations category of the international Efma-Accenture DMI Awards 2018 for its microchip debit card for children and teens, as well as for the Bank's early financial education program.
- Mrs. Maya Georgieva, Deputy Chair of Fibank Supervisory Board, received a prize at the Banker of the Year 2018 awards organized by the Banker newspaper for overall contribution to the development of the banking system and for prudent management of market risk challenges.
- Mr. Jivko Todorov, Chief Financial Officer of the Bank, took the first prize in the Strategy for Development of the Finance Function category of the prestigious CFO of the Year 2018 awards organized by EY Bulgaria.

- First Investment Bank won the Innovation Award at the Product of the Year 2018 competition for its debit cards for children and teens.
- First Investment Bank won the Innovation and Continuous Improvement of the Quality of Products and Services prize in the Company of the Year competition organized by Business Lady Magazine.
- Fibank's Smart Lady business program won a prestigious award in the European Excellence Awards 2018, distinguishing the best public relations and marketing communications projects in Europe.
- Fibank won the special Community Service Award for financial inclusion of children and youth and a Forbes Trusted Partner Certificate at the 8-th edition of the annual Forbes Bulgaria Business Awards.

- First Investment Bank received the Socially Responsible Campaign of the Year award at the annual b2b Media Awards 2018 for its traditional charity calendar.
- The Bank was awarded as Benefactor for Innovative Education at the seventh edition of the DigitalKidZ conference.

FIRST INVESTMENT BANK: DATES AND FACTS

1993	◈ First Investment Bank was established on 8 October 1993 in Sofia. ◈ Fibank was granted a full banking license for carrying out operations in Bulgaria and abroad.
1994-95	◈ The Bank developed and specialized in servicing corporate clients.
1996	◈ First Investment Bank was the first in Bulgaria to offer services enabling banking from home or from the office. ◈ Fibank was the first bank to receive a 5-year loan from the European Bank for Reconstruction and Development for financing small and medium-sized enterprises in Bulgaria.
1997	◈ The Bank started issuing Cirrus/Maestro debit cards, Eurocard/Mastercard credit cards and the American Express card. Fibank was the first Bulgarian bank to offer debit cards with international access. ◈ Thompson Bankwatch awarded Fibank its first credit rating. ◈ The Bank opened its first branch abroad, in Cyprus.
1998	◈ First Investment Bank obtained its first syndicated loan from foreign banks. The Bank negotiated financing for the import of investment goods from a number of EU countries, guaranteed by export insurance agencies.
1999	◈ The Bank negotiated a syndicated loan organized by EBRD to the total amount of EUR 12.5 million. ◈ First Investment Bank received a medium-term loan for EUR 6.6 million from a German government organization for financing of Bulgarian companies. ◈ The Bank opened a foreign branch in Tirana, Albania offering banking services to Albanian companies and individuals.
2000	◈ First Investment Bank started developing its business in the field of retail banking. Deposits from private individuals grew 2.3-fold.
2001	◈ Fibank launched the first virtual bank branch in Bulgaria, allowing customers to bank via the Internet. ◈ The Bank was awarded the prize “Bank of the Year” by ‘Pari’ (‘Money’) daily. ◈ Maya Georgieva (Executive Director of First Investment Bank), received the prize “Banker of the Year” from ‘Banker’ Weekly.
2002	◈ Fibank was named “Bank of the Client“ in the annual rating of ‘Pari’ daily.
2003	◈ Products and services to individuals became the focus of the Bank’s activities. Loans to individuals increased over five times during the year. ◈ Fibank was named “Bank of the Client” for the second time in the annual rating of ‘Pari’ daily.
2004	◈ The Bank expanded its infrastructure. The branch network expanded by 27 new branches and offices, the ATM network more than doubled. ◈ First Investment Bank was awarded the prize “Financial Product of the Year” for its Mortgage Overdraft product.
2005	◈ Fibank acquired 80% of the capital of Diners Club Bulgaria AD. ◈ The Bank issued Eurobonds to the amount of EUR 200 million on the Luxembourg Stock Exchange. Fibank was also the first Bulgarian bank to issue perpetual subordinated bonds. ◈ Matthew Mateev (Deputy Chief Executive Director of First Investment Bank) was awarded the prize “Banker of the Year” by ‘Banker’ weekly.

2006	Fibank was named "Bank of the Client" for the third time in the annual rating of 'Pari' daily. First Investment Bank received a syndicated loan, to the amount of EUR 185 million, organised by Bayerische Landesbank, in which 33 banks participated. The Bank's share capital was increased from BGN 20 million to BGN 100 million by transforming retained profits into new shares.
2007	First Investment Bank realized the biggest banking initial public offering of shares in Bulgaria and became a public company. „Fibank Mobile" – the first banking mobile portal created by the Bank with useful financial information for its customers, started functioning. Fibank is among the first banks in Bulgaria to implement new chip technology by issuing debit and credit cards. First Investment Bank – Albania Sh.a. was issued a full banking license in Albania.
2008	Fibank implemented new centralized and integrated core banking information system FlexCube. First Investment Bank received a syndicated loan to the amount of EUR 65 million from 11 leading banks all over the world. Fibank became the first bank in Bulgaria with its own corporate blog. The Bank received the prestigious card business award OSCARDS of Publi-News in the Europe region for innovation in the card business.
2009	Fibank became the first and only bank in Bulgaria to start offering the sale and redemption of investment diamonds. First Investment Bank offered a new Internet service "My FIBank", which provides e-statements on bank accounts and credit cards.
2010	Fibank welcomed its one millionth client. First Investment Bank signed an agreement with IFC for cooperation in the field of trade finance. Fibank was the first Bank in Bulgaria to offer contactless payments based on PayPass technology. Fibank acquired a controlling interest in Health Insurance Fund FI Health AD.
2011	First Investment Bank was recognized as the Best Bank in Bulgaria in 2011 by the financial magazine Euromoney. New Executive Directors of the Bank were appointed – Dimitar Kostov, Vassil Christov, Svetoslav Moldovansky. Maya Georgieva (Executive Director of First Investment Bank) received the Banker of the Year 2011 award from "Banker" Weekly for market sustainability achieved and customer confidence earned.
2012	Fibank was granted "Bank of the Year" award from "Bank of the Year" Association, with the best complex performance. The Bank signed an agreement with the European Investment Fund for the financing of SME under the JEREMIE initiative. Vassil Christov, Executive Director of First Investment Bank won the prestigious award "Banker of the Year" of the "Banker" Weekly.

2013	◈ First Investment Bank AD signed an agreement with the Hungarian MKB Bank Zrt. for the acquisition of 100% of the shares of MKB Unionbank EAD. ◈ Fibank finalized the issuance of new hybrid debt (two bonds emissions) to the total amount of EUR 100 million, included in the Tier I capital. ◈ Clients were provided with the opportunity to purchase online products of investment gold and other precious metals. ◈ Maya Oyfalosh was elected Executive Director of First Investment Bank AD.
2014	◈ The merger of Union Bank EAD into First Investment Bank AD was implemented, incl. entire integration of operational systems, procedures, infrastructure, human resources, products and services ◈ First Investment Bank successfully overcame the pressure on the banking system thanks to existing high liquidity, high professionalism, as well as to the liquidity support pursuant to EC Decision C(2014) 4554/29.06.2014 ◈ Fibank was awarded as best bank in the field of retail banking from the international portal Global Banking & Finance Review.
2015	◈ First Investment Bank realized a joint project with the IFC for upgrading the systems for risk management and corporate governance in Fibank in accordance with the principles of the Basel Committee and recognized international standards. ◈ A new independent member of the Supervisory Board was elected: Mr. Jyrki Koskelo, an accomplished professional with extensive experience in the IFC. ◈ A new organizational structure of the Bank was adopted, further elaborating the control functions and introducing new positions, incl. CEO, CRO, CCO. ◈ In an effort to maintain an open line of communication with investors and enhance dialogue with minority shareholders, a Club of investors was created. ◈ First Investment Bank was distinguished as the favorite brand among financial institutions in Bulgaria by the global organization Superbrands.
2016	◈ An innovative platform was launched for electronic payments via mobile devices with contactless (NFC) function and use of digital bank cards. ◈ The Bank repaid in full the liquidity support according to decision C(2014)8959 of 25.11.2014 of the EC. ◈ Fibank successfully passed the asset quality review and the stress test of the banking system conducted in the country. ◈ New contactless debit cards for children and teenagers were developed.
2017	◈ Fibank created an integrated e-banking platform My Fibank, using a single customer service channel (Omnichannel). ◈ Changes were made to the Management Board in line with in line with the Bank's key growth and strategic development goals. ◈ First Investment Bank joined as direct participant the Pan-European Automated Clearing House STEP2 SEPA Credit Transfer (SCT). ◈ Fibank updated its core banking information system by migrating to Oracle Flexcube12. ◈ First Investment Bank developed its online consumer credit services at the Bank's internet address www.credit.fibank.bg.

HIGHLIGHTS 2018

JANUARY

- First Investment Bank and the National Guarantee Fund signed a new financing agreement under the COSME 2017 Guarantee Scheme, which aims to facilitate the access of SMEs to financing and to support the implementation of productive investment within the European Union.
- A mobile Investor Relations application was developed to provide quick access to financial information and other data and news of interest to investors.
- From January 1, 2018, the Bank started applying the new International Financial Reporting Standard (IFRS 9), introducing a revised impairment model based on expected credit losses, as well as changes in the classification and measurement of financial assets.

FEBRUARY

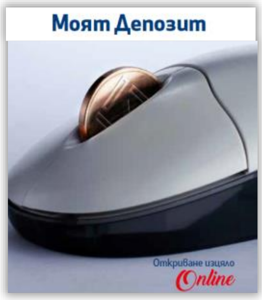
- Mr. Chavdar Zlatev was appointed as Chief Corporate Banking Officer (CCBO), Member of the Management Board and Executive Director of First Investment Bank AD.
- The Bank developed improved mortgage loan offers, with competitive interest rates and a focus on cross-selling.
- Fibank signed an agreement with the BNB for distribution of Bulgarian commemorative coins and sets of coins issued by the Central Bank.

MARCH

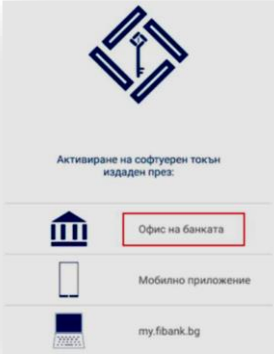
- A new Smart Lady program was launched aimed at supporting female entrepreneurs. The program mainly targets micro, small and medium-sized businesses run by women, as well as businesses producing products and services designed for women.
- A new Cash-in service was introduced, using cards issued by Fibank at ATMs of the Bank.

APRIL

- A new electronic deposit product My Deposit was launched, opened and managed entirely online through the My Fibank electronic banking system.
- A new child savings account was developed as an additional product to the Smart Lady program.
- Fibank further developed its online consumer lending services.



MAY



- A new software Fibank Token was launched as a means of signature and authentication in the electronic banking system of the Bank, featuring two-factor authentication and QR Code scanning technology.
- Promotional credit and savings products were developed on the occasion of the Bank's anniversary: 25 Years Fibank.
- The Bank implemented a project for introduction of the regulatory requirements arising from the General Data Protection Regulation (GDPR).

JUNE

- First Investment Bank established a partnership with Erste Asset Management aimed at offering on the Bulgarian market the mutual funds managed by this Austrian company.
- The offering of a specialized consumer product Restart was started for refinancing and consolidation of loans.
- A General Meeting of Shareholders was held which took decisions on retention of profit, selection of registered auditors, as well as changes in the composition of the Audit Committee and the Internal Audit management.
- A project was realized for implementation of the new regulatory requirements arising from the European legislative framework in financial markets: the MiFID II/MiFIR package.
- Fitch Ratings confirmed its ratings of the Bank. A new long-term counterparty risk rating (Ba2) was assigned by Moody's Investors Service.

JULY

- The term was extended of two guarantee agreements with the NGF providing financing to SMEs, including to agricultural producers and companies approved for assistance under the Rural Development Program.
- Ms. Ralitsa Bogoeva was appointed as Chief Information Technology and Operations Officer of the Bank.
- The parameters were optimized of packages offered by the Bank to individuals and business customers.

AUGUST

- First Investment Bank and the Bulgarian Development Bank signed an agreement for provision of financing in support of micro, small and medium enterprises under a joint program with KfW.
- The process of change management in the Bank was improved with a view to more effective implementation of the IT development strategy, as well as to enhanced monitoring of project management and development.
- The license for insurance activity of Fi Health Insurance AD was expanded with a new class of insurance for other financial losses.

SEPTEMBER

- An innovative Evolve credit card of a new generation was developed, combining three brands (Fibank, Diners Club and MasterCard) into a single payment instrument.
- First Investment Bank opened a Chinese Yuan correspondent account with Industrial & Commercial Bank of China Limited, with a view of facilitating payments and supporting Bulgarian businesses in commercial and structured finance transactions.
- A campaign was launched to present the factoring services offered by the Bank to existing and potential business customers.
- The first stage was carried out of a project implementing the requirements of the Law on Payment Services and Payment Systems and of the other regulations transposing Directive (EU) 2015/2366 on payment services in the internal market (PSD2).

OCTOBER

- First Investment Bank celebrated its 25th anniversary as the largest Bulgarian-owned bank in the country and an institution with established brand for high quality of service.
- The process of risk management and validation of internal models was improved.
- A new silver coin dedicated to the Year of the Pig was exclusively offered at the offices of Fibank.

NOVEMBER

- A regular meeting was held with minority shareholders as part of the initiatives for further engagement and maintaining an open line for communication with shareholders and investors.
- A new product for business customers was introduced: Free Deposit+, featuring a 1-month fixed term deposit in BGN or EUR linked to a current account where the accrued interest is paid.
- The distribution started of gold coins for newborns, designed under Fibank's project in partnership with the New Zealand Mint.

DECEBMER

- First Investment Bank signed an agreement with the Bulgarian Development Bank for financing of micro, small and medium-sized enterprises with the support of the European Strategic Investment Fund (COSME+).
- The launch is prepared of an innovative service: a digital version of a credit/debit payment card.
- An extension of the framework agreement with Taiwan’s Eximbank was signed for financing deliveries of goods made by Taiwanese suppliers to customers of Fibank.
- First Investment Bank – Albania Sh.a. expanded its branch network in Albania.

FINANCIAL REVIEW

KEY INDICATORS

	2018	2017	2016	2015	2014
Financial indicators (BGN thousand)					
Net interest income	267,088	260,926	319,179	263,546	291,911
Net fee and commission income	97,111	102,146	92,163	84,217	87,425
Net trading income	10,809	15,326	13,937	11,017	11,997
Total income from banking operations	391,329	406,589	471,570	421,582	406,647
Administrative expenses	(212,066)	(204,698)	(192,307)	(180,827)	(190,981)
Impairment	(83,378)	(78,850)	(156,120)	(329,137)	(299,621)
Group profit after tax	171,546	92,245	98,811	17,851	30,764
Earnings per share (BGN)	1.56	0.84	0.90	0.16	0.28
Balance-sheet indicators (BGN thousand)					
Assets	9,586,681	8,921,198	9,089,855	8,885,364	8,827,882
Loans and advances to customers	5,716,062	5,162,907	5,044,850	5,221,360	5,810,328
Loans and advances to banks and financial inst.	125,483	54,402	51,863	109,455	112,078
Due to other customers	8,342,691	7,583,819	7,911,911	7,203,969	6,699,677
Liabilities evidenced by paper	121,120	127,493	70,367	135,726	177,544
Total Group equity	846,272	947,350	856,836	749,846	726,897
Key ratios (in %)					
Capital adequacy ratio	16.15	15.89	15.13	14.72	14.89
Tier 1 capital ratio	16.15	15.87	15.10	14.23	13.64
CET 1 ratio	13.30	12.87	12.01	11.28	10.80
Leverage ratio	11.08	11.28	10.11	10.11	10.28
Liquid assets/deposits from customers	26.50	25.91	29.12	28.32	31.64
Liquidity coverage ratio (LCR)	269.21	334.85	327.37	325.61	399.44
Net stable financing ratio (NSFR)	135.45	136.43	137.61	132.25	118.46
Net loans/deposits ratio	68.52	68.08	63.76	72.48	86.73
Return-on-equity (after tax)	19.24	10.24	12.17	2.43	4.33
Return-on-assets (after tax)	1.87	1.03	1.12	0.20	0.35
Cost of risk	1.29	1.37	2.66	5.53	4.73
Net interest income/total income from banking operations	68.25	64.17	67.68	62.51	71.78
Cost/income ratio	46.46	53.01	41.94	34.10	36.29
Resources (in numbers)					
Branches and offices	168	166	168	173	179
Staff	2,868	3,221	3,322	3,234	3,291

CREDIT RATING

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

Fitch Ratings	2018	Change	2017
Long-term rating	B	=	B
Short-term rating	B	=	B
Viability rating	b	=	b
Support rating	5	=	5
Support rating floor	NF	=	NF
Outlook	Stable	=	Stable

In June 2018, Fitch Ratings affirmed entirely the ratings of First Investment Bank as follows: long-term rating „B", short-term rating „B", viability rating „b", support rating „5" and support rating floor „NF (No Floor)". The outlook on all ratings is stable.

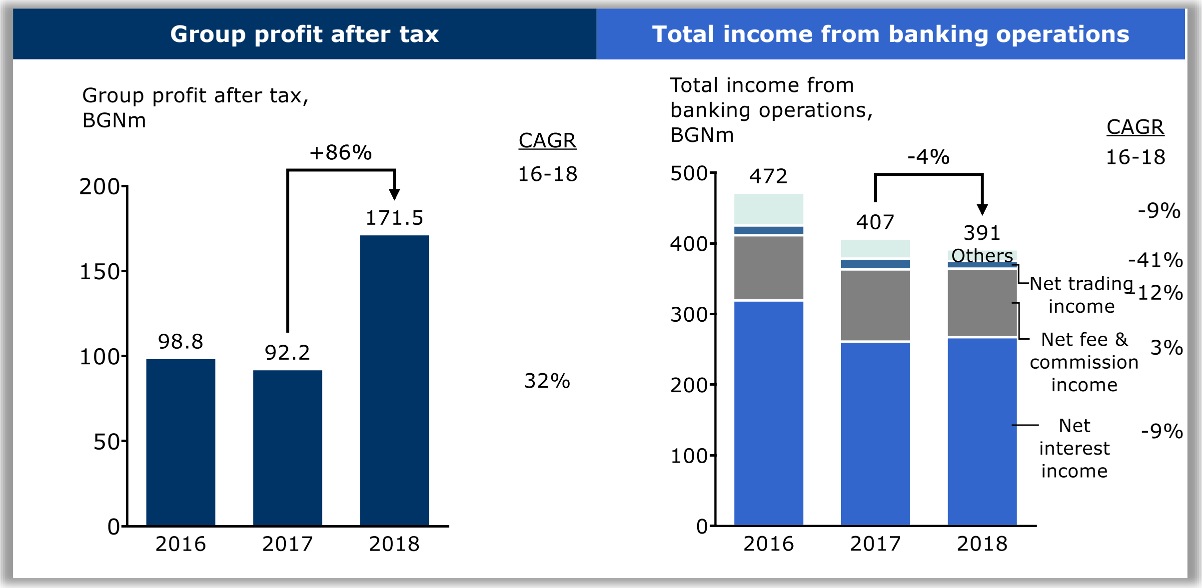
Moody's Investors Service	2018	Change	2017
Long-term rating	B1	=	B1
Short-term rating	NP	=	NP
Baseline Credit Assessment	b2	=	b2
Long-term Counterparty Risk Rating	Ba2	N/A	N/A
Short-term Counterparty Risk Rating	NP	N/A	N/A
Outlook	Stable	=	Stable

In June 2018, Moody's Investor Service assigned to First Investment Bank new counterparty risk ratings, in accordance with the updated methodology of the rating agency – long-term rating „Ba2"/ short-term rating „NP (Not Prime)". The other credit ratings of First Investment Bank remained unchanged, as follows: long-term rating „B1", short-term rating „NP (Not Prime)", baseline credit assessment „b2". The outlook on all ratings is stable.

FINANCIAL RESULTS

In 2018 the Group of First Investment Bank reported higher financial results and steady development, as net profit after tax increased to BGN 171,546 thousand compared to BGN 92,245 thousand a year earlier. Such increase was mainly driven by the higher other income, including from sales of assets, as a result of the Bank's consistent actions to reduce non-interest-bearing assets and further optimization of its balance-sheet positions. Reported income from sale of assets for the year amounted to BGN 81,098 thousand (2017: 10,642 thousand), including the finance lease transaction at the end of the year for a significant part of the site of the former Kremikovtzi metallurgical plant with an international investor: a subsidiary of Soravia Real Estate Developers GmbH, part of the Austrian economic group Soravia. The return on equity (after tax) was 19.24% (2017: 10.24%), the return on assets (after tax) was 1.87% (2017: 1,03%), and the earnings per share – BGN 1.56 (2017: BGN 0.84).

Fibank improved its market position, taking fifth place on net profit among banks in the country on unconsolidated basis (2017: sixth). The market share of the Bank increased to 9.33% (2017: 7.28%).



During the year First Investment Bank performed its activity in compliance with the goals for development and the external environment and necessity for financing. The total income from banking operations amounted to BGN 391,329 thousand (2017: BGN 406,589 thousand), as the decrease registered in net fee and commission income and other operating income is partialy compensated by the growth in net interest income, generated in an environment of continuing low interest rates.

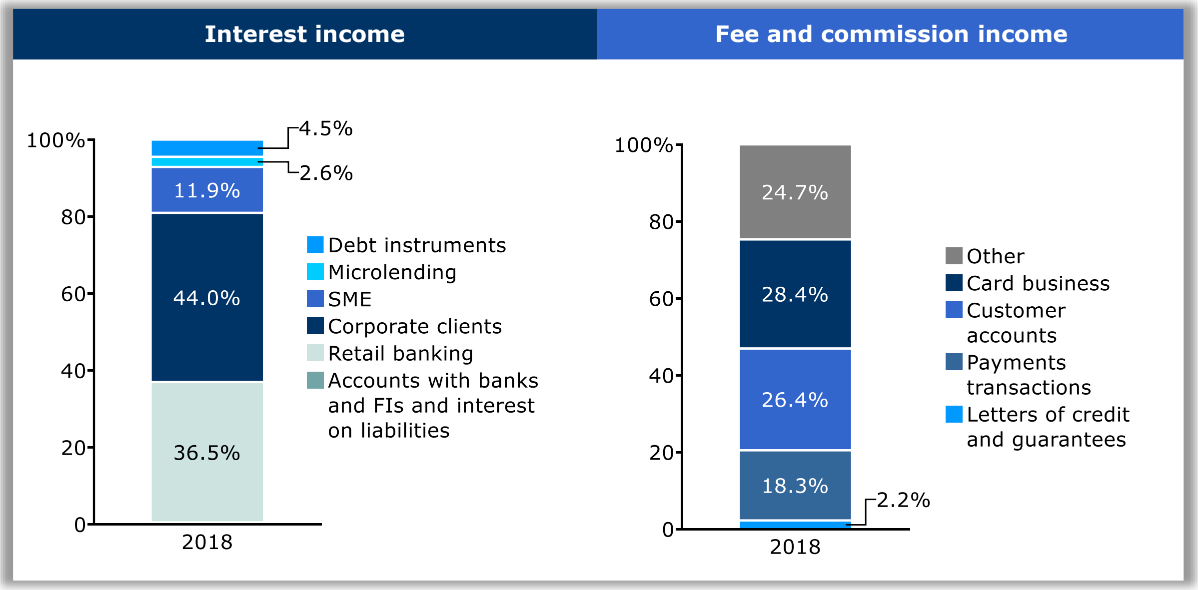
For 2018, net interest income amounted to BGN 267,088 thousand or 2.4% more than the previous year (2017: BGN 260,926 thousand), and remained a major source of income for the Group, constituting 68.3% of total operating income (2017: 64.2%). Fibank's operations abroad formed 5.9% of the Group's net interest income (2017: 4.9%), reflecting the development of the activity of the subsidiary bank in Albania. *For further information* about *First Investment Bank – Albania Sh.a. see section "Business review of subsidiary companies"*.

For the reporting period, interest income decreased to BGN 331,046 thousand (2017: BGN 356,173 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 all main business lines[9], including corporate customers (2018: BGN 145,650 thousand; 2017: BGN 169,280 thousand), as well as in the

[9] Business lines based on the internal criteria for customer segmentation

retail segment, including retail banking (2018: BGN 120,721 thousand; 2017: BGN 126,072 thousand) and microlending (2018: BGN 8,673 thousand; 2017: BGN 9,213 thousand). An increase was recorded in small and medium-sized enterprises (2018: BGN 39,517 thousand; 2017: BGN 36,965 thousand), as well as in these related to debt instruments (2018: BGN 14,806 thousand; 2017: BGN 13,752 thousand), which reflected the dynamics in the profitability and the conditions on the debt securities markets.

The last years trends in interest expenses remained, decreasing to BGN 63,958 thousand (2017: BGN 95,247 thousand) mainly due to a reduction in the expenses on customer deposits, which reached BGN 37,775 thousand against BGN 69,142 thousand a year earlier and formed 59.1% 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, as well as regarding the levels of liquidity. The net interest margin of the Group amounted to 4.03% for the period.



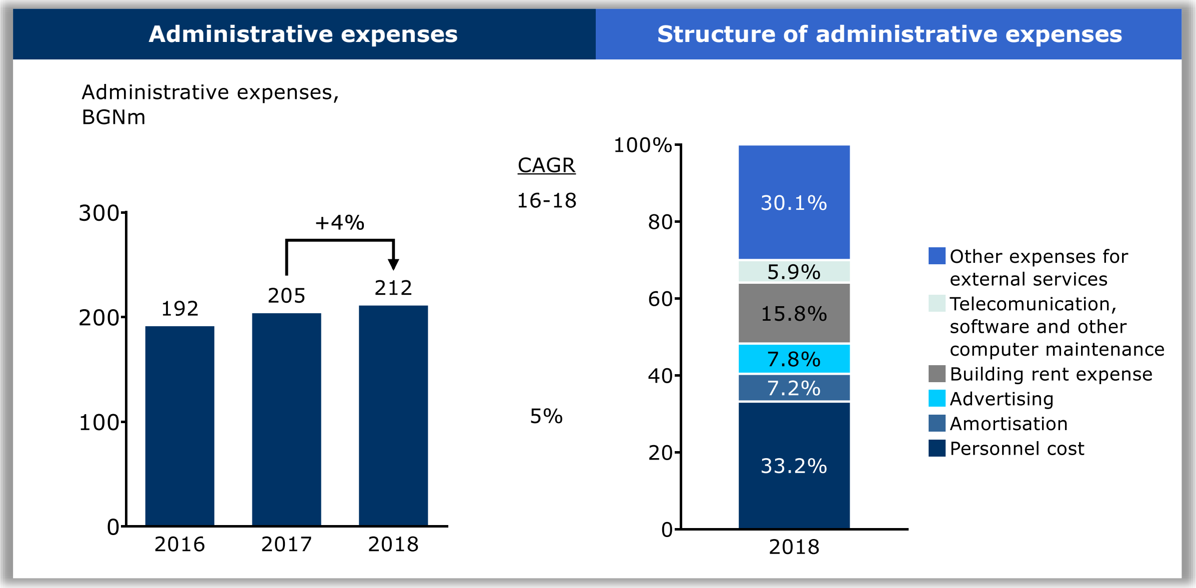
Net fee and commission income for 2018 amounted to BGN 97,111 thousand compared to BGN 102,146 thousand the previous year, forming 24,8% of total income from banking operations of the Group (2017: 25.1%), thus providing solid input to the operating profit. Fibank's operations abroad formed 5.5% of net fee and commission income (2017: 3.7%). An increase was reported in all main services, including card services (2018: BGN 34,033 thousand; 2017: BGN 31,375 thousand), payment operations (2018: BGN 21,912 thousand; 2017: BGN 20,862 thousand) and customers accounts (2018: BGN 31,730 thousand; 2017: BGN 30,863 thousand). A decrease was registered in the letters of credit and guarantees (2018: BGN 2,705 thousand; 2017: BGN 2,911 thousand), as well as in other services (2018: BGN 29,612 thousand; 2017: BGN 34,776 thousand), including in these related to credit activity.

For 2018, net trading income amounted to BGN 10,809 thousand (2017: BGN 15,326 thousand). The decrease reflected mainly the lower income arising from foreign exchange operations, which amounted to BGN 11,068 thousand compared to BGN 14,843 thousand a year earlier. Net expense was reported in the operations arising from debt and equity instruments, which amounted on total BGN 259 thousand for the period, compared to a net income of BGN 483 thousand for the previous year. The share of net trading income remained insignificant at 2.8% of total income from banking operations of the Group (2017: 3.8%).

Other operating income amounted to BGN 16,321 thousand compared to BGN 28,191 thousand a year earlier, arising mainly from the lower income from debt instruments, which were BGN 3,103 thousand (2017: BGN 12,384 thousand). A decrease was reported in the operating income from rents (2018:

BGN 8,862 thousand; 2017: BGN 11,283 thousand), as well as from the management of loans, acquired through business combination (2018: BGN 2,038 thousand; 2017: BGN 4,458 thousand).

For the year, the administrative expenses amounted to BGN 212,066 thousand against BGN 204,698 thousand a year earlier, mainly driven by higher costs on personnel (2018: BGN 70 315 thousand; 2017: BGN 64,968 thousand), as well as for external services (2018: BGN 63,784 thousand; 2017: BGN 59,838 thousand). The building rent expenses (2018: BGN 33,602 thousand; 2017: BGN 33,475 thousand) and those for telecommunications, software and other computer maintenance (2018: BGN 12,400 thousand; 2017: BGN 11,832 thousand) remained at levels close tp the previous year, while a decrease was reported in the advertising expenses (2018: BGN 16,623 thousand; 2017: BGN 18,379 thousand) and the amortization expenses, which decreased to BGN 15,342 thousand, compared to BGN 16,206 thousand for the previous year. For the period, cost/income ratio amounted to 46.46% on a consolidated basis (2017: 53.01%).



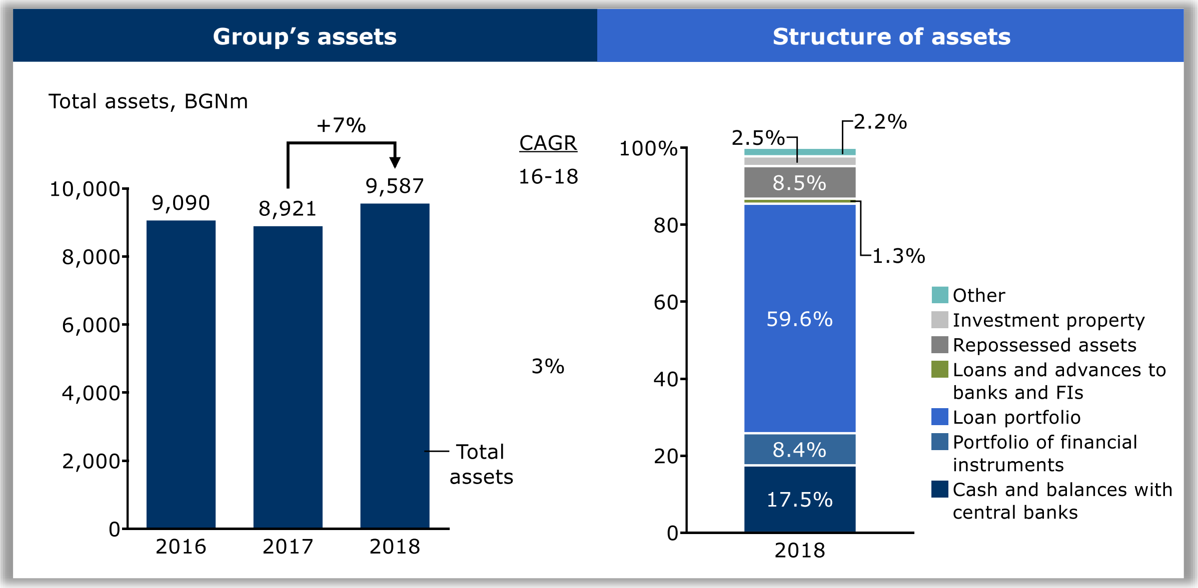
During the year an additional write-downs were made on loans, off-balance sheet commitments and other investments amounting to BGN 164,246 thousand, while the reversal of write-downs were BGN 80,868 thousand. As a result of this the net impairment for 2018 amounted to BGN 83,378 thousand (2017: BGN 78,850 thousand). Since January 1, 2018 First Investment Bank has applied the new requirements of IFRS 9, which established the model of expected credit losses for impairment of financial assets. *For further information see section „Risk management“.*

For the period the Group of First Investment Bank reported other net income amounting to BGN 65,127 thousand, which included mainly income of sale of assets (2018: BGN 81,098 thousand) and of revaluation of investment properties (2018: 13,669 thousand), as well as expenses for contributions that were made to the funds for deposit insurance, restructuring and investor compensation (2018: BGN 33,283 thousand).

For further information see the Consolidated financial statements for the year ended December 31, 2018.

BALANCE

In 2018, total assets of the Group of First Investment Bank increased with 7.5% to BGN 9,586,681 thousand compared to BGN 8,921,198 thousand a year earlier. The dynamics reflected the development of the credit services with a focus on retail and SME banking in line with the Bank's plans, the reduction in repossessed assets and the increase in attracted funds. Fibank retained its leading positions among the banks in the country, as it was ranked fourth in terms of assets among banks in the country (2017: third) with market share of 8.82% on an unconsolidated basis (2017: 8.84%).

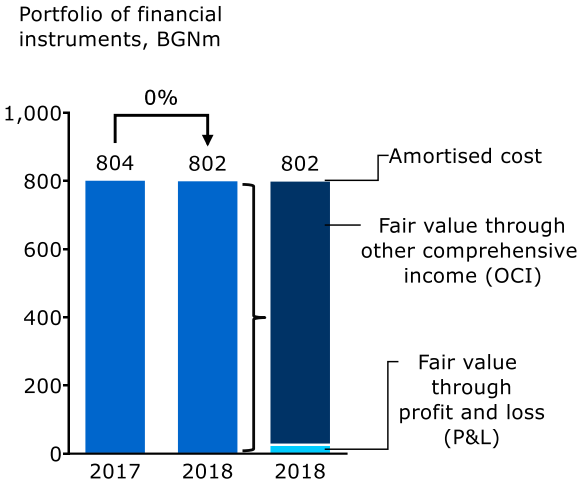


In the structure of the Group's assets, the loans and advances to customers increased their share and remained structure-determining with 59.6% of total assets (2017: 57.9%), followed by cash and balances with central banks to 17.5% (2017: 16.6%) and investments in securities at 8.4% (2017: 9.0%). Repossessed assets decreased their share to 8.5% (2017: 11.0%) and investment property amounted to 2.5% (2017: 2.4%) of total assets. Loan/deposit ratio amounted to 68.5% compared to 68.1% the previous year, reflecting the conservative approach to credit risk management.

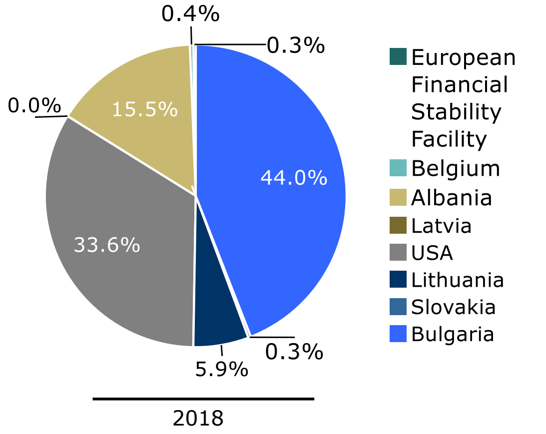
Cash and balances with central banks amounted to BGN 1,674,754 thousand or 13.3% more than the end of 2017 at BGN 1,478,594 thousand. An increase was reported in the receivables from central banks, which reached BGN 1,063,080 thousand at the end of the period (2017: BGN 898,134 thousand) and included mainly the minimum required reserves, which the Group maintained, depending on the dymanics in attracted funds. First Investment Bank manages the cash funds in accordance with customer needs and maintaining optimal return. At the end of 2018 cash on hand amounted to BGN 179,608 thousand compared to BGN 192,935 thousand a year earlier. Current accounts in foreign banks amounted to BGN 432,066 thousand (2017: 387,492 thousand), as they were managed in accordance with the cash flows.

Loans and advances to banks and financial institutions increased during the year, amounting to BGN 125,483 thousand at period-end (2017: BGN 54,402 thousand). An increase was registered mainly in receivables from foreign banks and financial institutions (2018: BGN 96,571 thousand; 2017: BGN 42,722 thousand), as at less degree by these of local banks and institutions (2018: BGN 28,912 thousand, 2017: BGN 11,680 thousand).

Portfolio of financial instruments



Portfolio of government debt by countries



The portfolio of investments in securities was BGN 802,321 thousand as at 31 December 2018 (2017: BGN 803,999 thousand), as the dynamics reflected an increase mainly in investments from foreign governments, including treasury bonds (2018: BGN 148,645 thousand; 2017: BGN 75,165 thousand), at the expense of bonds issued by the Bulgarian government, which decreased to BGN 324,256 thousand (2017: BGN 383,800 thousand) and by foreign banks to BGN 26,480 thousand (2017: 63,730 thousand). As at 1 January 2018 First Investment Bank applied the new requirements on business models and the criteria on classification and evaluation of financial assets within the Bank's portfolios in compliance with IFRS 9. In this regard, BGN 775,529 thousand of the securities portfolio was reported at fair value through other comprehensive income (2017: 742,306 thousand), BGN 26,044 thousand at fair value through profit or loss (2017: 7,979 thousand) and BGN 748 thousand at amortized cost (2017: 53,714 thousand). The Bank's policy is to maintain a limited trading portfolio, which included mainly government bonds issued by the Bulgarian government, as well as a portfolio of equity instruments.

As of 31 December 2018, Fibank's operations abroad formed 4.0% of the Group's assets and 6.3% of the liabilities, in compliance with the development of the activities of the subsidiary bank in Albania and priority focus toward the segments of retail banking and SMEs.

Repossessed assets reported a decrease by 17.4% (BGN 171,514 thousand) to BGN 812,934 thousand (2017: BGN 984,448 thousand), in execution of the Bank's consistent policy on reduction of this type of non-interest-bearing assets. A decrease was reported in all main positions, including land, buildings and machines, and vehicles. The investment properties increased as a result of transferred during the year repossessed assets (2018: BGN 11,475 thousand), as well as revaluation made on the transfer (2018: BGN 13,669 thousand). As a result, the total amount of investment properties reached BGN 242,558 thousand folowing write-offs on sold properties amounting to BGN 798 thousand.

Other assets of the Group amounted to BGN 112,706 thousand (2017: BGN 118,096 thousand), including deferred expenses, gold and other receivables.

For further information see the Consolidated financial statements for the year ended December 31, 2018.

LOAN PORTFOLIO

LOANS

In 2018, the loan portfolio of the Group of First Investment Bank before impairment increased by 12.2% to BGN 6,465,384 thousand (2017: BGN 5,764,768 thousand), folowing the goals on priority development in the business segments of retail banking and SMEs.

In BGN thousand / % of total	2018	%	2017	%	2016	%
Retail customers	1,711,192	26.5	1,507,337	26.1	1,453,502	24.7
Microlending	140,422	2.2	121,533	2.1	108,561	1.9
Small and medium enterprises	879,136	13.6	753,438	13.1	612,093	10.4
Corporate customers	3,734,634	57.7	3,382,460	58.7	3,705,033	63.0
Gross loan portfolio	**6,465,384**	**100**	**5,764,768**	**100**	**5,879,189**	**100**
Impairment	(749,322)		(601,861)		(834,339)	
Net loan portfolio	**5,716,062**		**5,162,907**		**5,044,850**	

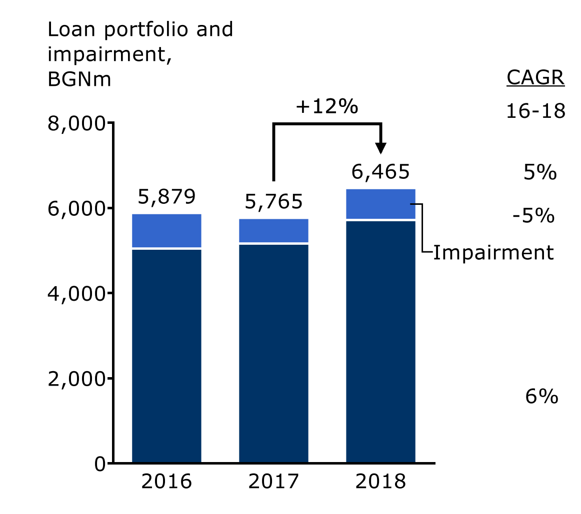
An increase was registered in all business lines, including retail loans, which increased their share to 26.5% of the total portfolio (2017: 26.1%), microlending to 2.2% (2017: 2.1%) and SMEs to 13.6% (2017: 13.1%). Growth was reported also in loans to corporate customers due an increase mainly in the receivables of financial leasing. Nevertheless, their share decreased to 57.7% of gross loans (2017: 58.7%). As of 31 December 2018, First Investment Bank kept its third place in terms of loans among banks in the country with a market share of 10.69% (2017: 10.29%).

In BGN thousand / % of total	2018	%	2017	%	2016	%
Loans in BGN	3,149,075	48.7	2,723,674	47.2	2,167,709	36.9
Loans in EUR	3,142,067	48.6	2,920,875	50.7	3,466,313	58.9
Loans in other currency	174,242	2.7	120,219	2.1	245,167	4.2
Gross loan portfolio	**6,465,384**	**100**	**5,764,768**	**100**	**5,879,189**	**100**
Impairment	(749,322)		(601,861)		(834,339)	
Net loan portfolio	**5,716,062**		**5,162,907**		**5,044,850**	

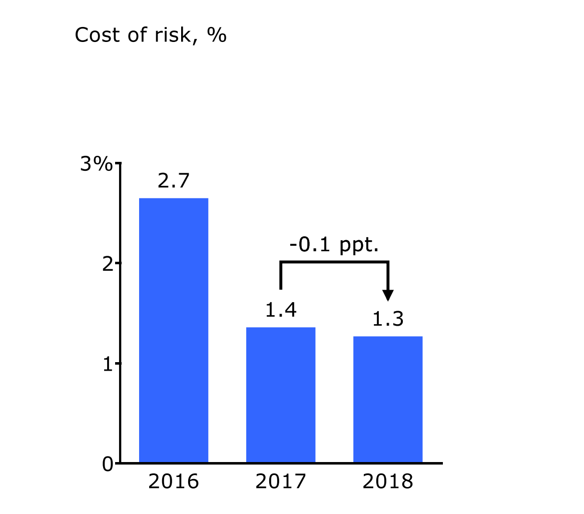
In the currency structure of the loan portfolio, the loans in BGN increased to BGN 3,149,075 thousand (2017: BGN 2,723,674 thousand) or 48.7% of the total portfolio (2017: 47.2%). An increase was reported in the loans in EUR to BGN 3,142,067 thousand at the end of the period (BGN 2017: 2,920,875 thousand), but decreased their share to 48.6% (2017: 50.7%) of gross loans. There is a Currency Board Arrangement functioning in the country, which minimizes currency risk BGN/EUR. During the year, Republic of Bulgaria submitted officialy its intention to join the Exchange rate mechanism II (ERM II) and the Single Supervisory Mechanism (SSM), which is a step towards joining the Euro Area. Loans in other currency amounted to BGN 174,242 thousand (2017: 120,219 thousand), forming 2.7% of the total loan portfolio (2017: 2.1%).

Loans granted by the units of First Investment Bank abroad constituted 3.1% of the gross portfolio of the Group (2017: 2.7%), and reflected the increase in the loan portfolio to individuals and SMEs of First Investment Bank - Albania Sh.a. *For further information see section "Business review of subsidiary companies".*

Loan portfolio and impairment



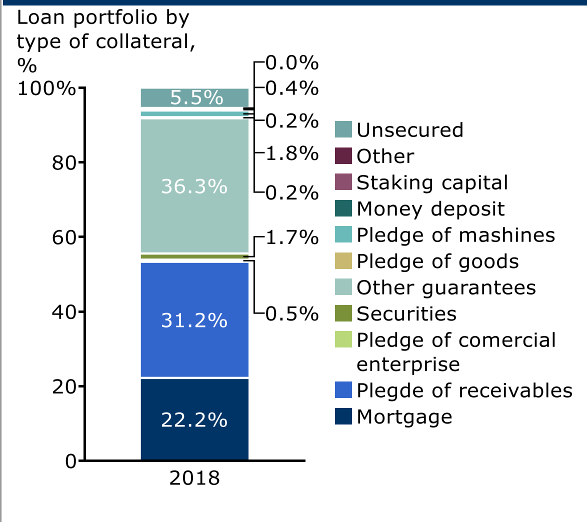
Cost of risk



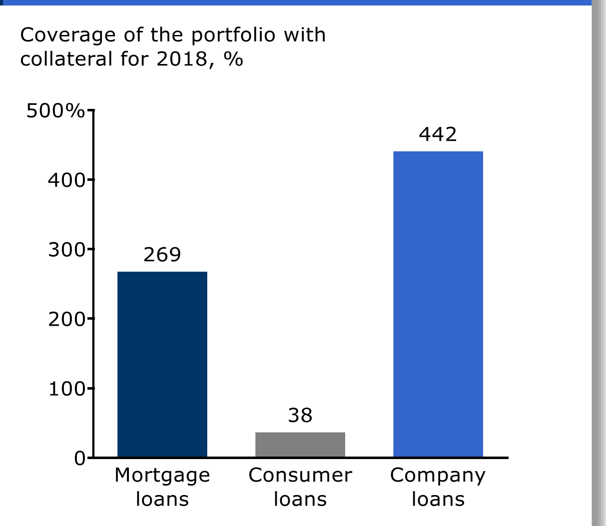
In 2018, Fibank managed the credit risk in accordance with the set targets in compliance with the regulatory requirements of the European and local legislation. At the end of the period the impairment for calculation of the potential losses on the loan portfolio amounted to BGN 749,322 thousand, compared to 601,861 a year earlier. The main impact had the implementation of IFRS 9, including the reported effect of the initial application of the standard at the amount of BGN 258,299 thousand, as well as the writing-off of impaired exposures on the amount of BGN 212,985 thousand (2017: 308,913 thousand). During the year, an additional allowances were accrued on the amount of BGN 163,028 thousand and released on the amount of BGN 62,578 thousand.

The Bank's policy is to require customers to provide adequate collateral before granting loans. It accepts all types of collateral permitted by law and applies discount rates depending on the expected realizable value.

Loan portfolio by type of collateral



Coverage of the portfolio with collateral



At the end of 2018 collaterals with the largest share in the portfolio of the Group were other guarantees at 36.3%, followed by pledges of receivables at 31.2% and mortgages at 22.2%.

For further information on credit risk, see Note 3 “Risk Management” of the Consolidated Financial Statements for the year ended December 31, 2018.

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. During the year, the regulatory framework in Bulgaria was enhanced – a new Ordinance № 37 of the BNB of 16 July 2018 on the Internal Exposures of Banks.

Type of related party	Parties that control or manage the Bank		Enterprises under common control	
In BGN thousand	2018	2017	2018	2017
Loans	1,769	753	11,179	1,280
Deposits and loans received	12,862	8,708	12,928	15,370
Deposits placed	-	-	19,704	19,604
Other receivables	-	-	22,118	23,482
Off-balance sheet commitments	1,283	1,291	351	322

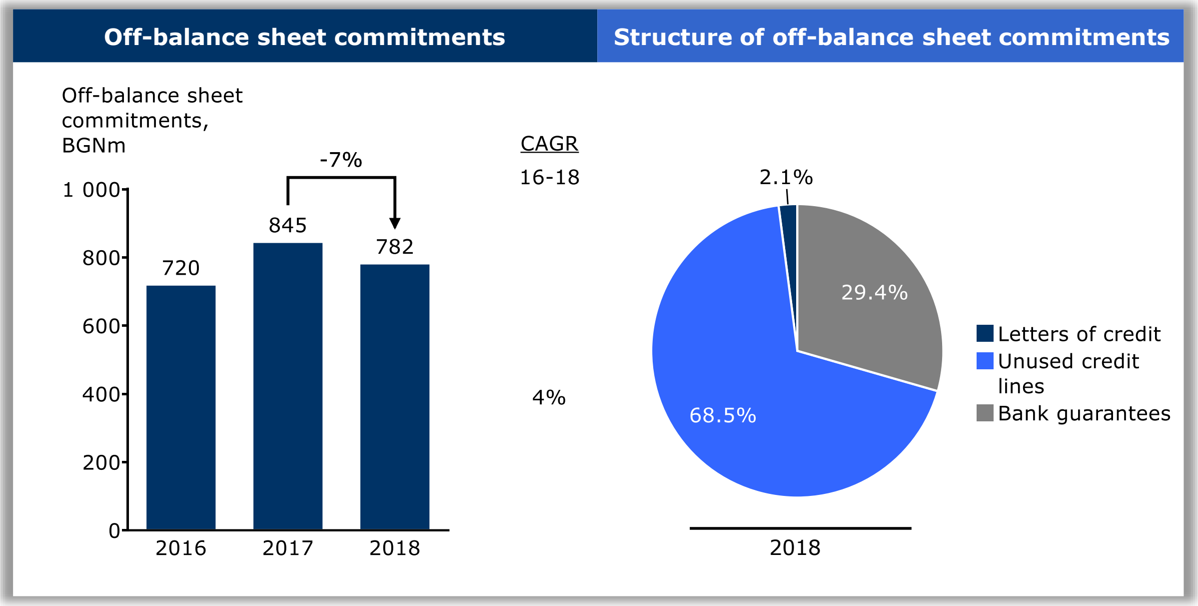
For more information regarding related party transactions, see Note 34 “Related party transactions” of the Consolidated financial statements for the year ended December 31, 2018.

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 also applies the unified international rules in this area, protecting the interests of the parties that are involved in the operation.

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

At the end of the reporting period the total amount of off-balance sheet commitments amounted to BGN 782,417 thousand compared to BGN 845,464 thousand a year earlier. The decrease was mainly result from the decrease in bank guarantees to BGN 230,239 thousand (2017: BGN 235,521 thousand), in the letters of credit to BGN 16,129 thousand (2017: BGN 16,981 thousand), as well as repaid other off-balance sheet commitments, which amounted to BGN 62,166 thousand at the end of 2017. An increase was reported in unused credit lines reaching to BGN 536,048 thousand, compared to BGN 530,796 thousand a year earlier.



For more information on off-balance sheet commitments, see Note 31 "Commitments and contingent liabilities" from the Consolidated financial statements for the year ended December 31, 2018.

ATTRACTED FUNDS

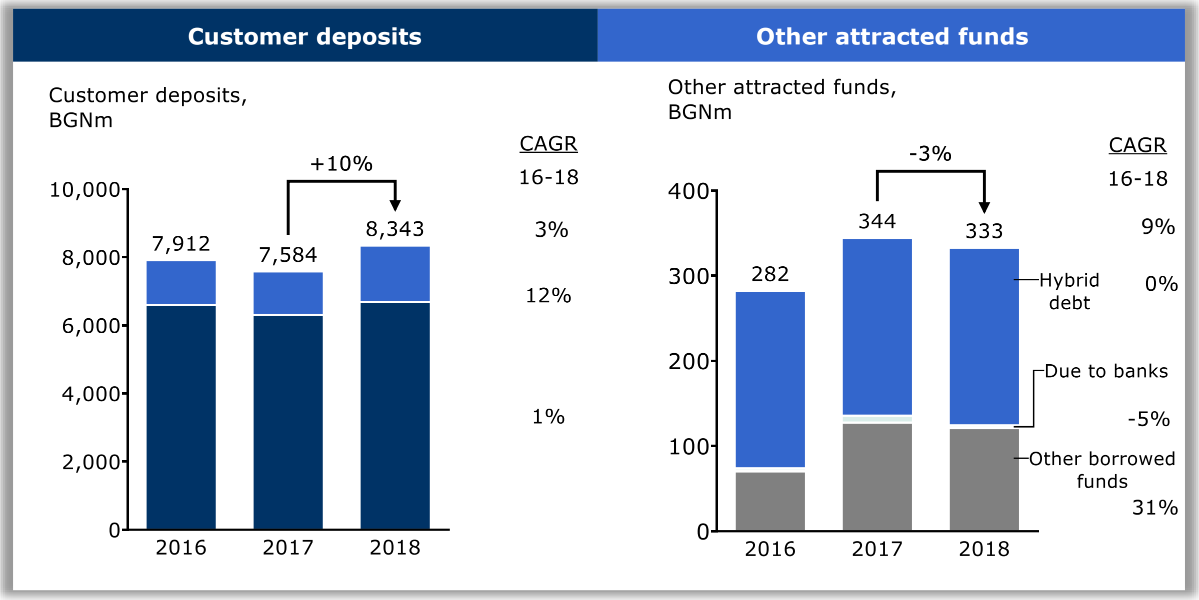
In 2018, attracted funds from customers increased by 10.0% (BGN 758,872 thousand) and reached BGN 8,342,691 thousand (2017: BGN 7,583,819 thousand), thus remaining the main source of funding for the Group with 95.4% of total liabilities (2017: 95.1%). First Investment Bank offers various deposit and savings products, as well as package programs, in line with the market conditions and customers' needs. As at 31 December 2018, the Bank was fourth in terms of deposits among banks in Bulgaria (2017: third) with a market share of 9.57% on unconsolidated basis (2017: 9.45%) at the end of the period.

The funds attracted from individuals grew by 6.0% to BGN 6,685,678 thousand at the end of period compared to BGN 6,305,463 thousand a year earlier. They retained their structure-defining share in the total deposits due to customers at 80.1% (2017: 83.1%). In the currency structure of attracted funds from individuals, funds in BGN formed the majority at 44.5% of total deposits from customers (2017: 45.7%), followed by those in EUR at 27.6% (2017: 29.2%) and in other currencies at 8.1% (2017: 8.2%).

In BGN thousand / % of total	2018	%	2017	%	2016	%
Attracted funds from individuals	**6,685,678**	**80.1**	**6,305,463**	**83.1**	**6,593,972**	**83.3**
In BGN	3,709,545	44.5	3,467,849	45.7	3,382,026	42.7
In EUR	2,304,045	27.6	2,216,508	29.2	2,568,645	32.5
In other currency	672,088	8.1	621,106	8.2	643,301	8.1
Attracted funds from corporate, state-owned and public institutions	**1,657,013**	**19.9**	**1,278,356**	**16.9**	**1,317,939**	**16.7**
In BGN	959,992	11.5	768,027	10.1	670,174	8.5
In EUR	513,060	6.1	343,011	4.5	291,756	3.7
In other currency	183,961	2.2	167,318	2.2	356,009	4.5
Total attracted funds from customers	**8,342,691**	**100**	**7,583,819**	**100**	**7,911,911**	**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 29.6% to BGN 1,657,013 thousand (2017: BGN 1,278,356 thousand) as a result of the consecutive Bank's policy of cross sales, development of transactional business in compliance with the new technologies and European payment infrastructure, as well as maintaining long-term relations with customers. At the end of 2018 their share increased to 19.9% of total deposits from customers (2017: 16.9%). In the currency structure of attracted funds from corporates and institutions, funds in BGN formed 11.5% of total deposits from customers (2017: 10.1%), those in EUR at 6.1% (2017: 4.5%), while those in other currencies at 2.2% (2017: 2.2%).



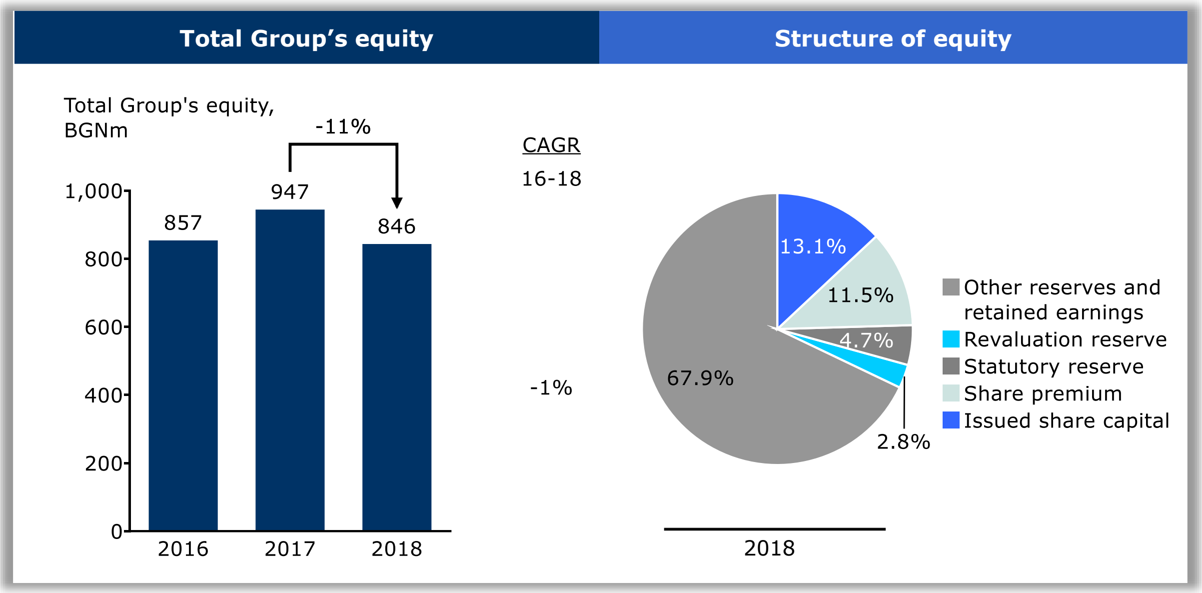
Other borrowed funds amounted to BGN 121,120 thousand as at 31 December 2018 compared to BGN 127,493 thousand a year earlier, as the decrease in liabilities on the acceptances under letters of credit (2018: BGN 13,553 thousand; 2017: BGN 16,941 thousand) and in repurchase agreements (2018: 3,213 thousand; 2017: BGN 9,099 thousand was partialy compensated by the increase in financings from financial institutions (2018: BGN 31,078 thousand; 2017: BGN 28,242 thousand). They included attracted funds from the European Investment Fund under the JEREMIE 2 initiative at BGN 13,674 thousand (2017: BGN 24,254 thousand), from the Bulgarian Development Bank AD at BGN 17,336 thousand (2017: BGN 3,615 thousand) and from the Agriculture State Fund at BGN 68 thousand (2017: 373 thousand). *For more information see section „Europrograms“.* As at the end of the year the amortized cost of the debt related to agreements for full swap of profitability amounted to BGN 73,276 thousand (2017: BGN 73,211 thousand).

For 2018 the liabilities due to banks amounted to BGN 3,024 thousand, compared to BGN 8,136 thousand a year earlier.

For more information on borrowings see the Consolidated Financial Statements for the year ended December 31, 2018.

CAPITAL

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.



In relation to the effect of the initial application of IFRS 9 on other reserves and retained earnings, which amounted to BGN 573,087 thousand at the end of the period (2017: BGN 673,571 thousand), the total equity of the Group of First Investment Bank decreased by 10.7% to BGN 846,272 thousand (2017: BGN 947,350 thousand).

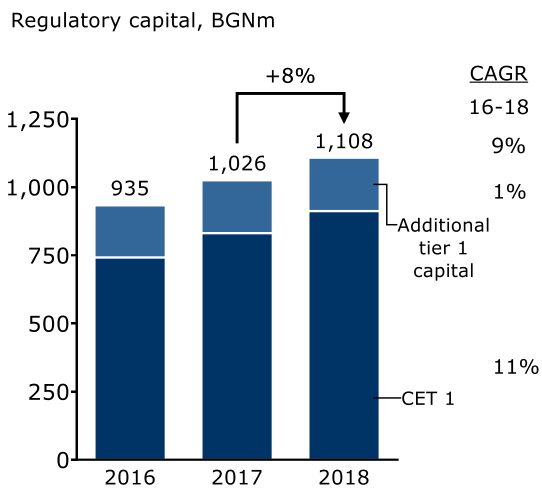
REGULATORY CAPITAL

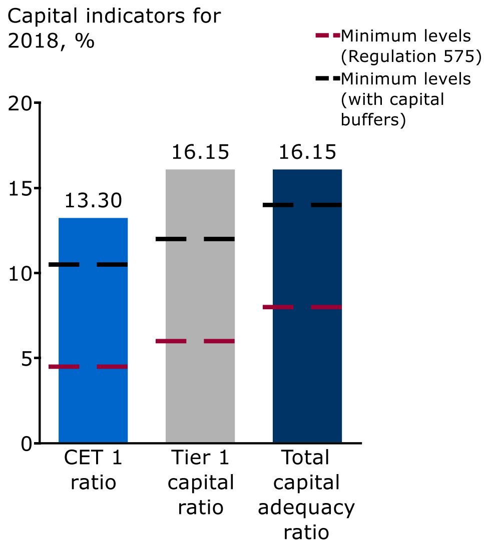
First Investment Bank maintains own funds for the purpose of capital adequacy under the form of common equity tier 1 and additional tier 1, following the requirements of Regulation (EU) No575/2013, incl. the EC implementing regulations, and Ordinance No7 of the BNB on the organization and management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

In 2018, 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 10.1% to BGN 912,088 thousand (2017: 831,161 thousand). As a result of this, tier 1 capital also grew to reach BGN 1,107,671 thousand (2017: BGN 1,025,305 thousand) at the end of the period. The total own funds amounted to BGN 1,107,671 thousand compared to BGN 1,026,205 thousand a year earlier.

As at 31 December 2018, First Investment Bank had issued two hybrid instruments (bond issues) with an original principal in the amount of EUR 40 million (ISIN: BG2100008114) and EUR 60 million (ISIN: BG2100022123), which fully comply with the requirements of Regulation (EU) No 575/2013 and are included in the additional tier 1 capital. The bonds are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem. The amortised cost of the hybrid debt at the end of the period was BGN 208,786 thousand remaining unchanged compared to a year earlier. Both hybrid bond issues are admitted to trade on a regulated market at the Luxembourg Stock Exchange.

Regulatory capital	Capital adequacy in 2018





For the purpose of reporting large exposures and qualifying holdings outside the financial sector, First Investment Bank applies the definition of eligible capital, which includes tier 1 capital and tier 2 capital, which cannot exceed 1/3 of tier 1 capital. As at 31 December 2018, the eligible capital of First Investment Bank, calculated in accordance with Regulation (EU) No 575/2013 and Ordinance No7 of BNB for the organization and management of risks in banks amounted to BGN 1,107,671 thousand.

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

In this regard, at the beginning of 2018, it was decided during the transitional period until 2022, First Investment Bank to apply the measures under Article 473a of Regulation (EU) No 575/2013, including the additional relief provided for in paragraph 4 - the so-called dynamic part of the transitional treatment.

CAPITAL REQUIREMENTS

At end-2018 the capital indicators of the Group of First Investment Bank were as follows: the common equity tier 1 ratio was 13.30%, the tier 1 capital ratio was 16.15% and the total capital adequacy ratio was 16.15%, exceeding the minimum regulatory capital requirements – respectively 4.5%, 6.0% and 8.0%, definited in Regulation (EU) № 575/2013.

In BGNth/% of risk exposures	2018	%	2017	%	2016	%
CET 1 capital	912,088	13.30	831,161	12.87	741,802	12.01
Tier 1 capital	1,107,671	16.15	1,025,305	15.87	933,095	15.10
Own funds	1,107,671	16.15	1,026,205	15.89	934,895	15.13
Total risk exposures	**6,858,936**		**6,458,822**		**6,178,635**	

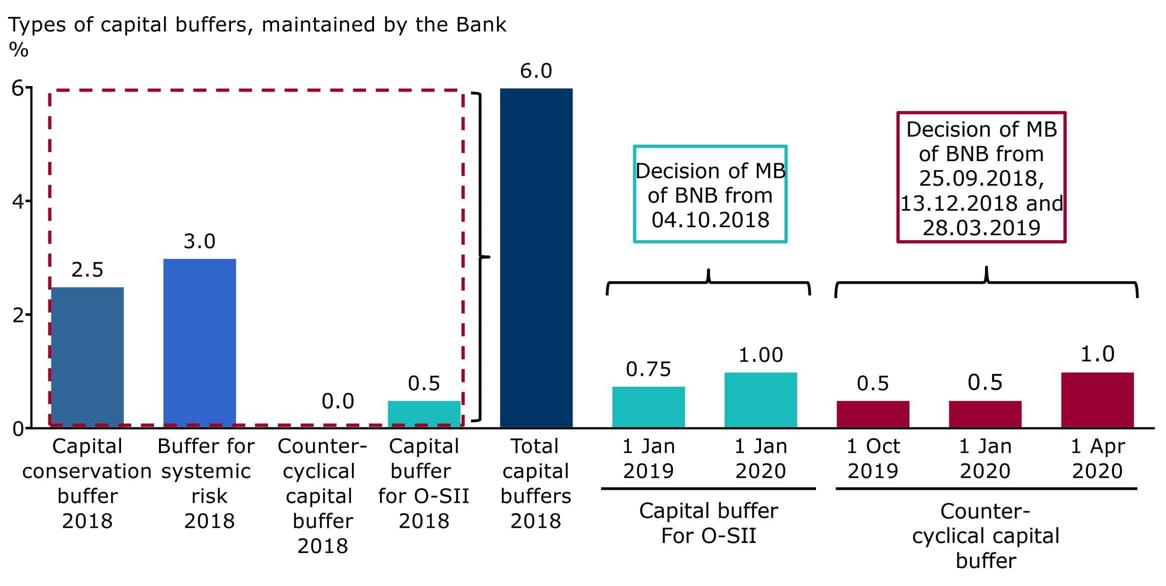
In 2018 the application of complex measures with regards to capital levers in key areas were continued, including through profit retention, diversification of the loan portfolio, maintaining high discipline with regards to risk management and increasing profitability and income from banking operations.

CAPITAL BUFFERS

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

First Investment Bank maintains a capital conservation buffer, comprised of common equity tier 1 capital, equal to 2.5% of the total risk exposure of the Bank, as well as buffer for systemic risk covered by common equity tier 1 capital with the aim for decreasing the effect of potential long-term non-cyclical system or macroprudential risks in the banking system in the country. In 2018 the level of the capital buffer for systemic risk applicable to all banks in Bulgaria remained unchanged at 3% of the total risk exposures in the country.

Capital buffers



With the aim for protection of the banking system against potential losses arising from accumulated cyclical systemic risk in periods of excessive credit growth, the banks in Bulgaria, incl. Fibank maintains countercyclical capital buffer, applicable to credit risk exposures in the Republic of Bulgaria. Its level is determined by the Bulgarian National Bank each quarter as during the whole of 2018, as well as to the end of third quarter of 2019 is defined at 0%. With a decision of MB of BNB dated from 25.09.2018 and 13.12.2018 the level of countercyclical capital buffer is defined at 0.5% for the fourth quarter of 2019 (in force as of 1.10.2019) and for the first quarter of 2020 (in force as of 01.01.2020), as well as at 1.0% for the second quarter of 2020 (in force as of 01.04.2020).

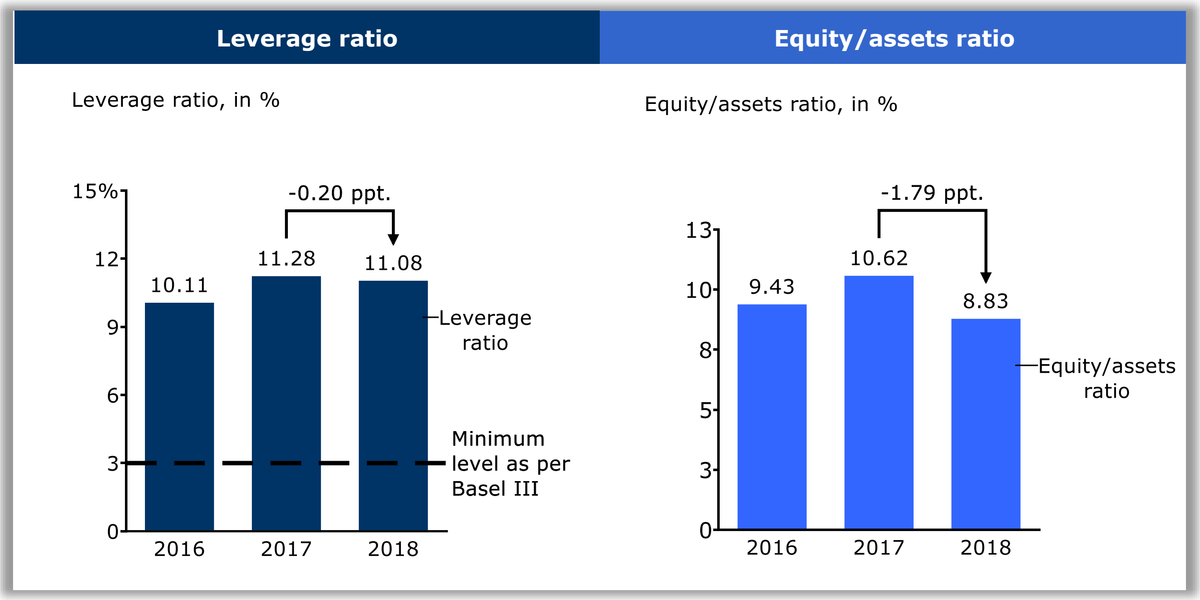
In addition, the determined by BNB other systematically important institutions (O-SII) in the country among which First Investment Bank AD should maintain a buffer for O-SII with a view on their significance for the national economy and financial system. The applicable for Fibank buffer for O-SII on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

BNB dated from 4 October 2018 the levels of the buffer for O-SII applicable for First Investment Bank for the period 2019-2020 were confirmed, as follows: 0.75% for 2019 and 1.0% for 2020.

LEVERAGE

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

First Investment Bank calculates the leverage ratio by matching its Tier 1 capital to the total exposure of the Bank (assets, off-balance sheet items, and other exposures to derivatives and securities financing transactions), subject to the requirements of Delegated Regulation (EU) 2015/62 of the Commission concerning the leverage ratios and the other applicable regulations. As at 31 December 2018, the leverage ratio amounted to 11.08% on a consolidated basis compared to 11.28% for the previous period.



First Investment Bank has written rules in place to identify, manage and monitor the risk of excessive leverage resulting from potential vulnerability of the Bank related to the maintained levels of leverage. The risk of excessive leverage is currently monitored based on specific indicators, which include the leverage ratio, calculated in accordance with applicable regulatory requirements, as well as 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 a decrease in the Tier 1 capital resulting from potential losses. The leverage ratio is also part of the capital indicators of the system for ongoing monitoring and early warning, and is incorporated in the framework for risk management at the Bank, including in the management processes in case of potential financial risks.

For more information on capital see the Consolidated Financial Statements as at 31 December 2018.

RISK MANAGEMENT

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

In 2018 the Bank performed its activity in line with the approved risk strategy and in accordance with the goals for development, by further enhancing the control mechanisms with respect to risks inherent to the banking activity, including developing additional capital and liquidity buffers, maintaining an effective control environment with respect to the current business processes, as well as refining the internal risk management framework in compliance with the regulatory requirements and standards, incl. IFRS 9.

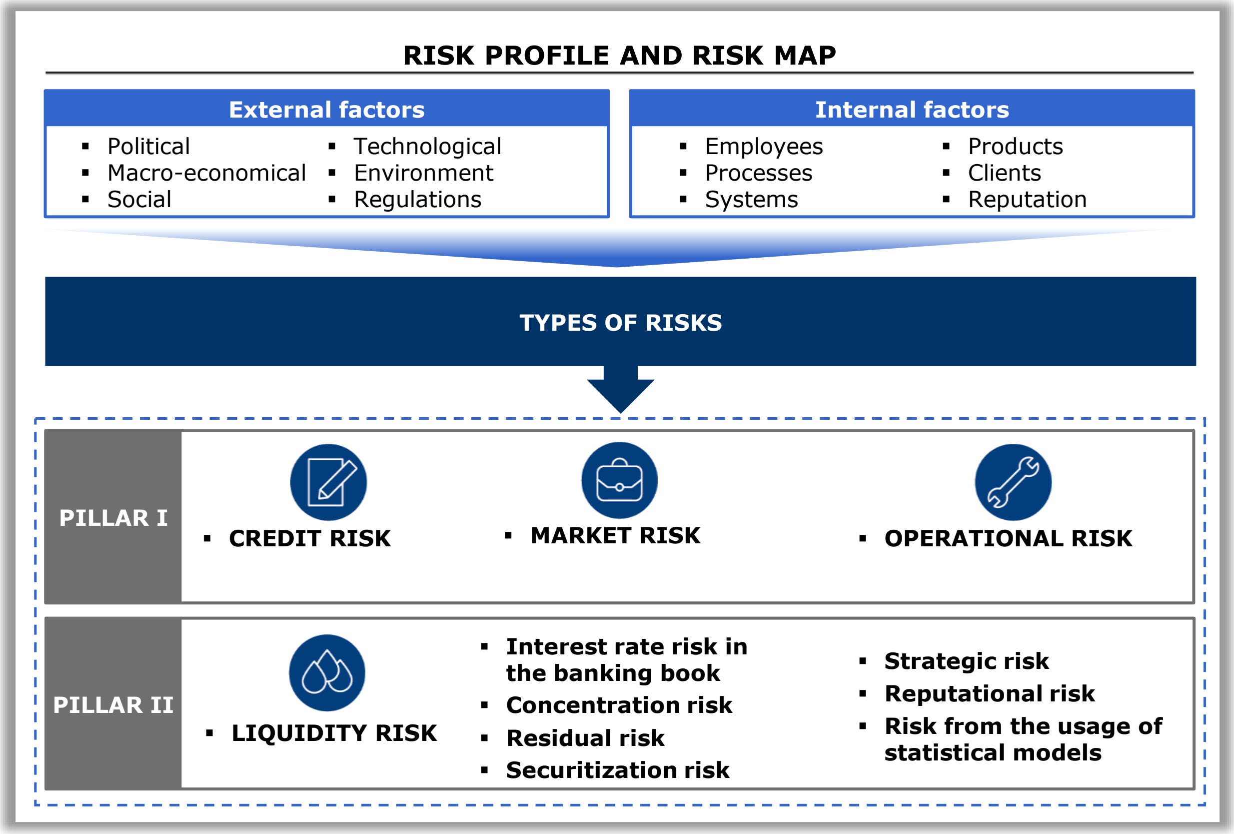
RISK MANAGEMENT STRATEGY

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

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



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

RISK APPETITE

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

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

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

RISK CULTURE

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

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

- risk taking within the approved risk appetite;
- approval of every risk in accordance with the effective approval levels and the internal risk management framework;
- current/ongoing monitoring and risk management;
- responsibility of employees of all levels to the management and escalation of risks, while applying a conservative and future-oriented approach in their assessment;
- effective communication and constructive criticism aimed at making rational and informed decisions, as well as creating conditions for open and positive engagement throughout the organization;
- applying appropriate incentives to contribute to sound and efficient management, discouraging risk-taking in excess of the level acceptable to the Bank.

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

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

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

COLLECTIVE RISK MANAGEMENT BODIES

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

Risk committee advises the Supervisory Board and the Managing Board in relation to the overall current and future strategy on ensuring compliance of the risk policy and risk limits, risk-taking propensity and control on its execution by the senior management. As at 31 December 2018, the Risk Committee consisted of three members of the Supervisory Board of First Investment Bank AD. The Chairman of the Risk Committee is Mr. Evgeni Lukanov, Chairman of the Supervisory Board of the Bank.

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

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

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

The **Restructuring Committee** is a specialized internal bank body responsible for the monitoring, evaluation, classification, impairment and provisioning of risk exposures and commitments. It also gives motivated written proposals to the Managing Board, and decides on restructuring of exposures according to the current authority levels in the Bank. The Chairman of the Restructuring Committee is the Director of the Impaired Assets department, while the rest of its members include: representatives from Credit Risk Management, Monitoring and Provisioning; Corporate Banking; SME Banking; Retail Banking; Legal and Finance departments. In the meetings of the Restructuring Committee don’t participate employees of the Bank who were 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 Chairman of Operational Risk Committee is the director of Risk Analysis and Control department and the other permanent members are representatives of the following departments: Card Payments; Compliance – Regulations and Standards; Accounting; Operations and Branch Network. As additional members can participate representatives from Security, Legal and Human Capital Management departments.

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 and control.

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. 106 of the Law on Measures against Money Laundering (LMAML), and exercises control over the application of requirements for combating and preventing fraud. The Compliance function in the Bank also includes specialized units engaged in customer satisfaction and control of investment services and activities. During the year, the Bank implemented a project for bringing its activity in line with the new requirements of the Law on Measures against Money Laundering, transposing in the Bulgarian legislation Directive (EU) 2015/849 of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (the 4th AML Directive).

SYSTEM OF LIMITS

First Investment Bank applies a system of internal limits for different types of risks, in line with the regulatory requirements and the Bank's risk management strategy, including limits by client/counterparty, type of instrument and portfolio, sector, market, etc. The limits applied are monitored on a regular basis and are subject to periodic review and update in line with the risk appetite, market conditions and current regulatory framework.

For more information on the internal limits for different types of risk, see the subsections on credit risk, market risk, liquidity risk, operational risk, as well as the Consolidated Financial Statements for the year ended 31 December 2018.

RECOVERY PLAN

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

In 2018, as part of its annual review process, First Investment Bank updated its recovery plan in line with the regulatory requirements applicable to banks in the country, including those of the Commission Delegated Regulation (EU) 2016/1075 on the regulatory technical standards specifying the content of recovery plans and resolution plans, as well as according to the Guidelines of the European Banking authority in this area. The range of critical functions in the Bank was refined; the recovery options/measures were further developed, including the timeframe for potential implementation of each one of them. The reporting frequency and levels of risk indicators were reviewed bearing in mind the regulatory requirements, macroeconomic environment, accountability and efficiency in managing the financial resources of the Bank. Stress scenarios were updated, and the underlying assumptions were detailed and further developed.

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

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

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

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

CREDIT RISK

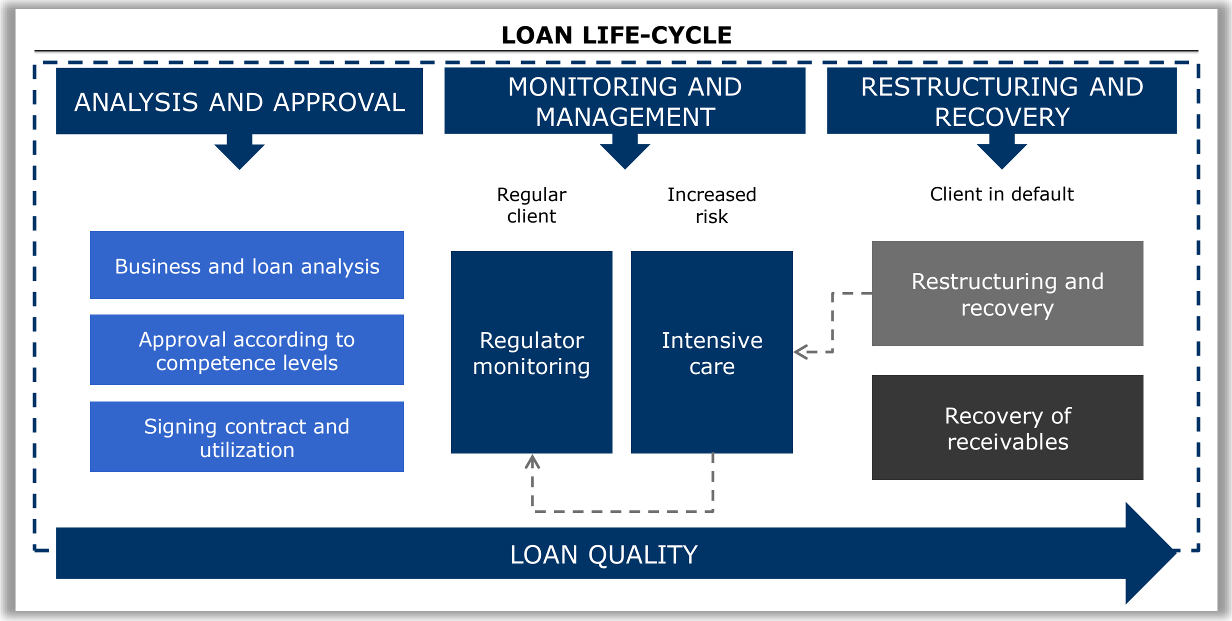
Credit risk is the risk arising from the debtor's inability to meet the requirements of a contract with the bank or inability to act in accordance with the agreed terms. The different types of credit risk include concentration risk, residual risk, dilution risk, counterparty risk, and settlement risk.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

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

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

LOAN PROCESS

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



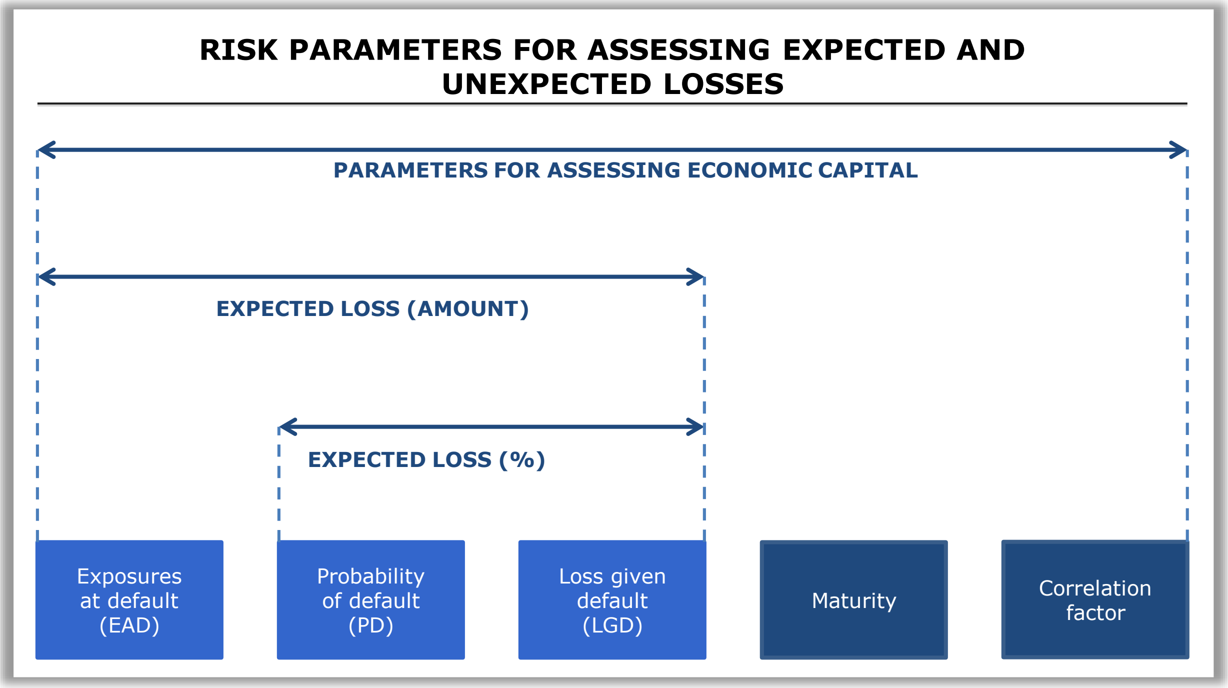
First Investment Bank maintains systems for the ongoing administering and monitoring of different portfolios and exposures to credit risk, including aiming at recognizing and managing exposures in default and performing adequate value adjustments for credit risk. Considering the impact of the economic cycle, Fibank 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 the Bank functions a separate department for Intensive loan management, which manages the exposures of customers transferred from the business units with increased credit risk compared to the initial disbursement of the loan, as well as from the impaired assets unit, when there are indicators for recovery of the exposure and objective possibility for future regular servicing. The department was established as part of the consistent efforts of the Bank for enhancing the effective management of the loan portfolio, the early warning and management of exposures, as well as for decreasing the overall level of credit risk for the Bank.

MODELS FOR CREDIT RISK MEASUREMENT

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

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



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

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

In 2018, the Bank further developed its project finance evaluation models (including for real estate, industrial projects and financing of individual fixed assets), applying quantitative analysis (based on estimated cash flows) and qualitative evaluation of the project and investor management, market environment and credit structuring, as well as a separate evaluation of the assets being funded. The procedure for internal rating of corporate and SME clients of the Bank was refined and improved. The escalation and approval processes and the units responsible were elaborated, as well as the timeframes and obligations for periodic review and update. The scoring procedures for retail customers were automated with a view to increasing efficiency and reducing loan approval times.

During the year, a new process for assessment and validation of the risk management models used by the Bank was introduced to ensure their reliability, accuracy and effective implementation. It envisages the preparation of regular validation reports in the Bank: brief/monitoring quarterly reports and extended annual validation reports, covering both quantitative analysis (statistical, econometric and other quantitative approaches) and analysis of the qualitative (non-statistical) characteristics, in compliance with the current regulatory requirements and good banking practices in the area.

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.

First Investment Bank currently monitors the relative regulations, as well as the acknowledged standards and good practices in this area, aiming constantly further development and enhancement of the rules and processes existing in the Bank with respect to the acceptance, evaluation and management of collaterals, including with regards to the methods for valuation.

PROBLEM EXPOSURES AND IMPAIRMENT

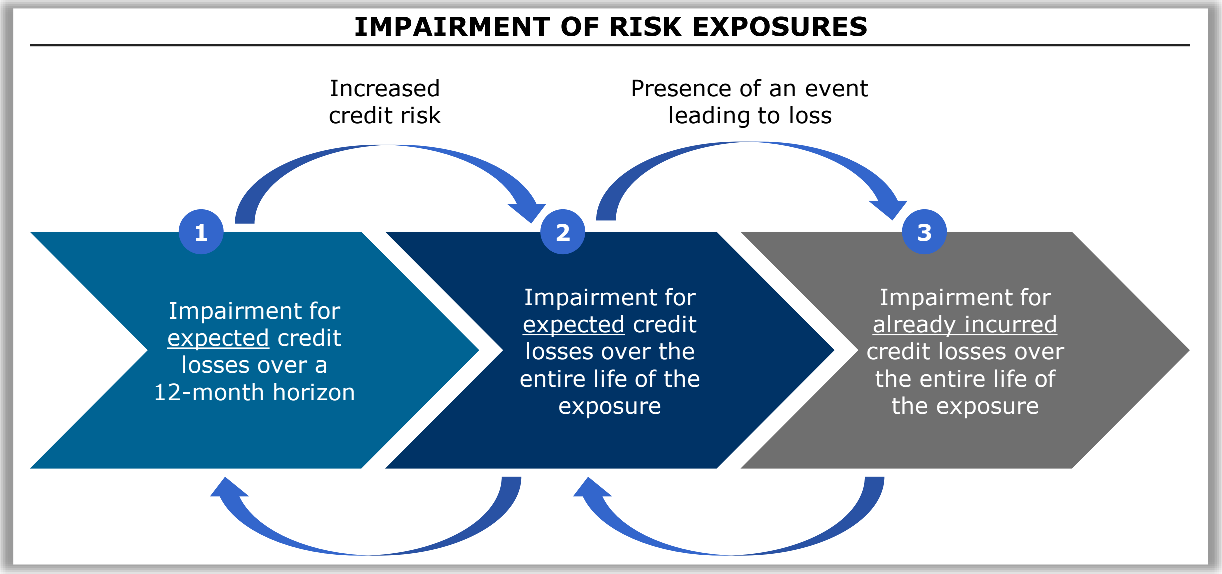
First Investment Bank has internal rules and written procedures for managing problem credit exposures, which include all main actions related to management of problem loans, including analysis and assessment of risk exposures, restructuring and recovering, enforced collection, sale and writing off of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

In 2018 the Bank managed the credit risk in line with the risk strategy and external environment, with a view to on-time diagnosis and taking measures in accordance with the customers' capabilities and the Bank's policy on risk taking, including actions for centralized management and early collection of overdue receivables.

As at 31 December 2018, the ratio of exposures over 90 days past due under the FinREP framework decreased by 3.8 percentage points to 10.4% of gross loans and advances on a consolidated basis, as a result of the credit risk management measures implemented during the year, including sale/assignment of loans and write-off of impaired exposures.

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.

Since 1 January 2018 First Investment Bank has applied new rules for impairment and provisioning of risk exposures in compliance with the requirements of IFRS 9. According to them an allowance for impairment loss is calculated equal to the expected credit losses over the life of the instrument, if the credit risk of the financial instrument has increased significantly since the original recognition. Otherwise, an allowance for impairment losses is calculated equal to the expected credit losses over a 12-month horizon.



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

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

MARKET RISK

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

The management of market risk is based on applying internal limits and written rules and procedures with respect to the processes and control environment. For the purpose of assessing and minimizing market risk the Bank applies internal models for assessment, which are based on the "Value at Risk"

(VaR) concept, as in addition other duration analyses, calculation of stressed VaR, stress tests and scenarios are used.

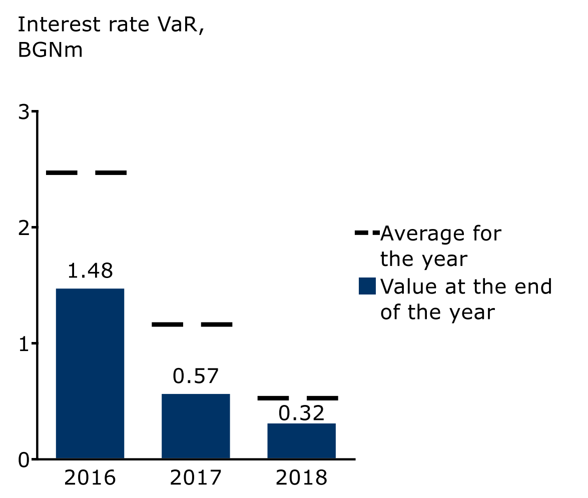
The limits applied by the Bank for debt and capital instruments are structured with the aim for minimizing the risk and implementing a wider and risk-based framework of limits, which are directly connected with the risk profile of the investments, as well as with the dynamics of the risk profile in time.

INTEREST RATE RISK

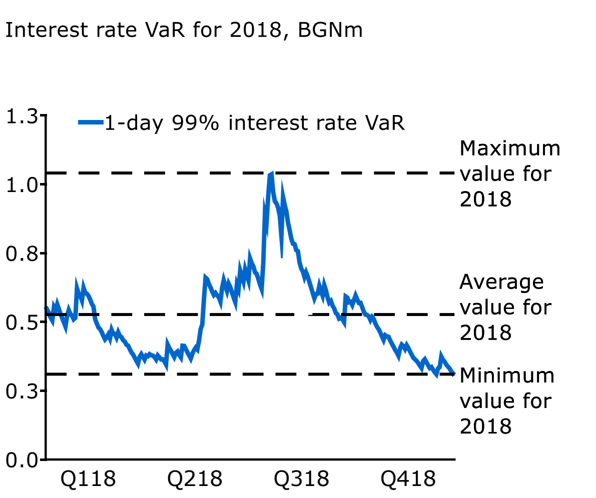
Interest rate risk is the current or potential risk of change in the income of the Bank as a result of adverse changes in interest rates. First Investment Bank is exposed to interest rate risk from the trading and the banking portfolios.

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

Interest rate VaR for the portfolio of debt instruments



Interest rate VaR for the portfolio of debt instruments during 2018

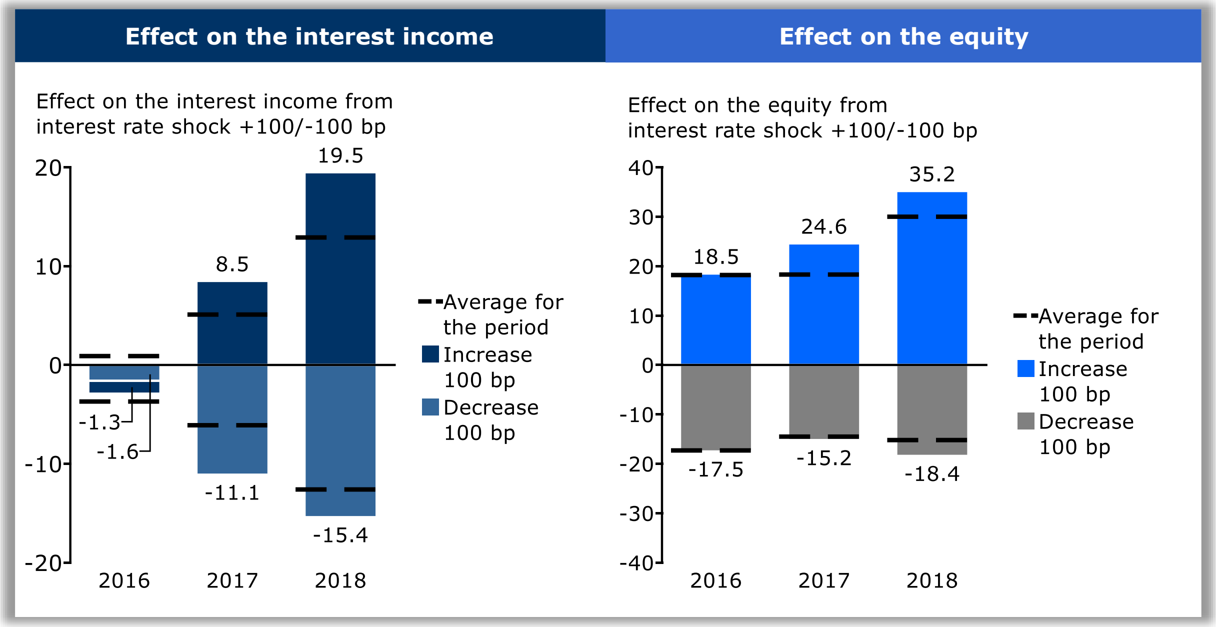


In compliance with the European Banking Authority guidelines, the Bank measures stressed value at risk (sVaR) of the debt securities portfolio, where model inputs are calibrated so as to reflect an extended period of significant stress at the international financial markets.

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 2018 the interest rate risk on the economic value of the Bank following a standardized shock of +100/-100 bp was BGN +35.2/-18.4 million, while on the net interest income one year forward was BGN +19.5/-15.4 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 and applies limits, based on an internal VaR model, regarding the maximum loss that could be incurred within 1 day 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 2018.

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.

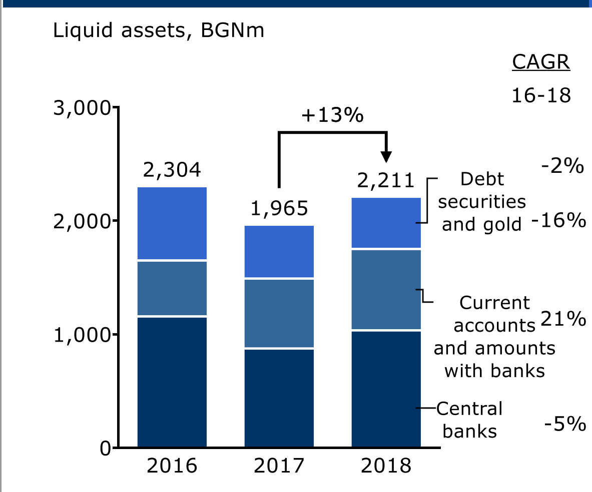
First Investment Bank manages liquidity risk through an internal system for monitoring and daily liquidity management, maintenance of a sufficient amount of cash consistent with the currency structure of assets and liabilities and maturity ladder, regular gap analysis of inflows and outflows, maintaining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

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

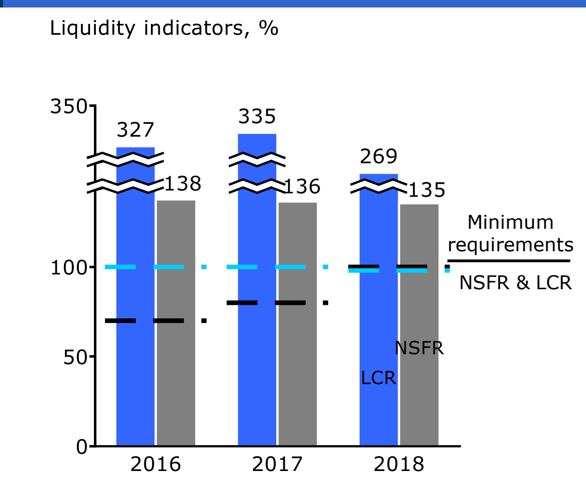
During the year, the Bank further developed its liquidity measurement, monitoring and control system, including with respect to the establishment and maintenance of a maturity ladder. It is part of the additional liquidity monitoring indicators and a tool for detailed monitoring of cash inflows and outflows by maturity interval, including their liquidity generation capacity in accordance with the requirements of Commission Implementing Regulation (EU) 2017/2114 and Ordinance No. 11 of the BNB on Bank Liquidity Management and Supervision.

As regards asset/liability and liquidity management policies, as of 1 January 2018 First Investment Bank applies the new business model requirements and the criteria for classification and valuation of financial assets in the Bank's portfolios in accordance with IFRS 9. Based on the purpose for managing the financial assets, the business models applied by the Bank include: 1) business model, whose purpose is the assets to be held to collect contractual cash flows (hold to collect); 2) business model, whose purpose is both to collect contractual cash flows as well as sale of financial assets (hold to collect and sell); 3) other business model, when the purpose is different from the previous two business models (other business model), and which includes the assets held for trading.

Liquid assets



LCR and NSFR



Fibank continued to maintain an adequate amount of liquid assets, as at 31 December 2018 the ratio of liquid assets covering the attracted funds due to other customers amounted to 26.50%, which was significantly above the BNB recommended level of 20%. According to the regulatory requirements as of 1 January 2018 the Bank should maintain a buffer of liquid assets to ensure liquidity coverage of net liquidity outflows over a 30-calendar day stress period with a minimum amount of 100%. At the end of the reporting period, the liquidity coverage ratio (LCR) amounted to 269.21% on a consolidated basis (2017: 334.85%).

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 135.45% on a consolidated basis (2017: 136.43%) and was above the reference value of 100% before its introduction as a binding requirement.

INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS

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

In 2018, as part of its annual review process, the Bank updated its ILAAP report, including as regards the results of the applied stress scenarios and stress tests, as well as the composition of the maintained liquidity buffer. The internal liquidity indicators are set in compliance with the requirements for consistency with the Recovery Plan levels, the latter being part of the monitoring and early warning system incorporated in the Bank's risk management framework.

The assessment takes into consideration the systems and processes existing in the Bank for management of risks related to liquidity and funding, including information on the daily management of liquidity risk and on the allocation of costs and benefits related to liquidity, which are determined based on a methodology for internal transfer prices (ITP) introduced in the Bank. The ILAAP also takes into account the funding strategy of the Bank, including the funding plans within a three-year horizon, as well as the strategy on maintaining liquidity buffers and monitoring of encumbered assets. The quantitative measurements of the readiness of the Bank to deal with a sudden and significant outflow of borrowings (liquidity crisis) are established through stress tests and scenario analyses. For the purposes of ILAAP, First Investment Bank applies a combination of three stress scenarios: of idiosyncratic, market and combined shock, with a horizon of one week and one month, which take into account the stability of the deposit base and the sensitivity of the customers.

To ensure adequate capacity of the Bank to meet all its obligations and commitments, even in the context of a liquidity crisis, First Investment Bank has developed an action plan in case of contingency/ 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 2018

OPERATIONAL RISK

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

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

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

In connection with bringing the activity in line with regulatory changes, and in particular with the EBA Guidelines on the security measures for operational and security risks under Directive (EU) 2015/2366 (EBA-GL-2017-17), the internal regulatory framework was updated with procedures and controls for assessment of the impact of operational events and their timely management.

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. According to the good banking practices the self assessment is an important tool for additional evaluation of the Bank’s exposure to operational risk, as well as a tool, contributing the analyses of the effectiveness of existing controls for its mitigation.

INFORMATION SECURITY

First Investment 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.

PERSONAL DATA PROTECTION

In 2018, First Investment Bank implemented a project to meet the requirements of the General Data Protection Regulation (GDPR). As part of its internal organization as a data controller, the Bank further structured and developed the principles and grounds for processing personal data, including with regard to their transparency, legitimacy, rights of data subjects, as well as technical and organizational measures to protect such data.

In compliance with the requirements of the Regulation, a Data Protection Officer (DPO) was appointed in the Bank: Mr. Andrey Filchev (e-mail: dpo@fibank.bg). The DPO has a leading role in ensuring the lawful processing of personal data in the Bank's structure, conducts awareness-raising training and contributes to building a data protection culture. The DPO is a contact person with the Commission for the Protection of Personal Data and on issues related to the exercise of the rights of the data subjects. Mr. Filchev is a seasoned professional with years of experience in the banking system, as well as in the implementation of the Compliance function in First Investment Bank.

BUSINESS CONTINUITY MANAGEMENT

In order to ensure effective management of the business continuity, First Investment Bank has established contingency and business continuity plans, as well as plans for the recovery of all its critical functions and resources, which are regularly tested. Business continuity management ensures sustainability at all organizational levels within the Bank, as well as opportunity for effective actions and reactions in crisis situations. The organization of processes ensured within the Bank aims at protecting the interests of all stakeholders, its reputation, brand and the value-adding activities.

Building an appropriate corporate culture with regard to business continuity management is an important part of the overall risk culture of the Bank. To further integrate information and apply a centralized approach, the internal rules on business continuity were structured into a single document with main content and separate action plans for specific incidents and crisis situations. The organization thus established aims to ensure rapid and effective action for addressing potential crisis situations, as well as timely elimination of any negative consequences.

RISK EXPOSURES

As at 31 December 2018 First Investment Bank applied the standardized approach for the calculation of risk exposures for credit risk, in accordance with Regulation (EU) No 575/2013. Due to the limited volume of financial instruments in the trading book (bonds and other securities) capital requirements are calculated in accordance with the requirements of Regulation (EU) No 575/2013 as applied to the banking portfolio. The Bank applies the basic indicator approach for calculation of the capital requirement to cover the risk of operational losses.

In BGN thousand/ % of total	2018	%	2017	%	2016	%
For credit risk	6,194,711	90.3	5,787,197	89.6	5,594,622	90.5
For market risk	5,300	0.1	6,000	0.1	5,625	0.1
For operational risk	658,925	9.6	665,625	10.3	578,388	9.4
Total risk exposures	**6,858,936**	**100**	**6,458,822**	**100**	**6,178,635**	**100**

In 2018 the structure of risk-weighted assets comprised predominantly of those to credit risk at 90.3% of total exposures (2017: 89.6%), following by those for operational risk at 9.6% (2017: 10.3%) and to market risk at 0.1% (2017: 0.1%), as the Bank continued to maintain a conservative approach in the risk assessment and risk management.

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

INTERNAL CAPITAL ADEQUACY ANALYSIS

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

In 2018 the ICAAP report was updated in line with the risk strategy and the set business goals for development, as well as with the operating environment, incl. the measures applied by the Bank for managing the credit risk and exposures. For the purpose of applying a more conservative approach, the level of confidence in the analysis was increased. Also taken into consideration were the new capital buffer requirements, including the buffer for other systemically important institutions (O-SIIs) applicable to the Bank, as of 1 January 2018. The business model, as well as the internal governance system, incl. the internal audit, risk management and compliance functions are also taken into account and assessed in the analysis.

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

CREDIT RISK

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

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

MARKET AND INTEREST RATE RISK

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

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

OPERATIONAL RISK

For the purposes of ICAAP, First Investment Bank calculates the required economic capital for operational risk according to the guidelines described in Basel III: Finalizing post-crisis reforms (12.2017), applying calculation components that measure the Bank's activity in means of volume and specifics, as well as the level of operational risk inherent in the activity, with a correction factor taking into account the significance of operational events based on historical data.

Furthermore, the Bank uses stress tests for extraordinary but probable events, including different scenarios based on their financial impact and probability of occurrence. The results from these are correlated with the economic 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, (idiosyncratic, market and combined shock), taking into account the cost of repo transactions or liquidating assets to meet the cash outflow, as well as the expected increase in interest expense on borrowings.

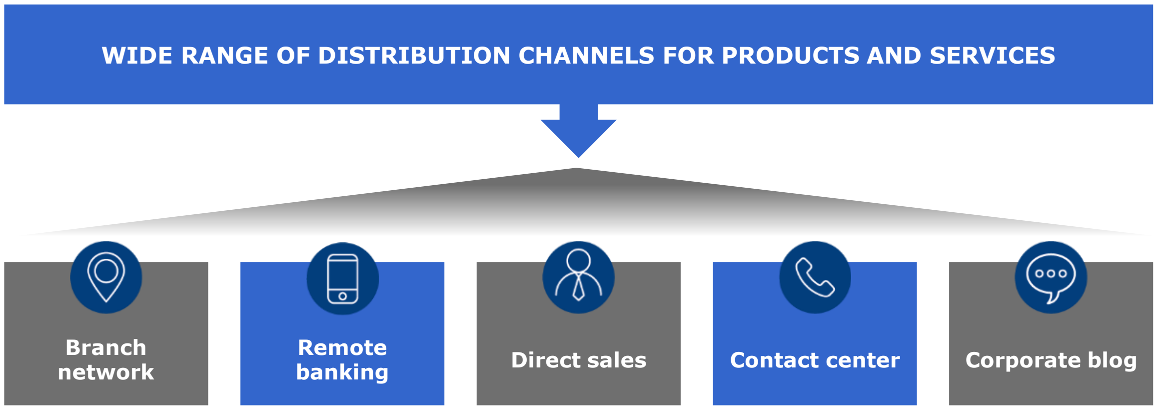
OTHER RISKS

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

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

DISTRIBUTION CHANNELS

DISTRIBUTION CHANNELS FOR PRODUCTS AND SERVICES



First Investment Bank maintains a wide range of channels for distribution of the products and services offered, including a well-developed branch network, e-banking, direct sales, contact center and a corporate blog. All channels are constantly improved in line with the current trends in banking, market conditions, technological development and customer needs.

BRANCH NETWORK

The Branch Network is the primary channel for distribution of the banking products and services of First Investment Bank. The Bank strives to maintain an adequate balance between a well-developed network of physical locations and the provision of modern remote banking techniques, including in the context of the growing importance of digital transformation in the banking sector.

During the year the Bank continued to optimize its branch network, taking into account the market environment, the workload of individual locations and the volumes of activity. Four offices were closed during the year, one in Sofia and three in the rest of the country, while three new ones opened in the cities of Sofia, Plovdiv and Popovo.

As at 31 December 2018, the branch network of First Investment Bank comprised a total of 168 branches and offices on a consolidated basis (2017: 166), located in more than 60 cities in Bulgaria: 53 in Sofia, 101 branches and the offices in the rest of the country, one foreign branch in Nicosia, Cyprus, as well as a subsidiary bank in Albania, which operates with a Head Office and 12 branches in Albania. *For further information* about *First Investment Bank – Albania Sh.a. see section "Business overview of subsidiary companies".*

For the purpose of creating a unified organizational model, more efficient allocation of budget targets, as well as placing an emphasis on attraction of new customers and cross-selling, a new structured model for the branch network functions in Sofia has been established. It includes five functional branches: Central, East, West, North and South, to each of which offices have been attached based on territorial location and business indicators.

As part of the ongoing improvement and optimization of processes and transactions carried out at the Bank's branches, the efforts continue to reduce customer service time and speed up transactions. This will contribute to even better service quality and development of lasting customer relations.

Fibank branches and offices in the country offer the full range of banking products and services to both individuals and business customers. In an effort to better satisfy customer demand, a large part of the branch network operates with extended working hours, while some offices are also open on weekends.

FULL SCOPE OF PRODUCTS AND SERVICES

	RETAIL CLIENTS	BUSINESS CLIENTS
DEPOSIT AND SAVINGS PRODUCTS	✓	✓
PAYMENT SERVICES	✓	✓
PACKAGE PROGRAMS	✓	✓
DEBIT AND CREDIT CARDS	✓	✓
DINERS CLUB CARDS	✓	✓
MORTGAGE LOANS	✓	
CONSUMER LOANS	✓	
LOANS TO BUSINESS CUSTOMERS		✓
TRADE FINANCING		✓
PROJECT FINANCING		✓
FACTORING		✓
EUROPROGRAMS FINANCING		✓
DIGITAL BANKING	✓	✓
INVESTMENT SERVICES	✓	✓
INVESTMENT GOLD AND PRODUCTS OF PRECIOUS METALS	✓	✓

The branch of First Investment Bank in Nicosia, the Republic of Cyprus, has been operating since 1997, initially mainly in the area of corporate lending. Over the years, it has systematically and consistently expanded the range of products and services. At present, the branch offers standard credit and savings products, payment services and e-banking, with a focus on SME customers and retail banking.

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

CONTACT CENTER – *bank (*2265), 0800 11 011

In 2018, Fibank's Contact Center continued to function as an effective channel for communication and targeted selling of products and services. It also contributed to the attraction of new and retention of current customers through the provision of services in accordance with the Bank's established standards and business objectives.

In pursuit of its strategic focus on high standards in customer service, Fibank has consistently worked towards developing and diversifying the services offered through the Contact Center in line with customer needs and new technologies. As a result, a new consumer credit campaign aimed at loyal customers of the Bank was held in 2018. Through the Contact Center, customers may also apply for credit and debit cards, for debit card overdrafts or apply for consumer loans. They may receive up-to-date and timely information on products and services, the Tariff and interest rates of the Bank, the location of branches and their working hours, as well as adequate and professional assistance by employees in case of questions or problems. Customers may communicate remotely with the Bank by phone, email or online chat in real time through the corporate website of the Bank.

Throughout the year, over 60 outgoing campaigns of different nature and topics were conducted through the Contact Center, including information campaigns, direct marketing of products and services, consumer opinion surveys, as well as campaigns in support of loan collection (soft collection). Over 110,000 outgoing calls were made, with a high response rate achieved.

Over the reporting period, the Contact Center received about 74,000 incoming calls, more than 4,000 emails and conducted over 1,300 chat conversations in relation to various inquiries and requests by existing or potential customers, including on general banking information, card services, contact and reference information, product requests, etc.

CORPORATE BLOG

In 2018, the corporate blog of First Investment Bank marked its 10th anniversary. Over the years, the Bank has constantly strived to develop its blog in line with the current trends in internet communication and customer needs. In this context, a new platform was developed and launched in the middle of the year on which the corporate blog is based, aimed at introducing a more intuitive and user-friendly design and functionality. Recognition of the successful development of Fibank's blog during the year was its ranking among the finalists in the Blog category of the Site of the Year awards.

The corporate blog presents the diverse range of social and corporate initiatives of the Bank, financial analyzes and studies related to the market of banking products and services in the country, current news on various topics, as well as useful information for customers. It engages in open dialogue and customer feedback, thus enabling the Bank to explore the usability of products and services, as well as customer satisfaction.

Apart from its corporate blog, First Investment Bank also maintains active online communication in real time with customers and stakeholders through leading social networks such as Facebook, LinkedIn, Instagram, Twitter, and YouTube.

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 2018, First Investment Bank continued to attract new corporate customers from different market segments using direct sales. This approach helps to build long-term relationships with key customers, as well as to obtain direct feedback on the Bank's products and services.

The Corporate Sales and Public Procurement Department in the system of First Investment Bank has considerable experience in servicing corporate and institutional clients, budget spending units, state and municipal enterprises.

DIGITAL BANKING

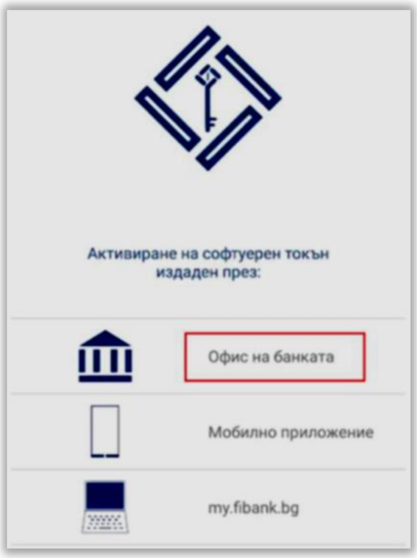
MY FIBANK ELECTRONIC BANKING

The My Fibank electronic banking platform of First Investment Bank has been designed as a single customer service channel and is constantly developed by upgrading and adding new functionalities. The platform is integrated with the Oracle Flexcube core banking IT environment, providing a high level of system security, optimization and greater workflow efficiency, as well as increased productivity.

Through the My Fibank electronic banking, customers may use both active and passive banking according to their needs and depending on their access rights to the system. As part of the active banking, customers can open and close current and deposit accounts, carry out payments in national and foreign currency including mass payments, make utility payments, buy or sell currency. Passive banking allows customers to check transactions and balances on bank accounts and/or payment cards.

It also provides information on locations of branches and ATMs, as well as exchange rates, news and current promotions.

In 2018, First Investment Bank continued to develop its activities related to digital banking. In May 2018 it launched the new software Fibank Token as a means of signature and authentication in the electronic banking system of Fibank, featuring two-factor authentication and QR Code scanning technology. A new electronic deposit product My Deposit was developed, opened and managed entirely online through the My Fibank electronic banking system. New functionalities were added, including online change of payment card transaction limits, push notifications for business and retail customers, as well as extended scope of reference information, including for budget-spending customers.



In implementation of the requirements of the Law on Payment Services and Payment Systems transposing Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market (PSD 2) and Commission Delegated Regulation (EU) 2018/389 supplementing Directive (EU) 2015/2366 with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication, First Investment Bank launched a project to bring online banking in line with the regulatory framework and ensure the provision of payment initiation and account information services.

For the period, a 14% increase was registered in transfers and 20% in utility payments through the integrated My Fibank electronic banking platform, which is emerging as a channel generating a predominant share of the total payment transactions in the Bank.

MY FIBANK MOBILE APPLICATION

The My Fibank mobile application is part of the My Fibank electronic banking providing remote access to the integrated platform through the use of a mobile device. The application is available to customers after installation from the online store for the respective operating system of the device (AppStore, Google Play).

With the mobile application, retail customers to use the same active and passive banking they are registered for in the electronic platform, subject to limits predetermined by the Bank, or by the customer. Business customers may only use passive banking. In addition, the innovative Digital Payments service developed by Fibank allows customers to use a digital bank card through the mobile application and thus to make digital payments with their NFC enabled mobile device at POS terminals supporting contactless payments.

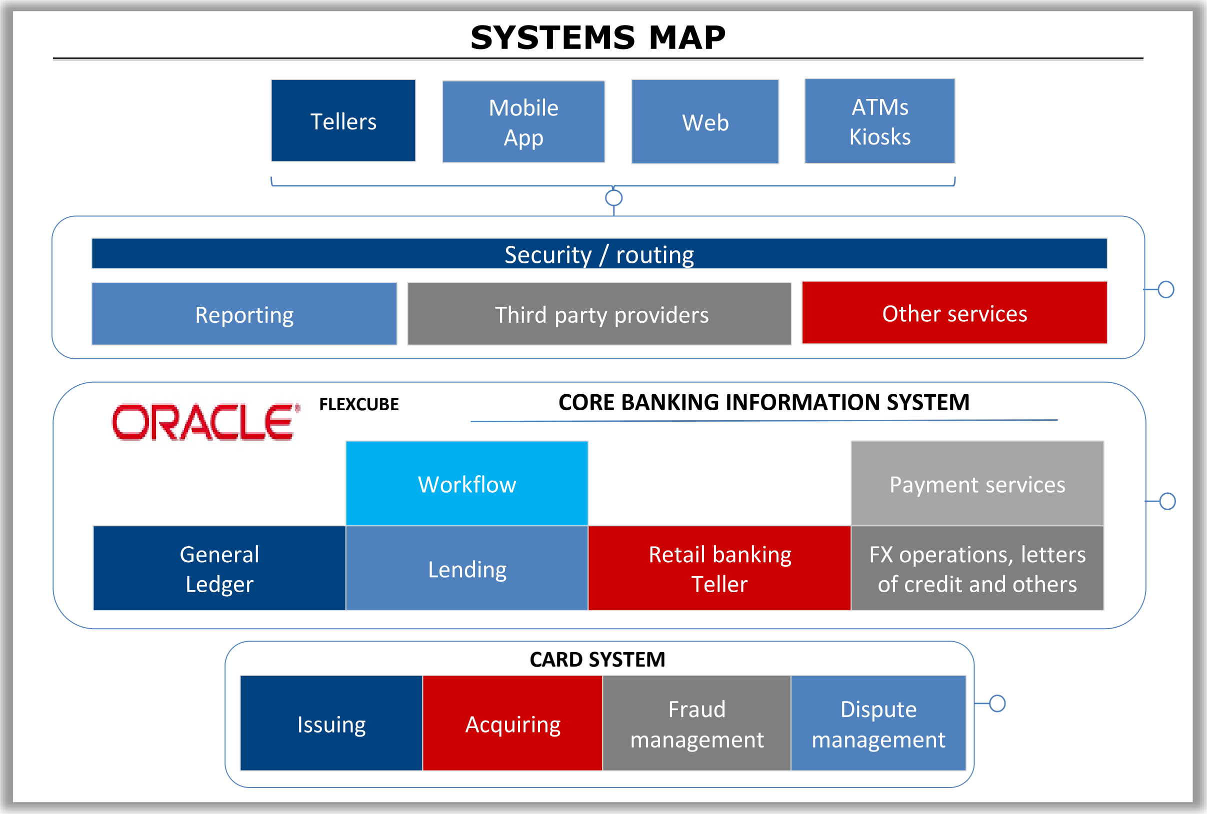
Functionalities were expanded and new features added during the year, such as currency exchange, exchange rate request, online credit card application, credit limit renegotiation, as well as new push notifications and personalized messages.

During the reporting period, a 16% increase in the mobile application downloads was observed.

INFORMATION TECHNOLOGY

Development of information technologies and maintenance of a modern infrastructure, information and technological environment has always been among the strategic priorities of First Investment Bank. Over the years, it has systematically and purposefully invested in technologies consistent with the latest trends in the field, in order to offer innovative products with added value to customers and provide new multifunctional solutions in banking.

In 2018, Fibank continued to develop in this direction, consolidating its position among the most technologically advanced and innovative institutions on the Bulgarian banking market. During the year, First Investment Bank successfully migrated its hardware platform to the latest generation Oracle Exadata X7-8, aiming at delivering higher performance, optimization capabilities, and better database management, including the use of modern cloud-based IT architecture. These steps are a continuation of the larger-scale project of migrating the core banking information system to the highest version of Oracle Flexcube 12, successfully completed in 2017.



The Bank's core information system includes universal modules for retail, corporate and investment banking, as well as an integrated Workflow system which serves for processing and approval of loan applications, acceptance and registration of currency transfers and authorization of other payment transactions. The system is built in compliance with all risk control principles, including the four eyes principle applied in day-to-day banking.

The aims of Fibank are through its centralized and integrated IT infrastructure to provide first-class service and high level of security in the execution of banking transactions, as well as to maintain reliable databases, networks and systems in order to ensure the continuity of service and key processes in the Bank. In the context of the growing importance of digitization in the banking sector over the period, Fibank updated its virtualization environment, including in order enable offering new digital services.

During the year technical support was provided for the implementation of projects for upgrade and implementation of innovative services and new functionalities: a new electronic deposit product My Deposit and a new software Fibank Token in the Bank's electronic banking system; a new cash-in- ATM service, as well as technical implementation of new credit and savings products, bank programs and bundles launched during the period; other projects related to the introduction of new regulations, including IFRS 9, GDPR, MiFID II/MiFIR, PSD2.

In connection with payment services, changes were implemented in the business processes concerning payments in EUR executed through EBA Clearing, the SWIFT service for foreign currency payments, as well as BGN payments through the RINGS system. A cross-border payment monitoring project through the SWIFT global payments innovation (gpi) platform was also launched. Change management processes in the Bank were improved and monitoring of project management and development was enhanced, including for IT related projects.

Ms. Ralitsa Bogoeva was appointed as Chief Information Technology and Operations Officer of the Bank responsible for implementing the overall organization and management of information technology and operations in First Investment Bank, as well as for supporting the efficient implementation of the IT strategy and development objectives. Ms. Bogoeva is an established professional with proven leadership qualities and experience required to effectively carry out such duties.

For yet another year, the Bank took part in the Webit Festival held in Sofia Tech Park, presenting its current technological solutions and innovations in the area of financial products and services.

In fulfillment of its mission, First Investment Bank will continue to develop its systems and infrastructure in order to implement high-tech solutions that enable customers to bank from anywhere in the world and at all times, and will endeavor to be among the most innovative and customer-oriented institutions on the Bulgarian market.

CORPORATE GOVERNANCE

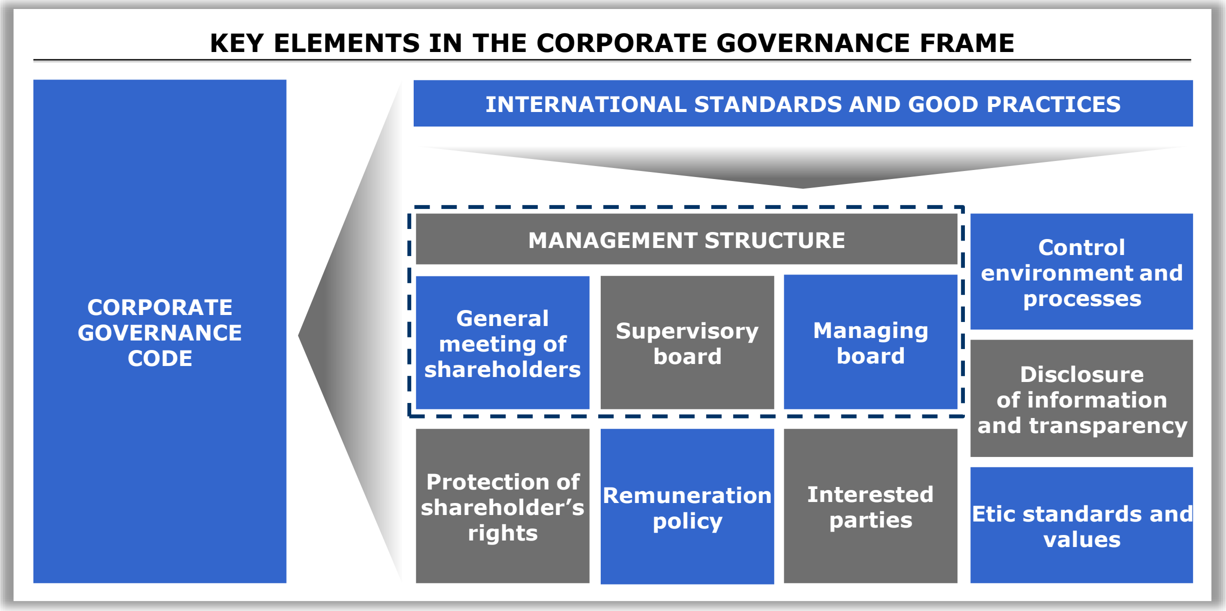
As a public company and public interest entity, First Investment Bank discloses information about its corporate governance practices. This section of the Annual Report represents a

Corporate Governance Statement

pursuant to Art. 100m of the Public Offering of Securities Act and Art. 40 of the Accountancy Act.

CORPORATE GOVERNANCE FRAMEWORK

For First Investment Bank AD good corporate governance is a key element for ensuring 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 financial markets in the country and abroad.



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 the Corporate Governance Code adopted by the Managing Board and approved by the Supervisory Board. It outlines and structures the main components, functions and responsibilities constituting the system of corporate governance of First Investment Bank. In addition to the requirements of applicable 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 recommendations of the National Corporate Governance Code, approved by the Financial Supervision Commission.

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

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

In compliance with the requirements of the applicable legislation, First Investment Bank annually discloses information on the corporate governance practices and meeting the requirements set in the Corporate Governance Code of First Investment Bank applying the “comply or explain” principle. Along with its annual report and financial statements, the Bank discloses to the public also a corporate governance assessment scorecard in compliance with the National Corporate Governance Code.

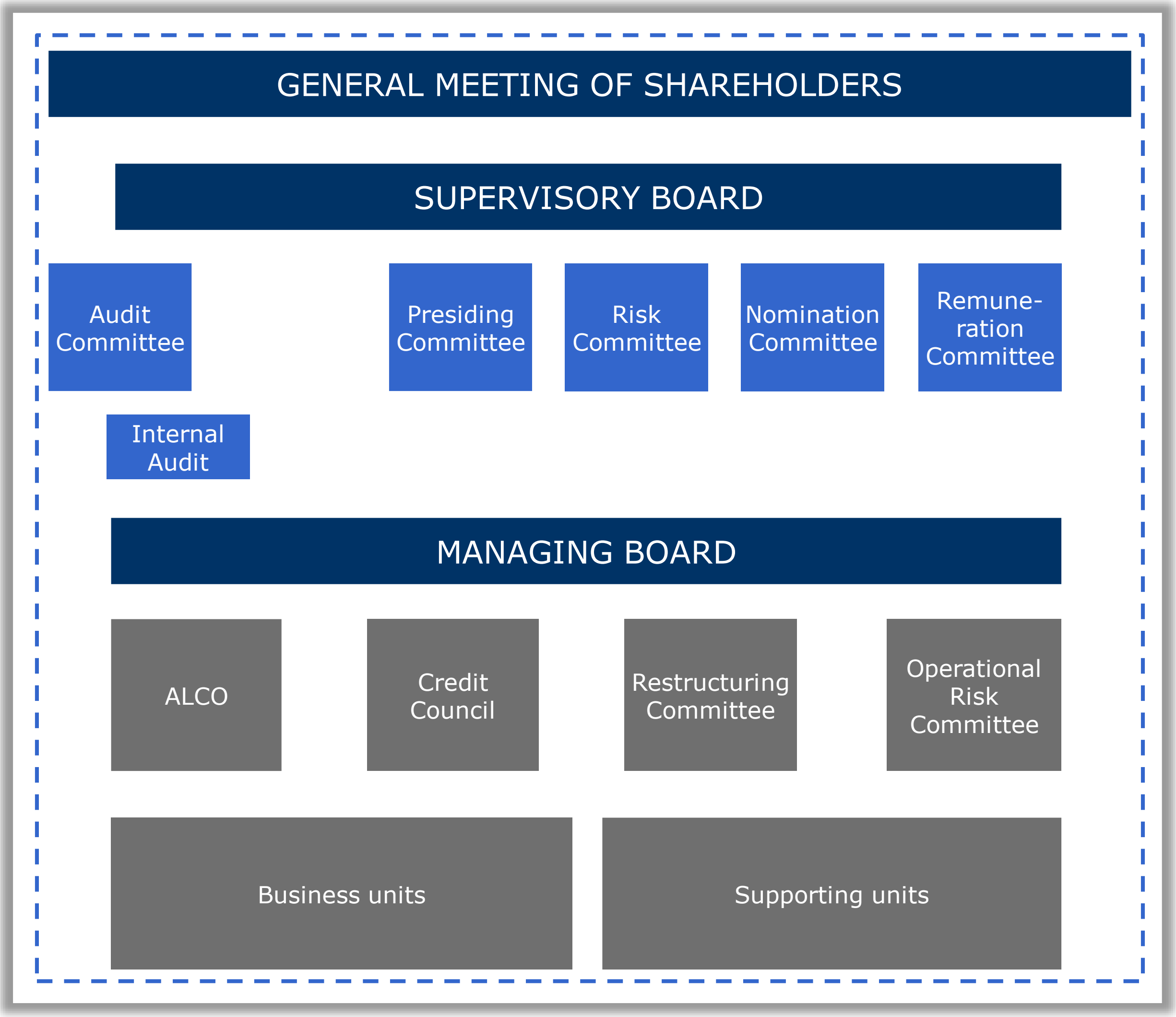
In addition to the Corporate Governance Code, First Investment Bank applies a Disclosure Policy, as both documents are publicly available at the corporate website of the Bank (http://www.fibank.bg/bg/korporativno-upravlenie/page/3589). In 2018, the requirements specified in these were met, including the requirements for disclosure of regulated information and information under the financial calendar of the Bank for 2018.

CODE OF CONDUCT AND WHISTLEBLOWING POLICY

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

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

MANAGEMENT STRUCTURE



SUPERVISORY BOARD

STRUCTURE AND COMPETENCES

In 2018 there were no changes in the composition of the Supervisory Board of First Investment Bank.

Name	Position
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 complies its activity and maintains policies and practices for ensuring diversity in the composition of its governing bodies, including various aspects such as work experience, educational qualifications, gender, and age.

First Investment Bank maintains a matrix with data on the professional knowledge and skills (Composition Matrix) of the Supervisory Board members for the purpose of support and better identification of the needs for further improvement and development of their professional competencies, and ensuring an effective process of succession in the SB composition. As at 31 December 2018, 33% of the Supervisory Board members were women, which exceeded the average levels in EU (19%) according to the reported data in researches for diversity practices of the European Banking Authority. *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. First investment bank complies with the requirements applicable for public companies, 1/3 of the members of the Supervisory Board to be independent.

EQUITY SHARE

As at 31 December 2018 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	2018	%
Evgeni Krastev Lukanov	337,139	0.31
Maya Lubenova Georgieva	11,388	0.01
Georgi Dimitrov Mutafchiev	9,454	0.01
Radka Vesselinova Mineva	-	-
Jordan Velichkov Skortchev	19,125	0.02
Jyrki Ilmari Koskelo	-	-
Total	**377,106**	**0.34**

FUNCTIONS AND RESPONSIBILITIES

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

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

The meetings of the Supervisory Board are scheduled in advance based on an annual activity plan. In 2018 the Supervisory Board addressed issues of its competence at 14 presence meetings. Focus in the activity throughout the year was set on the exercise of effective control on the execution of the adopted strategy for development for the period 2018-2021, which highlights on expanding the business in the retail and SME segments through additional focus in the development of the consumer financing and transaction business, as well as affirming the positions of the Bank as an innovative and technological leader, offering a wide range of digital solutions and first class of customer service. Also discussed were issues related to the risk management strategy, including risk appetite and capital position, credit risk management measures and asset quality, as well as the effective realization of acquired assets. The Supervisory Board continued to oversee the reliability of financial information and accountability, as well as the internal control framework, receiving active assistance to that effect by the Audit Committee. The members of the Supervisory Board were also regularly informed about the development of business operations and their alignment with new regulatory requirements, including with regard to IFRS 9, GDPR, MiFID II/MiFIR, PSD2, internal exposures, corporate governance.

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

ASSESSMENT OF THE ACTIVITY

Once a year, the Supervisory Board performs an assessment of the effectiveness of its own activities as a collective body and individually, assessment of the governance practices and procedures, as well as of the functioning of the Managing Board and the committees to the Supervisory Board. Such assessment is accomplished in the fourth quarter of 2018.

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 2018, the Presiding Committee addressed issues of its competence at 5 meetings, including with regards to the organization of the line responsibilities between the members of the Managing Board, as well as to the newly created position Chief IT and Operations Officer. The committee had also coordinated decisions on the adoption of the budget of the Bank for 2019.

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

During the reporting period, the Risk Committee held 7 meetings. In relation to its competences, it coordinated decisions incl. on further developing the internal bank rules and policies regarding the risk management. The Risk Committee has reviewed also the updated ICAAP and ILAAP reports, the Recovery plan, aiming coordinated execution and consistent application. During the year the committee performed a regular review of the execution of the risk strategy, as well as regarding the effectiveness of the internal risk management and control systems within the Bank, including the Compliance function.

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

In 2018, the Remuneration Committee has addressed issues of its competences with regards to remunerations, including in relation to the changes in the senior management during the year and held 4 meetings for the reporting period.

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

During the year, the Nomination Committee addressed issues of its competence at 11 meetings, including given recommendations in relation to the election and suitability of the new member of the Managing Board and executive director of the Bank appointed throughout the year, as well as with regards to changes in the management of the Internal audit in the Bank and the appointment of new Chief Information Technology and Operations Officer. There were also given recommendations on changes in the composition and structure of the committees to the Managing Board, as well as changes in the governing bodies of the subsidiary companies of the Bank.

As a company of public interest and according with the Law on the Independent Financial Audit (LIFA), the Bank has a functioning **Audit Committee** which is responsible for supervising the financial reporting and the independent financial audit, as well as for the effectiveness of the systems for internal control and risk management in the Bank. The Committee also makes a recommendation in the selection and remuneration of the registered auditors to perform the independent financial audit of the Bank and monitors their independence in accordance with the applicable European and national regulations, as well as with the Code of Ethics for Professional Accountants. The activity of the Audit Committee is structured based on written defined competencies, rights and responsibilities, included in its rules of procedure (stature under the meaning of Art. 107 of LIFA) in compliance with the requirements of the Law on the Independent Financial Audit and Regulation 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities.

In May 2018, on the General Meeting of Shareholders changes were made in the composition of the Audit Committee, as Mrs. Radina Beneva was replaced with a new independent member – Mr. Georgi Trenchev, with a 3-year mandate, who shall also chair the Committee. Mr. Trenchev possesses high financial competencies as well as the knowledge, professional experience and qualifications in the field of accounting and financial audit necessary for the effective performance of his duties.

During the year, 10 Audit Committee meetings were held and various matters of its competence were addressed, including recommendations on the selection of statutory auditors, ongoing monitoring of financial reporting and independent financial audit, monitoring the effectiveness of the internal audit function and control systems, incl. through regular meetings were held with the Chief Financial Officer, the Director of Internal Audit, as well as with representatives of the statutory auditors of the Bank.

MANAGING BOARD

In 2018, changes were made to the composition of the Management Board of First Investment Bank. In February 2018 Mr. Chavdar Zlatev was appointed as Chief Corporate Banking Officer and registered as member of the Management Board and Executive Director of First Investment Bank AD, his role being to build on the Bank’s achievements and help maintain its leading position in corporate banking. Mr. Zlatev is a long-time employee of the Bank who has held a number of senior positions and possesses extensive experience in corporate banking and high professional qualification.

In the first half of the year, Mr. Svetoslav Moldovanski was released as member of the Management Board and Executive Director of the Bank. The management of Fibank expressed gratitude for his contribution to the institution's development and respected his choice to seek new professional challenges.

STRUCTURE AND COMPETENCES

At the end of 2018 the Managing Board of First Investment Bank AD 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 the senior management personnel.

Name	Position
Nedelcho Vasilev Nedelchev	Chief Executive Officer (CEO), Chairman of the Managing Board
Sevdalina Ivanova Vassileva	Chief Retail Banking Officer (CRBO), Member of the Managing Board and Executive Director
Svetozar Alexandrov Popov	Chief Risk Officer (CRO), Member of the Managing Board and Executive Director
Chavdar Georgiev Zlatev	Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director
Jivko Ivanov Todorov	Chief Financial Officer (CFO) and Member of the Managing Board
Nadia Vasileva Koshinska	Member of the Managing Board and Director of SME Banking Department

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

The Management Board members are elected for 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, aiming to achieve the objectives and the development strategy.

As at 31 December 2018 in accordance with the policies and practices 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 2018 the members of the Managing Board held a total of 1107 shares of Fibank and none of them owned more than 1% of the issued share capital.

Number of shares / % of issued share capital	2018	%
Nedelcho Vasilev Nedelchev	350	0.00
Sevdalina Ivanova Vassileva	-	-
Svetozar Alexandrov Popov	-	-
Chavdar Georgiev Zlatev	523	0.00
Jivko Ivanov Todorov	-	-
Nadia Vasileva Koshinska	234	0.00
Total	**1,107**	**0.00**

FUNCTIONS AND RESPONSIBILITIES

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

In accordance with the principles of good corporate governance, an open dialogue is maintained between the Supervisory Board and the Managing Board of First Investment Bank. Besides 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 Managing Board is supported by collective bodies, including 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“*.

Other internal collective bodies also operate in the Bank. In July 2018, with a view to enhancing the change management processes, a Change Management Committee was set up. The Committee is an auxiliary body to the MB, responsible for monitoring the implementation of the Bank's IT strategic program, and to manage and control the project portfolio, the targeted use of resources and the approved budget in this area. The Committee is chaired by the CEO of the Bank, the other members including the Chief Financial Officer, the Chief Retail Banking Officer, the Chief IT and Operations Officer, as well as the directors of Operations, Risk Analysis and Control, and Strategic Planning and Development departments.

During the year, in line with the long-term priorities aimed at reducing non-interest-bearing assets and ensuring their effective realization, a Commission for management and sale of assets was created. Its role is to assist the Management Board in relation to the management, administration and sale of acquired assets, in accordance with the Levels of authority established in the Bank. The Commission is chaired by a member of the Management Board, while the other members include the directors of the Impaired Assets, Asset Management and Administrative departments, as well as the Head of the Asset Valuation division to the Finance department.

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, the Audit Committee 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 June 2018, an Annual General Meeting of Shareholders was held, which represented 87.90% of the share capital and voting rights, at which a decision was taken that the entire net profit of the Bank for 2017 shall be capitalized, and no dividends shall be paid or other deductions made from the profit for 2018, with the aim for its inclusion in the common equity tier 1 capital of the Bank. BDO Bulgaria OOD and Mazars OOD were appointed as auditing companies to perform an independent financial audit of the financial statements of the Bank for 2018. The companies were selected after preliminary approval by the Bulgarian National Bank and upon recommendation by the Audit Committee of the Bank, according to selection criteria approved by the BNB in coordination with the Commission for Public Oversight of Statutory Auditors. Changes in the composition of the Audit Committee were also made *– for more information, see the „Supervisory Board“ section.*

The General Meeting of Shareholders also adopted amendments to the By-laws of First Investment Bank, clarifying certain texts and technical references concerning the scope of the Bank's activity, in order to comply with the amendments to the Law on Credit Institutions and the Markets in Financial Instruments Act.

With a view to greater efficiency and facilitating the implementation of certain decisions, the General Meeting of Shareholders with its previous decisions of 29.05.2017 and 16.05.2016 has authorized the Management Board, with the prior approval of the Supervisory Board, to adopt resolutions for increase, through issuance of new shares, of the Bank’s capital until it reaches an aggregate nominal amount of BGN 210,000,000.00 (within a period of 5 years as from 23.06.2017), as well as for the issuance of debt instruments, including subordinated term debt and debt/equity (hybrid) instruments, up to the aggregate amount of BGN 2 billion or its equivalence in another currency (within a period of 5 years as from 16.06.2016).

CONTROL ENVIRONMENT AND PROCESSES

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

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

First Investment Bank applies written policies and rules regarding the disclosure of conflicts of interest, and organization of the processes in the Bank is established in such a way as to avoid the possibility of conflict of interest. A Whistleblowing policy is also in place, aimed to systematize the means and procedures for internal sharing of information where there are suspicions of unlawful actions, or problems related to the work process, whereby to ensure their transparent and fair consideration and resolution.

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 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 financial and management information, and compliance of activity with current legislation and the existing policies, plans, internal rules and procedures.

The 2018 General Meeting of Shareholders of First Investment Bank approved the 2017 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. Changes were also made in the Internal Audit management, Mr. Plamen Dimitrov being appointed as its new Director. Mr. Dimitrov has high competences and extensive experience in the field of internal audit, necessary for the effective performance of his duties.

REGISTERED AUDITORS

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

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

The registered auditors selected to perform independent financial audit of the annual financial statements of the Bank for 2018 are:

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

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

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

PROTECTION OF SHAREHOLDERS' RIGHTS

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

CONVENING OF GMS AND INFORMATION

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

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

MAIN TRANSFER RIGHTS AND RESTRICTIONS

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

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

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

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

MINORITY SHAREHOLDERS AND INSTITUTIONAL INVESTORS

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

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

In 2018 the Bank continued to organize and hold meetings with minority shareholders, with a view to furthering transparency and creating an opportunity for open dialogue and feedback between them and the senior management of the Bank, as well as their opportunity to contribute and work actively for the successful development of First Investment Bank AD.

During the year on 15.11.2018 was held a meeting with minority shareholders of the Bank, which on behalf of Fibank's senior management were present the Chief Retail Banking Officer (CRBO), the Chief Corporate Banking Officer (CCBO), the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO). They presented minority shareholders with the current financial results and business development of the Bank. Discussions were held on important topics and questions, including the possibility of dividend payments and the expected results of the asset quality review of the banking system organized in connection with Bulgaria's intention to join the European Exchange Rate Mechanism II (ERM II) and the Single Supervisory Mechanism (SSM)/ close cooperation mechanism. 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 and issuer, Fibank discloses to the public (through www.x3news.com) periodic information, including annual financial reports audited jointly by two registered auditors, as well as interim financial and activity reports. The scope of periodic information disclosed by First Investment Bank exceeds the requirements of national legislation, as the Bank has decided to publicly disclose quarterly financial activity reports in compliance with Art. 100n[1], par.7 of LPOS and Art.33a[2], par.2 of Ordinance №2 of the FSC, that are with more detailed content as the one in its half-year reports, instead of the more concise public notifications for financial condition for the first, third and fourth quarter.

First Investment Bank prepares this Annual Report in Bulgarian and English, which contains detailed information on the development and competitive position of the Bank and its financial results, implementation of objectives and review of business by type of activity, as well as information on the management structure, the corporate governance framework (Corporate Governance Statement pursuant to the Public Offering of Securities Act and the Accountancy Act), risk management and non-financial information (Non-financial statement within the meaning of the Accountancy Act). With respect to the report the registered auditors shall gave their opinion whether it corresponds to the financial statements and is prepared in compliance with the applicable regulatory requirements.

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

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

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

INVESTOR RELATIONS DIRECTOR

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

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

In execution of the applicable regulatory requirements, in June 2018 the Investor Relations director of the Bank reported her activity during 2017 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 / ir@fibank.bg.

In the beginning of 2018, First Investment Bank developed and launched a new mobile investor relations application providing quick access to financial information, the financial calendar of the Bank, as well as other data and news of interest to investors.

STAKEHOLDERS

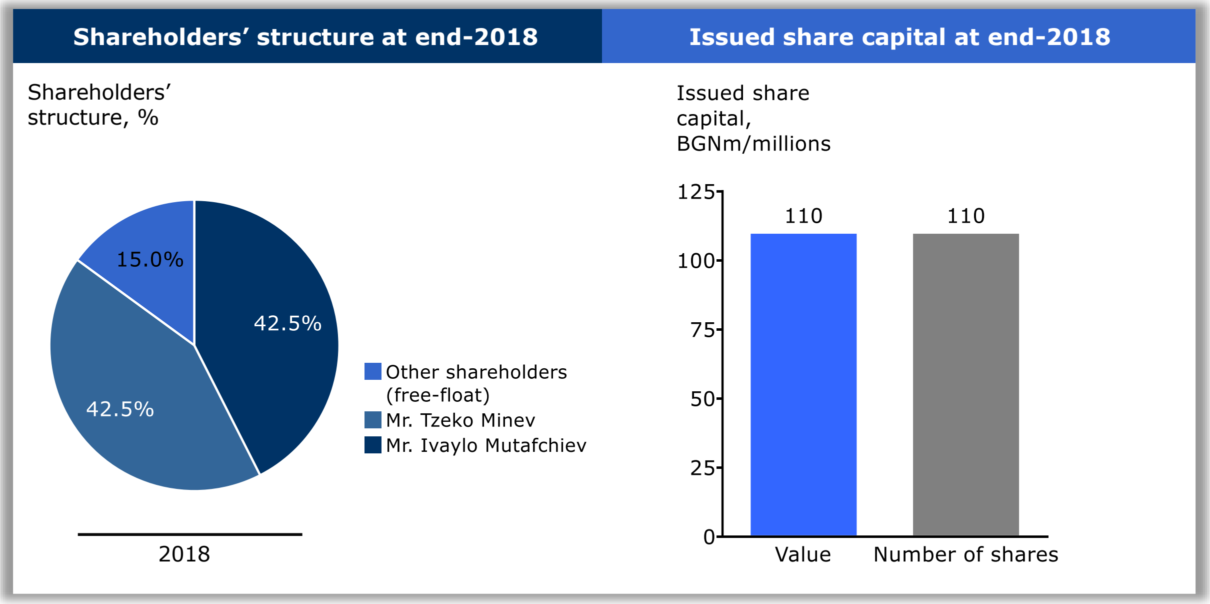
First Investment Bank applies a policy of providing information to stakeholders about its activity. Those include persons who are not shareholders but are interested in the economic development of the company, such as creditors, bondholders, customers, employees, the general public, and others.

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 ten 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 2018 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 (free-float). At the end of the year the total number of shareholders is over 1,900 which include both individuals and legal entities, incl. institutional investors.

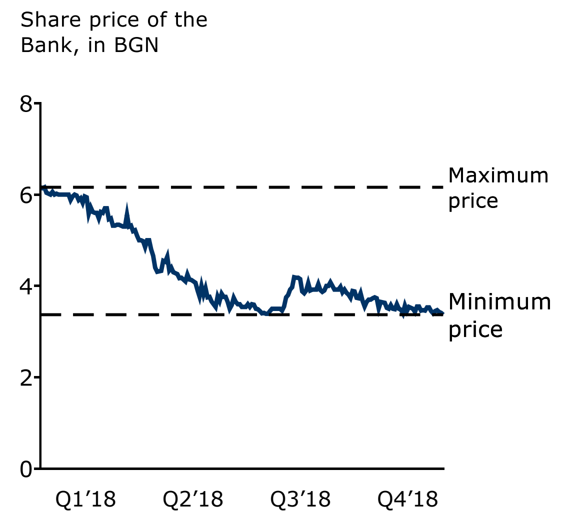


During the reporting period First Investment Bank did not acquire or transfer own shares, and at the end of the reporting period the Bank did not have own shares.

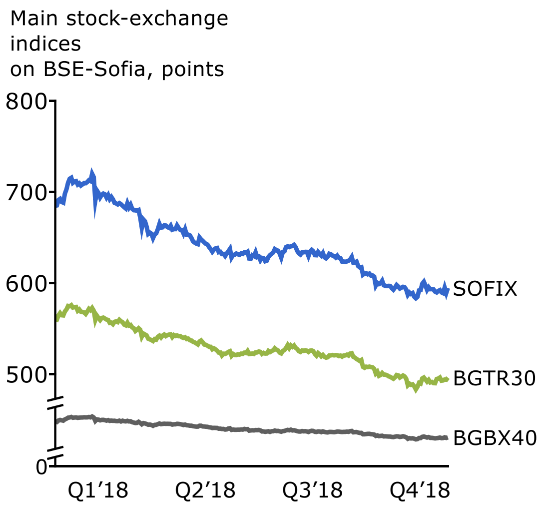
SHARE PRICE AND MARKET CAPITALISATION

In 2018, the share price of the Bank fluctuated in the range between BGN 3.37 to BGN 6.16. The last price of the shares of First Investment Bank for the reporting period was BGN 3,370 (2017: BGN 5,656) and the market capitalization of the Bank, calculated on this basis amounted to BGN 370,700 thousand. (2017: BGN 622,160 thousand). A total of 1,453 transactions were concluded with the shares of the Bank on the regulated market BSE, amounting to a turnover of BGN 3,075 thousand, compared to 3,022 transactions and BGN 10,607 thousand turnover a year earlier.

Share price of the Bank during 2018



Main stock-exchange indices on BSE-Sofia



As at 31 December 2018, 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 2018, human capital management processes and activities evolved in response to the growing business demands and dynamic labor market developments, focusing on innovative upgrading, optimization and implementation of long-term projects.

In 2018, training initiatives were implemented, as follows:

- Training to develop attitudes, knowledge and skills required for offering and selling retail credit products – for 530 front office employees;
- Training on topics related to regulatory changes, customer procedures, offering and selling banking products and services – for 360 front office employees;
- Seminar on cash activities, currency handling, cash transaction security, offering and selling of precious metal products – for 320 cashiers;
- Training on "Measures, requirements and specifics arising from the legislative amendments related to the process of preventing and counteracting money laundering" – for 220 employees from various departments of the Bank;
- Effective communication and negotiation skills for implementation of the Smart Lady program; transition to holistic banking – for 180 business lending employees;
- Development of knowledge and skills for offering and selling the insurance products of FiHealth Insurance – for 115 employees from the branch network of the Bank;
- Training of newly recruited employees under interactive training programs developed over the year – for 150 front officers and cashiers.

During the year, the implementation continued of key objectives and priorities in human resource management related to proactive support of business, including optimization of the HR processes in selection, training, organizational and structural development and performance evaluation, with a view to achieving higher efficiency and added value. The project was completed for structuring/updating and introducing new bonus schemes to stimulate target groups of employees to achieve maximum performance areas of importance for meeting the Bank's objectives, while at the same time not stimulating risk taking in excess of the levels acceptable to the Bank. Two new projects were developed with forthcoming launch in 2019: a Trainee Program and an Internal Trainer Development Program.

The implementation of the training project "Knowledge Development for Future Management" started with the financial support of the Human Resource Development Operational Program 2014-2020, co-financed by the European Social Fund of the European Union. Under the project agreement, the Bank was granted funding in excess of BGN 220,000. The project envisages

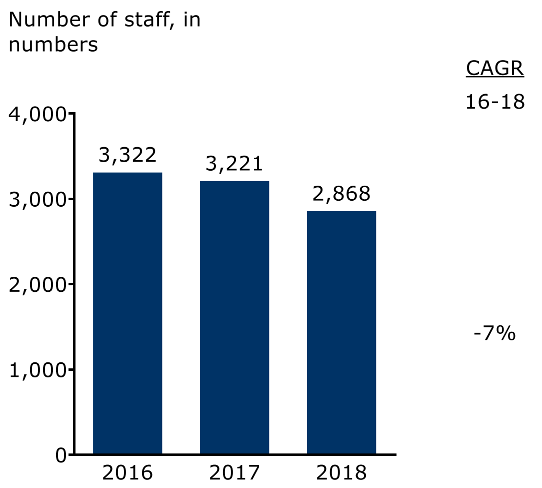
English language training for 210 employees and training in office software applications for 240 employees.

During the year, a total of 2,766 employees participated in different forms of training (including persons attending more than 1 training), or 104% of the total number of staff.

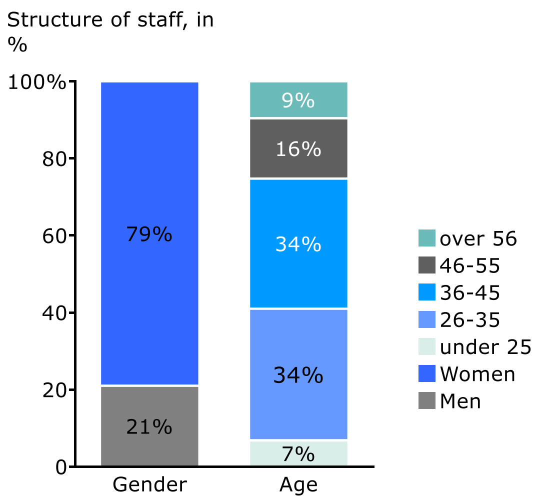
In 2018, work on long-term projects continued focused on development of internal communication, acknowledging and promoting the team and individual potential of employees, and integrating education and business:

- **Intranet portal** – the project was successfully completed for creation and implementation of a modern and innovative channel for internal communication to support the effectiveness of work processes and develop the quality of service;
- **Recognition program "Together We Can Do More"** – aimed at motivating and encouraging employees to excel, acknowledging their personal contribution, as well as promoting work behaviors important to the success of the Bank. During the year, 20 employees of the Bank were recognized and awarded;
- **Master's program in Bank Management and Investment Activity** – developed and implemented jointly with the Higher School of Insurance and Finance and aimed at building partnership relations and sustainable integration between business and education. To date, a total of 50 students have graduated the program, 34 of which employees or interns of the Bank.

Number of staff



Structure of staff



As at 31.12.2018, the number of First Investment Bank personnel on a consolidated basis amounted to 2,868 employees, compared to 3,221 a year earlier. The decrease reflects the outsourcing of the activities of maintaining physical security of the branches and buildings of the Bank to a licensed security company, realized in October 2018. At year end, 41% of the staff were under 35, and 75% under 45 years of age. In line with the general trends, 79% of the Bank's employees were women.

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 for 2018 amounted to BGN 7,480 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. 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

Non-financial statement

within the meaning of Art. 48 of the Accountancy Act.

In 2018, First Investment Bank maintained its image as a socially responsible institution implementing various projects in the spheres of education, culture and sport as part of its corporate social responsibility program.

First Investment Bank continued its joint initiative with the National Center for Transfusion Hematology (NCTH), conducting for yet another year a campaign for free and voluntary blood donation in which a number the Bank employees took part. The main goal of the campaign was to promote voluntary blood donation in Bulgaria which is vital to saving thousands of lives.

During the year, as a long-term partner of the national organization Little People of Bulgaria, the Bank participated in the raising of funds for construction and repair activities of a new Center for the Issues of Little People in Bulgaria intended to provide a range of services for support and mutual assistance of people with short stature in the country. First Investment Bank also took part in the national campaign “Easter for Everyone” under the auspices of the Ombudsman of the Republic of Bulgaria, which provides funds in support of disadvantaged and vulnerable groups of society.

In implementation of its long-term program for supporting and stimulating the development of Bulgarian education and young people, during the period 2017-2018, Fibank organized a number of initiatives focused on promoting financial literacy among children from a very young age. That included the development of early financial education books and movies titled "Kids and money", short videos in the social networks about the benefits of debit cards for children and teens, a parents’ handbook for development of financial literacy in children titled "10 Myths about Children and Money", as well as participation in thematic events such as the European Money Week and the Webit for children. As an acknowledgment of the successful development of its program for early financial education, the Bank was awarded as Benefactor for Innovative Education at the seventh edition of the DigitalKidZ conference.

The first International conference "Women in Business" was held during the period, as part of Fibank's Smart Lady program designed to support women entrepreneurs in Bulgaria. In fulfillment of the social element of the program, the Bank is planning to hold a series of conferences, trainings and information seminars where business ladies can exchange experience and obtain professional advice.

As the largest Bulgarian-owned bank, Fibank continued its efforts to preserve and develop Bulgarian traditions and culture. The Bank supported Bulgarian cinema through a number of initiatives, as well as a set of musical events and festivals, including the Bansko International Jazz Festival where Fibank provided free entrance to visitors for the performances of talented jazz musicians from around the world.

The development of Bulgarian sport and the support of young talents are among the important causes that First Investment Bank seeks to maintain in pursuit of its social responsibility program. In this connection, Fibank awarded for their excellent performance the Bulgarian athletes who won 5 gold, 3 silver and 2 bronze medals in different disciplines of the Youth Olympic Games in Buenos Aires. For the second consecutive year, First Investment Bank was general sponsor of the Snowboard World Cup held in late January 2018 in our country.

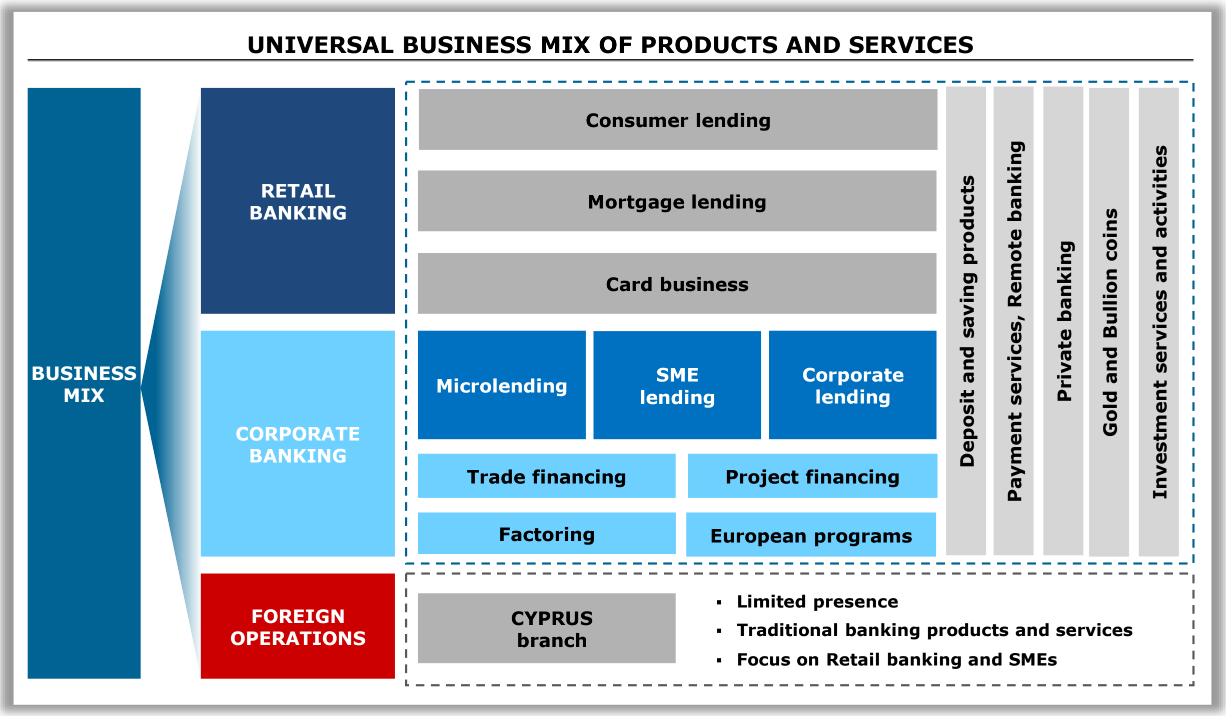
As a general sponsor of the Bulgarian national team of rhythmic gymnastics, in September 2018 during the World Cup in Sofia, First Investment Bank awarded all 73 Bulgarian rhythmic gymnastics champions with a special gold medal made on a graphic project designed by the Bulgarian Rhythmic Gymnastics Federation in partnership with experts from Fibank and the Swiss refinery PAMP.

At the end of 2018, First Investment Bank presented its charity calendar for 2019 which is part of a social project aimed at young and talented Bulgarian athletes, supporting the Bulgarian Rhythmic Gymnastics Federation (BRGF). The calendar is distributed through the branch network of the Bank across the country, and Fibank has committed to double the donations collected for the charity cause.

For another year, Fibank organized the competition Best Bulgarian Firm of the Year, aimed at supporting Bulgarian companies and creating increased confidence among them, as well as at drawing attention to positive and successful business examples in the country that may become a source of inspiration to others.

In accordance with legal regulations and good practices, First Investment Bank discloses in its Annual Reports non-financial information that represents a *Non-financial statement* within the meaning of Art. 48 of the Accountancy Act, including with regard to the corporate social responsibility policies of the Bank and its participation in the public life of the country, as well as matters related to employees, diversity policies in place, description of business development and products, corporate governance practices and development objectives. *For more information, apart from the Social Responsibility section, see also sections Mission, Bank profile, Highlights 2018, Distribution channels, Information technology, Corporate governance, Human capital, Business review, Business review of subsidiary companies* and *Goals for development during 2019.*

BUSINESS REVIEW



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

RETAIL BANKING

DEPOSITS

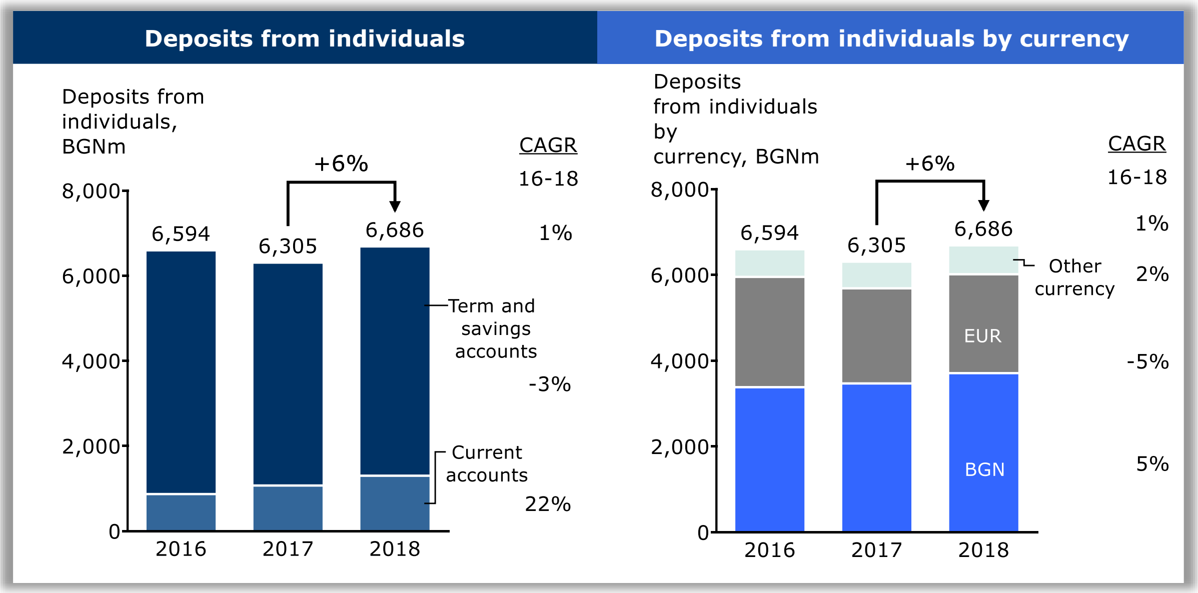
In 2018, attracted funds from individuals increased and reached BGN 6,685,678 thousand compared to BGN 6,305,463 thousand a year earlier, mainly driven by the 21.5% increase in current accounts which reached BGN 1,301,585 thousand (2017: BGN 1,070,890 thousand). Such results were determined by the consistent policy of the Bank for establishing long-term customer relationships, while developing cross-selling and transaction business.

During the year, a new retail product Profitable Account was developed, featuring a current account linked to a term deposit where interest bonus is paid depending on the current account balances. The parameters of banking packages for individuals offered by the Bank were further adapted to the changing market conditions and customer needs.

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, private enforcement agents.

The Bank's policy is aimed at building a stable deposit base by offering diverse and flexible deposit products, while maintaining high standards of customer service. In 2018, Fibank optimized the terms of its deposit products in line with the market environment and the downward trend in interest rates. It continued to work actively towards building and maintaining lasting customer partnerships.

By the end of the year, term deposits and savings accounts increased to BGN 5,384,093 thousand (2017: BGN 5,234,573 thousand), with borrowings from individuals retaining a major share at 80.5% (2017: 83.0%). During the period, on the occasion of the anniversary of the Bank, promotional savings products were developed, including the deposit 25 Years Fibank featuring a 25 bp higher interest rate. In April 2018, a new My Deposit electronic product was launched, opened and managed entirely online via the My Fibank e-banking platform. A new child savings account was also developed as an additional product to the Smart Lady program designed to support female entrepreneurs.



With a view to diversifying its sources of funds, the Bank participates in the international platform WeltSparen aimed at attracting deposits from foreign persons.

In terms of attracted funds from individuals First Investment Bank was placed third among banks in the country (2017: third). As at the end of 2018 the market share of the Bank amounted to 11.98% on an unconsolidated basis (2017: 12.28%).

LOANS

The gross loan portfolio of individuals increased with 13.5% to BGN 1,711,192 thousand compared to BGN 1,507,337 thousand for the previous year, as a result of an increase in all major product lines.

In BGN thousand/ % of total	2018	%	2017	%	2016	%
Consumer loans	750,285	43.8	622,681	41.3	497,524	34.2
Mortgage loans	752,581	44.0	622,171	41.3	570,543	39.3
Credit cards	202,095	11.8	259,303	17.2	254,867	17.5
Other programs and secured financing	6,231	0.4	3,182	0.2	130,568	9.0
Total retail loans	**1,711,192**	**100**	**1,507,337**	**100**	**1,453,502**	**100**

CONSUMER LOANS

Consumer loans increased by 20.5% to BGN 750,285 thousand (2017: 622,681 thousand), contributors being the competitive terms offered by the Bank, the easy loan application procedure and the development of new products and programs, including seasonal offerings, in line with customer needs and market necessities. Their share increased up to 43.8% in the loan portfolio of the Group for individuals as at the end of the period (2017: 41.3%).

During the year, the product range was supplemented by the new specialized consumer loan Restart, designed for refinancing and consolidation of obligations. With a simplified application procedure and terms, it is aimed at reducing the monthly installments paid by customers, as well as at saving costs and increasing the convenience of service.

First Investment Bank continued to promote the opportunity for fully online application for consumer loans on its website at www.credit.fibank.bg. The process is integrated into the automated Workflow system of the Bank and, upon approval, applicants can choose a banking office of their convenience to sign the required documents.

First Investment Bank's market share in this segment amount to 9.27% (2017: 9.72%) at the end of the year, and Fibank hold fifth place (2017: fourth) 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 202,095 thousand at the end of the period (2017: BGN 259,303 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 of the Group to individuals amounted to 11.8% (2017: 17.2%).

A number of promotional offers were launched during the year in connection with Fibank's 25th anniversary, including in the area of credit cards and overdrafts. In pursuance of its strategic plans, the Bank continued to develop its operations with a view to more effective management of the customer portfolio and targeting individual customer groups, as well as identifying additional cross-selling opportunities. *For further information see section „Card payments“*.

MORTGAGE LOANS

As at the end of December 2018, mortgage loans increased by 21.0% to BGN 752,581 thousand compared to BGN 622,171 thousand a year earlier, forming a 44.0% share in the Group portfolio of loans to individuals (2017: 41.3%). As at 31 December 2018, the market share of the Bank in this segment increased to 6.68% (2017: 6.39%), as Fibank was placed sixth among banks in the country on an unconsolidated basis (2017: seventh).

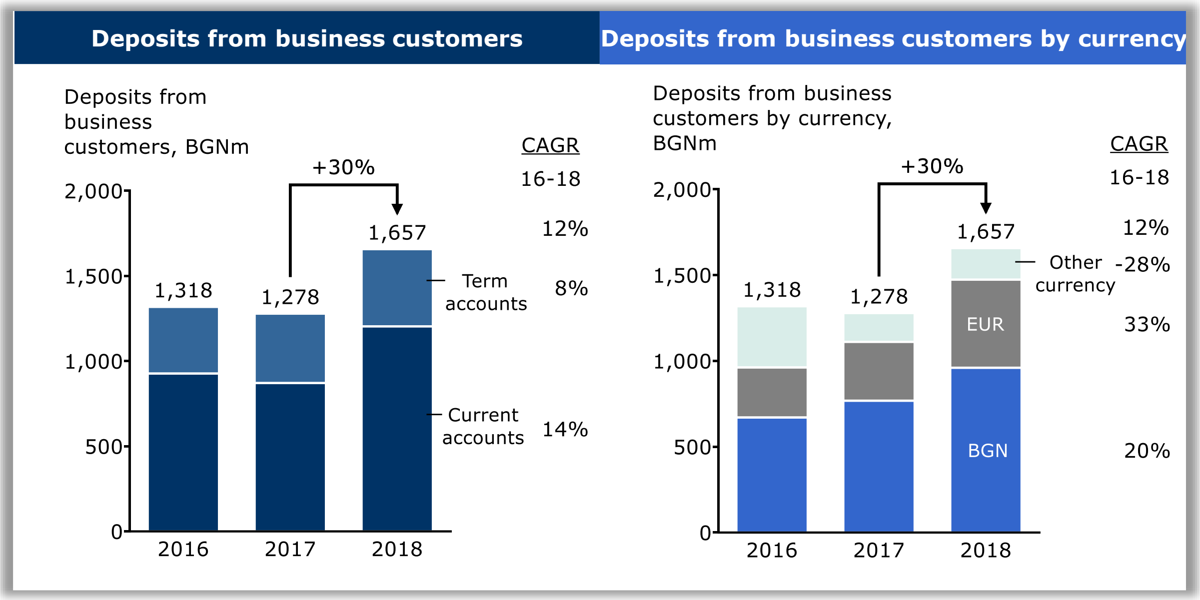
Throughout the year in implementation of its strategy for development of the retail banking segment, Fibank continued to offer mortgage loans under competitive conditions as well as to organize promotional campaigns, aiming to stimulate sales. During the period in compliance with the market environment the conditions on the mortgage loan "Right of choice" were updated, with fixed interest for the first 12 months and no commission for the disbursement, management or engagement.

In 2019, the Bank will continue to develop and offer flexible credit products for individuals with the aim at attracting new clients and offering supplementary products and services.

CORPORATE BANKING

DEPOSITS

Attracted funds from corporates and institutions in 2018 increased with 29.6% (BGN 378,657 thousand) to BGN 1,657,013 thousand (2017: BGN 1,278,356 thousand). The increase in volume reflected mainly in the current accounts reaching BGN 1,203,878 thousand at the end of 2018 (2017: BGN 870,896 thousand) and forming 72.7% of the attracted funds from business customers and institutions (2017: 68.1%).



Term accounts increased as well and reached BGN 453,135 thousand (2017: 407,460 thousand) at the end of the period, forming 27.3% of the attracted funds from corporates and institutions (2017: 31.9%). First Investment Bank offers a variety of deposit and savings accounts, and package programs for business customers which constantly adapt to market conditions and specific company requirements.

In 2018, Fibank developed new saving product for business clients “Free deposit+”, including 1-month term deposit in BGN and EUR, linked to a current account, to which accrued interest is paid. During the period, the terms on the combined packages of bank products and services for business clients were updated, aiming to be in line with the market environment and to secure maximum satisfaction of customer needs. These give the opportunity for optimizing the expenses and the procedures for using different types of bank services.

By 31 December 2018, funds attracted by the thirty biggest non-banking clients represented 4.74% of the total amount due to other customers (2017: 4.06%).

LOANS

CORPORATE LENDING

The portfolio of loans to corporates amounted to BGN 4,754,192 thousand at the end of 2018, compared to BGN 4,257,431 thousand a year earlier. The segment of corporate customers increased as an absolute amount, including due to an increase mainly in the receivables related to financial leasing, at the same time decreasing as a share in the corporate portfolio to 78.5% at the end of the year (2017: 79.4%). The loans to other business lines – small and medium enterprises and microlending, grew, as they increased their share in the structure of loans to companies to 18.5%, (2017: 17.7%) and to 3.0% (2017: 2.9%) respectively, as part of the policy for portfolio diversification and priority development in these segments.

In BGN thousand/ % of total	2018	%	2017	%	2016	%
Corporate customers	3,734,634	78.5	3,382,460	79.4	3,705,033	83.7
Small and medium enterprises	879,136	18.5	753,438	17.7	612,093	13.8
Microlending	140,422	3.0	121,533	2.9	108,561	2.5
Total loans to corporates	**4,754,192**	**100**	**4,257,431**	**100**	**4,425,687**	**100**

* Business lines based on internal criteria for segmentation of customers

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

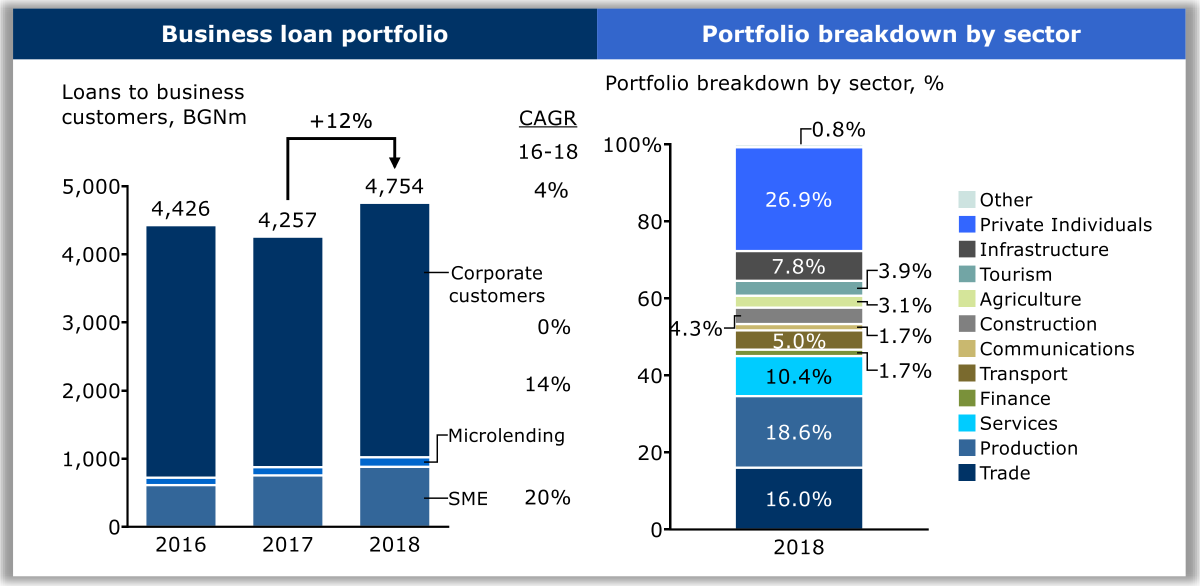
During the year, a campaign was launched to present the factoring services offered by the Bank to existing and potential business customers, including companies delivering of goods or providing services with deferred payment in the country or abroad. First Investment Bank is a member of Factors Chain International (FCI), a global network of leading commercial finance companies and can provide export factoring without recourse, as well as import factoring. The Bank also maintains co-operation with leading factoring insurance companies.

The Bank continued to be among the leading institutions in the country in the area of commercial finance. At the end of the year, in accordance with the renewal option, an extension was signed to the framework agreement with the Taiwan export insurance agency Eximbank Taiwan for financing deliveries of goods from Taiwanese suppliers to customers of First Investment Bank in Bulgaria or abroad.

The market share of Fibank at the end of the year amounted to 12.82% of loans to corporates in the banking system (2017, 12.10%), Fibank retained its second place (2017: second) among banks in the country on an unconsolidated basis.

As at 31.12.2018, loans to the manufacturing sector had a leading share in the portfolio structure (2018: BGN 1,201,664 thousand, 2017: BGN 861,778 thousand), followed by the trade sector (2018: BGN 1,037,381 thousand, 2017: BGN 1,017,879 thousand) and the services sector (2018: BGN 672,197; 2017: BGN 630,706 thousand), forming respectively 18.6%, 16.0% and 10.4% of total loans of the Group (2017: 14.9%, 17.7% and 10.9%). Such dynamics reflect the positive trends of economic activity in the country, in line with the Bank's development goals. An increase was also reported in the sectors of construction – up to BGN 275,066 thousand (2017: BGN 203,901 thousand) and infrastructure – up to BGN 501,084 thousand (2017: BGN 467,483 thousand), as a result of the recovery of these sectors and their contribution to value added in the economy over the period. Positive indications and data in the tourism sector contributed to the development of loans in this segment, which reached BGN 249,330 thousand at the end of the period against BGN 173,813 thousand a year earlier. Loans in communications increased to BGN 107,463 thousand (2017: BGN 46,863 thousand), driven by the Bank's focus and specialized credit products offered, as well as by the sector's contribution to the growth of the services industry in the country.

During the year decrease was registered in loans in the sphere of agriculture (2018: BGN 199,847 thousand; 2017: BGN 212,391 thousand), in transport sector (2018: BGN 322,495 thousand; 2017: BGN 323 367 thousand) and finance (2018: BGN 107,668 thousand, 2017: BGN 109,298 thousand).



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

SME BANKING

In 2018, loans to small and medium enterprises[10] increased with 16.7% to BGN 879,136 thousand compared to BGN 753,438 thousand a year earlier in implementation of the Bank's plans for development of this business segment. The increase was influenced also by the competitive terms offered in the products for SME clients, as well as the various solutions related to the programs and funds of the EU and the other guarantee schemes and financing.

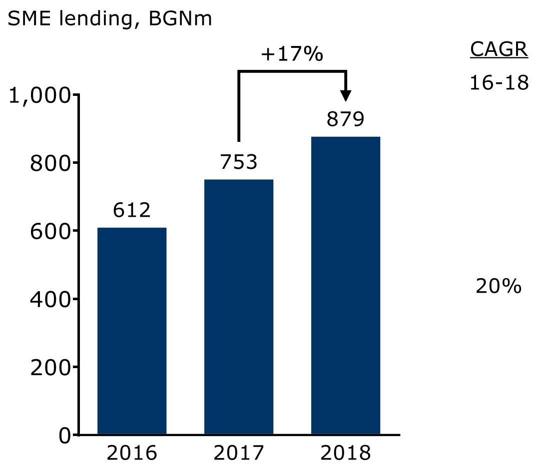
In the beginning of the year, based on an agreement with the National Guarantee Fund (NGF) for financing under the COSME guarantee scheme, Fibank started providing investment and working capital loans to small and medium-sized enterprises in the amount of up to EUR 1.5 million for a term of up to 60 months, and EUR 750,000 for a term of up to 120 months. In December 2018, First Investment Bank signed a new agreement with the Bulgarian Development Bank under a program for indirect financing of SMEs with a guarantee facility and a counter-guarantee under the EIF COSME Program, supported by the European Fund for Strategic Investments (COSME+ program).

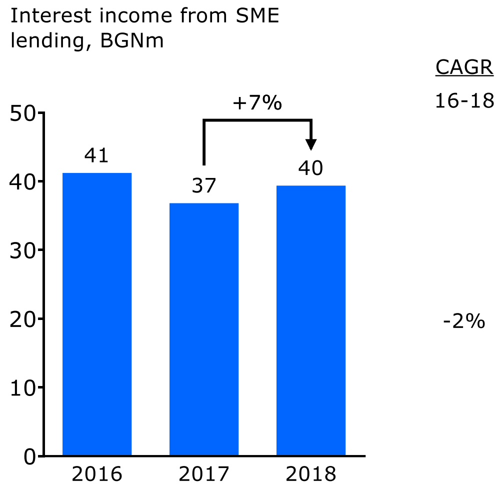
In the second half of 2018, First Investment Bank also launched investment and working capital loans to SMEs registered in Bulgaria with a maximum amount of up to EUR 500,000 with attractive interest rates and reduced collateral requirements. The loans were part of an on-lending agreement with the Bulgarian Development Bank under a joint program with KfW, aimed at supporting the micro, small and medium-sized enterprises in the country. *For more information see section „Europrograms".*

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

[10] Based on internal criteria for segmentstion of customers.

SME lending	Interest income from SME lending



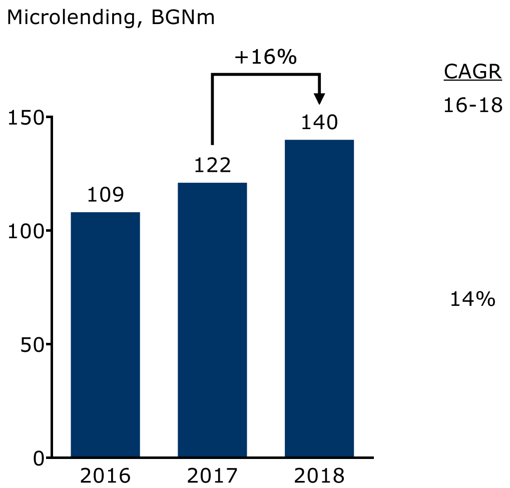


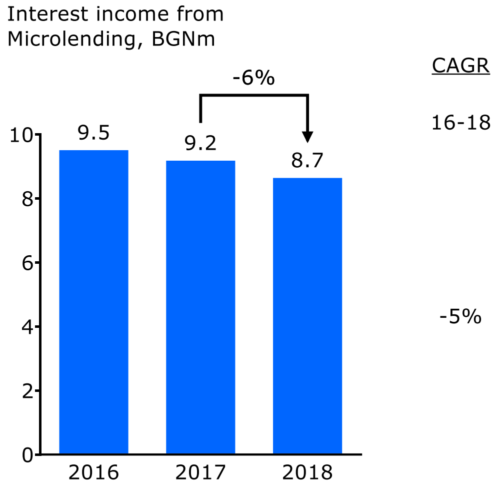
Throughout the year, Fibank continued to promote its credit products tailored to specific sectors or areas of business, such as office purchase/repair, or working capital for small and medium-sized companies operating in the field of information technology. A new campaign was launched for business credit cards, with pre-approved limits for SME customers of the Bank. The Bank also increased its efforts in offering factoring services to Bulgarian companies as an alternative to working capital loans.

MICROLENDING

In 2018, the microlending portfolio grew by 15.5% reaching BGN 140,422 thousand compared to BGN 121,533 thousand a year earlier, in line with the Bank's targeted efforts for development and growth in this segment.

Microlending	Interest income from Microlending





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.

In 2018, an emphasis in microlending activity was placed on the new Smart Lady program directed at female entrepreneurs. The program targets companies managed or owned by women, as well as businesses producing goods or providing services for women. Financing solutions include investment and working capital loans, bundled offers with Diners Club First Lady credit cards, medical insurance from FiHealth Insurance AD, child savings accounts, as well as debit cards for children and teens. As part of the program, the Bank plans to hold conferences, trainings and information seminars where the female entrepreneurs can exchange experience and obtain professional advice. An electronic platform will also be built for distance learning and providing information on topical issues.

During the period, the Bank continued to support agricultural producers, including by providing loans secured with pledge of subsidies under schemes and measures of EU's common agricultural policy. Up to a 100% of the expected subsidy payments are financed under this program. As part of its efforts to offer tailored financing solutions to individual sectors or business areas with high development potential, the Banks has credit products in place especially designed for IT companies, as well as for medical and dental practices.

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.

At the beginning of the year, First Investment Bank and the National Guarantee Fund (NFP) signed a new agreement under the COSME guarantee scheme, which aims to facilitate the access of SMEs to funding, as well as to support productive investments within the European Union. During the period, the term was extended of two other guarantee agreements with the NGF providing financing to SMEs, including to agricultural producers and companies approved for assistance under the Rural Development Program.

In August 2018, First Investment Bank and the Bulgarian Development Bank signed an agreement for provision of financing in support of micro, small and medium enterprises under a joint program with KfW. Under the program, the Bank will offer investment and working capital loans to SMEs registered in Bulgaria with a maximum loan amount of EUR 500,000.

In December 2018, First Investment Bank signed an agreement with the Bulgarian Development Bank under a program for indirect financing of SMEs with a guarantee facility and a counter-guarantee under the EIF COSME Program, supported by the European Fund for Strategic Investments (COSME+) which provides, in addition to direct financing, also a guarantee on the loans granted.

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

PAYMENT SERVICES

In 2018 First Investment Bank was a member and participant in payment systems and agent of other payment service providers, as follows:

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

In 2018, the Bank reported an increase in the number of transfers (incoming and outgoing) in local and foreign currency. This was due to the competitive terms offered by the Bank and to the high quality of customer service. During the year, the Bank launched a project to introduce the new regulatory requirements arising from the Law on Payment Services and Payment Systems (LPSPS) and Ordinance No 3 of the BNB implementing the requirements of Directive (EU) 2015/2366 on payment services in the internal market (PSD2).

CARD PAYMENTS

In 2018, First Investment Bank continued to develop its card business in line with customer needs and modern technologies, including through offering innovative card products and services on the Bulgarian market, relevant to the context of the increasing digitization in banking.

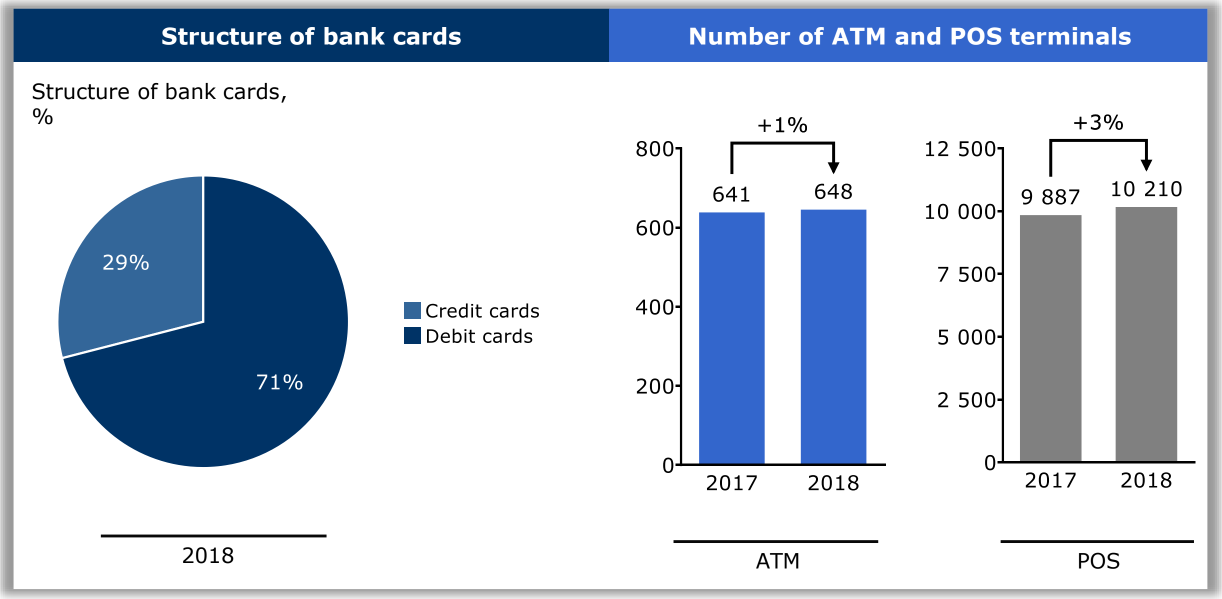
During the year, with the support of Fibank the innovative Evolve credit card was developed. This new generation card unites two global brands, Diners Club and MasterCard, into one payment instrument. Holders of Evolve credit cards can choose which of the two brands to use when making a payment, as well as benefit from a number of additional services, including a cashback program, a Concierge program and participation in other award programs and discounts. First Investment Bank also started offering and a new Cash-in service for cards issued by Fibank at ATMs of the Bank, which creates further convenience for cardholders allowing them to deposit cash to their card accounts without visiting an office of the Bank.

Fibank continued to develop its digital card services, offering customers a new generation digitalized card representing a digital version of a plastic credit/debit card issued by Fibank.

During the year, the Bank continued to promote its innovative micro-cards, issued as an additional accessory to the Debit MasterCard Pay Pass kids/teen. Built into a bracelet or keychain, they feature contactless payment functionality. Issuance of this type of cards is part of the Bank's program for early financial education which it actively developed during the period 2017-2018. That included a number of initiatives such as the development of early financial education books and movies titled "Kids and money", short videos in the social networks about the benefits of debit cards for children and teens, a parents' handbook for development of financial literacy in children titled "10 Myths about Children and Money", as well as participation in thematic events such as the European Money Week, the DigitalKidz conference and the Webit for children.

As at 31 December 2018, the most significant increase in the number of cards issued was observed in MasterCard debit cards which feature contactless payment functionality, allow online payments and are part of Fibank's YES loyalty program.

In order to stimulate card payments and contactless payments in particular, various promotional and product campaigns were organized during the period, including joint initiatives with the card organisations. Fibank was the first bank in Bulgaria to start the issuance of the contactless cards MasterCard PayPass (since 2010) and Visa payWave (since 2012). It was also among the first 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.



In 2018, the Bank's ATM network reached 648 units, compared to 641 a year earlier. This reflects the development of its terminal network, including the installation of new devices with Cash-in functionality, while maintaining optimal efficiency according to specific locations, workload and volume of transactions. Separately, Fibank's subsidiary bank in Albania has its own network of ATM terminals. *For further information* about the card business of *First Investment Bank – Albania Sh.a. see section "Business review of subsidiary companies".*

As at 31 December 2018, the POS terminal network of First Investment Bank increased to 10,210 units compared to 9,887 in the previous year. Fibank aims to develop and offer competitive conditions to both merchants and cardholders in order to further stimulate this type of payments.

INTERNATIONAL PAYMENTS

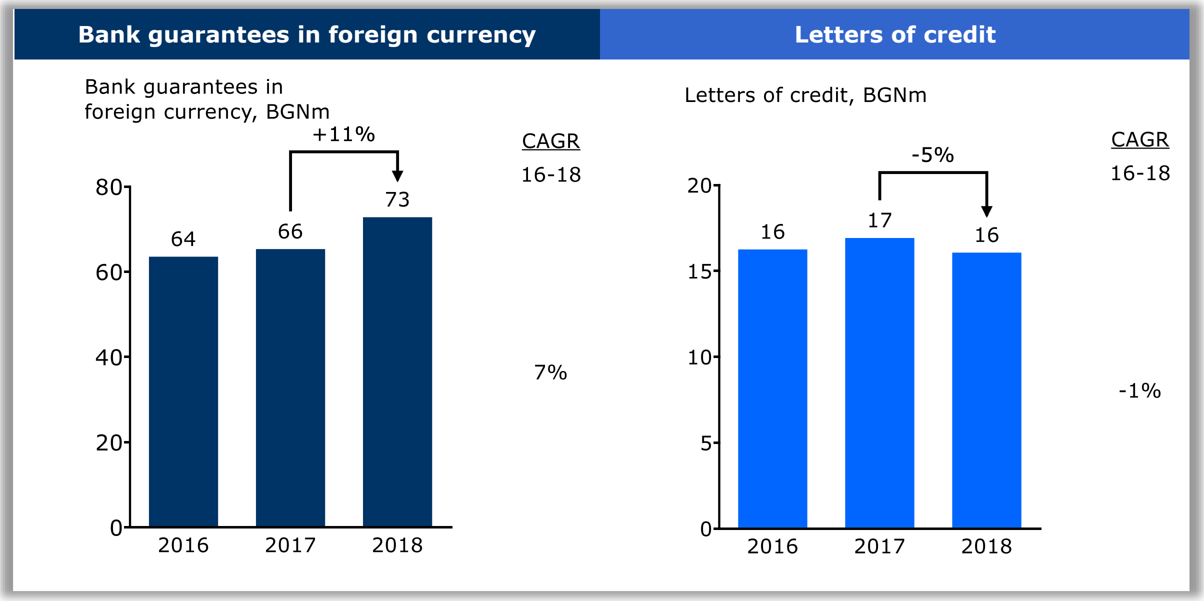
First Investment Bank is among the leading banks in Bulgaria in the sphere of international payments and trade financing. Fibank is a popular, reliable and fair business partner which has built a good reputation over the years among international financial institutions and has gained valuable experience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

In 2018, the Bank reported an increase in incoming and outgoing foreign currency transfers in terms of both number and account. This was due to the increased customer base, the competitive conditions offered by the Bank and the high quality of customer service. First Investment Bank has a wide network of correspondent banks through it which carries out international payments and trade finance operations in almost all parts of the world. The Bank executes cross-border currency transfers through

SWIFT, as well as the TARGET2 and BISERA7-EUR payment systems and since April 2017 the Bank executes credit transfers as a direct participant in the system STEP2 operated by EBA Clearing. Fibank operates in issuing checks and performing various documentary transactions.

During the year, First Investment Bank opened a Chinese Yuan correspondent account with Industrial & Commercial Bank of China Limited, with a view of facilitating payments and supporting Bulgarian businesses in commercial and structured finance transactions. A new cross-border payment monitoring project through the SWIFT global payments innovation (gpi) platform was also launched.

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



During the reporting period, the letters of credit and bank guarantees in foreign currency issued by the Bank to guarantee the performance of its customers to third parties amounted to BGN 89,194 thousand (2017: BGN 82,965 thousand), forming 11,4% of the off-balance sheet commitments of the Group (2017: 9.8%).

GOLD AND COMMEMORATIVE COINS

In 2018, First Investment Bank retained its leading positions in Bulgaria in terms of transactions and advice related to investment gold and other precious metal products. Fibank continued to develop its Gold & Silver online selling platform by constantly updating individual sections and adding new products.

For the reporting period, revenues from sales of gold and precious metal products amounted to BGN 643 thousand on a consolidated basis compared to BGN 726 thousand a year earlier, reflecting the dynamics of demand and precious metals prices over the year.

Fibank offers its customers products of investment gold and other precious metals since 2001. Over the years, it 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.

Along the lines of traditional cooperation with the New Zealand Mint, a new silver coin was designed dedicated to the Year of the Pig, exclusively offered in Fibank's offices. The distribution started of gold coins for newborns, designed under Fibank's project in partnership with the New Zealand Mint, which represent a novelty for the Bulgarian market.

During the period, jointly with the Swiss refinery PAMP, a new gold coin was created depicting the Three-handed Virgin Mary which ranked among the most popular products of the Bank for 2018.

In pursuance of its long-standing policy of support for Bulgarian production, in early 2018 Fibank signed an agreement with the Bulgarian National Bank for the distribution of Bulgarian commemorative coins and coin sets issued by the central bank.

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

PRIVATE BANKING

First Investment Bank offers private banking for individuals since 2003, and for corporate clients since 2005. Private banking features servicing by a designated personal officer, who is responsible for the overall banking solutions provided to a customer.

A highlight in private banking for 2018 was the introduction and active offering of new investment products, allowing customers under the conditions of a low-interest rate market to diversify their portfolios at various levels of risk. Along these lines, in June 2018 First Investment Bank established a partnership with Erste Asset Management aimed at offering on the Bulgarian market the mutual funds managed by this Austrian company. Based on the signed agreement, Fibank offered four euro-denominated mutual funds as follows:

- ESPA Bond Euro Corporate – a bond fund investing in corporate bonds of European companies with high credit rating;
- ESPA Portfolio Balanced 30 – a balanced fund with moderate risk;
- ESPA Stock Europe – an equity fund investing in European companies;
- ESPA Stock Global – an equity fund investing in companies around the world.

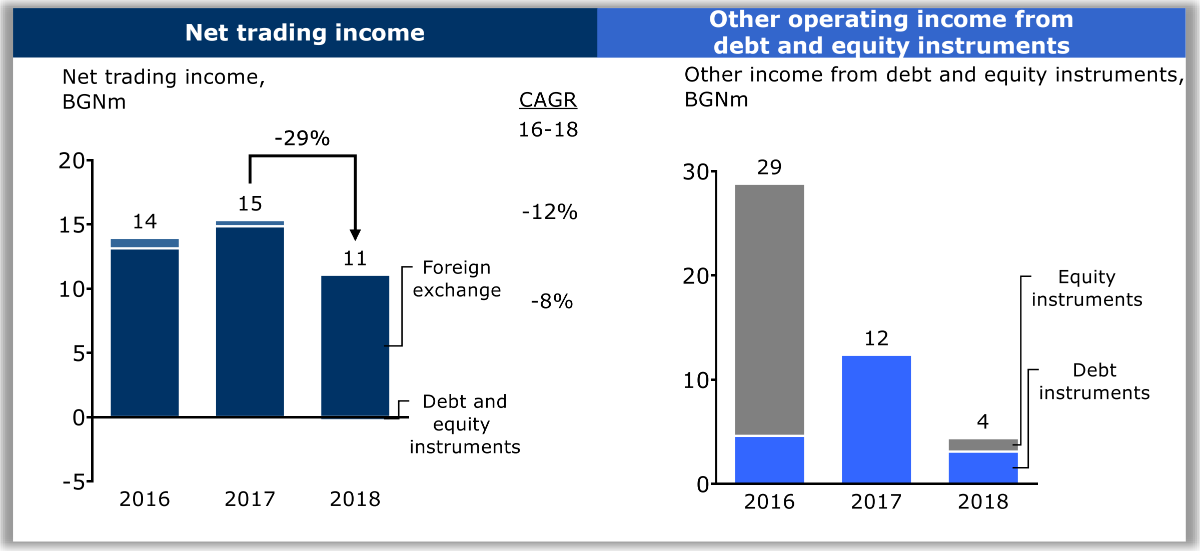
Units of these funds are offered to existing and potential customers through the branch network of Fibank, at specially designated locations in Sofia and the country.

The Bank continues to develop its private banking activities, including through expanding the range of products and services offered, with a view to attracting more customers from this segment, as well as increasing the deposit base and operating income. During the year, private banking customers were also offered lending programs and pre-approved credit limits tailored to their needs and to the market conditions.

CAPITAL MARKETS

In 2018 net trading income amounted to BGN 10,809 thousand (2017: BGN 15,326 thousand), mainly as a result of the lower income from trade operations related to exchange rates and debt and equity instruments. Other net operating incomes, arising from debt and capital instruments, amounted to BGN 4,385 thousand compared to BGN 12,384 thousand a year earlier.

The securities portfolio of the Group at the end of the year amounted to BGN 802,321 thousand, compared to BGN 803 999 thousand a year earlier, of which BGN 775,529 thousand measured at fair value through other comprehensive income (2017: BGN 742,306), BGN 748 thousand measured at amortized cost (2017: BGN 53,714 thousand), and BGN 26,044 thousand measured at fair value through profit or loss (2017: BGN 7,979 thousand).



As from 1 January 2018, First Investment Bank applies the new business model requirements and criteria for classifying financial assets in the Bank's portfolios according to IFRS 9. Depending on the purpose of financial asset management, those include: 1) a business model whose objective is to hold assets in order to collect the contractual cash flows (hold to collect); 2) a business model whose objective is to both collect contractual cash flows and sell of financial assets (hold to collect and sell); 3) another business model, where the purpose is different from the two above business models (other business model), where assets held for trading are also included.

In implementation of the requirements arising 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 Legal Entity Identifier (LEI) code 549300UY81ESCZJ0GR95, issued by the Global Markets Entity Identifier (GMEI) Utility.

In compliance with the new regulatory requirements arising from the European legal framework in the field of financial markets – Directive 2014/65/EU of the European Parliament and of the Council and Regulation (EU) No 600/2014 of the European Parliament and of the Council on markets in financial instruments (MiFID II/MiFIR package), in 2018 First Investment Bank implemented a project to bring its activity in line with the Markets in Financial Instruments Act and the other applicable regulations, including with regard to the Bank's internal regulatory framework as an investment firm, as well as the terms and conditions and other documentation for customers and potential investors. Technological solutions are also expected in connection with the accounting of the financial instruments, the maintenance of portfolios and client records, including extending the possibility for generation of reports and access to a range of legally required samples and documents, needed for the organization of the activity.

In its capacity as an investment intermediary and a primary dealer of government securities, First Investment Bank carries out transactions with financial instruments in the country and abroad including transactions in government securities, shares, corporate and municipal bonds, compensatory instruments as well as money market instruments. The Bank also offers trust portfolio management, investment consultation, as well as depositary and custodian services to private individuals and corporates, including maintaining registers of investment intermediaries, of accounts of securities, income payments and servicing payments under transactions in financial instruments. As part of the Compliance function, the Bank has a specialized unit "Compliance – Investment Services and Activities" which controls and 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. At certain locations, distribution is also carried out of four mutual funds managed by Erste Asset Management (ERSTE-SPARINVEST Kapitalanlagegesellschaft m.b.H): ESPA Bond Euro Corporate, ESPA Portfolio Balanced 30, ESPA Stock Europe and ESPA Stock Global.

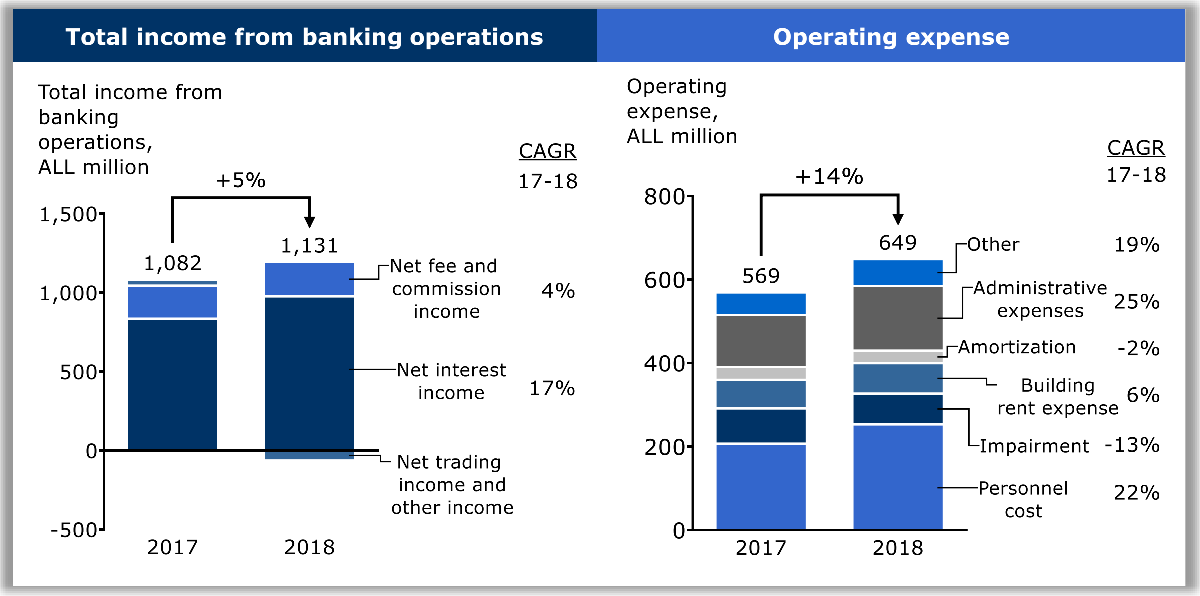
BUSINESS REVIEW OF SUBSIDIARY COMPANIES

FIRST INVESTMENT BANK – ALBANIA SH.A.

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

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

In 2018, First Investment Bank – Albania Sh.a. reported positive financial results and sustainable development while maintaining high standards of risk management and customer-oriented approach. The Bank maintained strong liquidity and capital positions, its capital adequacy ratio at year-end amounting to 15.56% against a minimum required level of 12% according to the applicable regulatory requirements in the country.

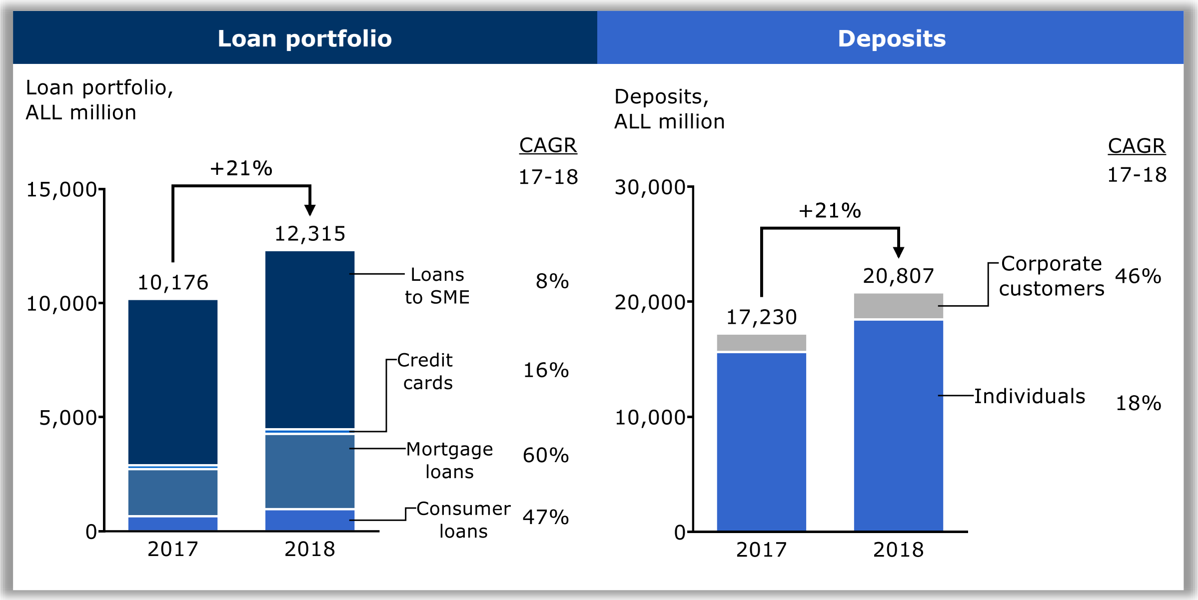


First Investment Bank – Albania Sh.a. reported total comprehensive income for 2018 amounting to ALL 592,074 thousand[11], compared to ALL 351,903 thousand a year earlier. This was driven by the increase in operating income, including net interest income by 17.0% to ALL 976,478 thousand (2017: ALL 834,931 thousand), and net fee and commission income by 3.7% to ALL 217,187 thousand compared to ALL 209,406 thousand a year earlier, as well as additional other comprehensive income on the amount of ALL 191,042 thousand.

[11] The official rate of the Albanian lek (ALL) against the euro at the end of 2018 was 123.42, and the average for the year was ALL 127.43 for one euro.

During the year personnel costs amounted to ALL 253,281 thousand against ALL 207,032 thousand for the previous year, reflecting the increased number of staff, that reached 183 people at year-end (2017: 143). General administrative expenses increased to ALL 155,015 thousand (2017: ALL 124,449 thousand), while those for rents and depreciation to ALL 102,836 thousand, a contributor being the expanded branch network of the bank. Impairment costs on on-balance and off-balance sheet exposures continued to decrease in line with the economic environment and reached ALL 73,646 thousand for the year (2017: 84,430 thousand).

During the period, the assets of Fibank Albania increased by 17.3% reaching ALL 24,632,951 thousand (2017: ALL 20,994,963 thousand), mainly due to the growth in receivables from customers and banks. Loans to customers increased by 23.1% to ALL 11,713,074 thousand (2017: 9,518,779 thousand) mainly attributable to the growth in retail loans, and more specifically in mortgage loans, as well as in the SME loans.



Loans and advances to banks and financial institutions increased to ALL 2,448,132 thousand as at 31 December 2018 (2017: ALL 1,859,013 thousand), which included current accounts in foreign institutions as well as placements in local banks and financial institutions in Albania. Investment in securities grew to ALL 7,540,288 thousand (2017: ALL 7,026,487 thousand), comprising treasury bills and government bonds, reported at fair value through other comprehensive income (FVOCI).

Amounts due to customers increased by 20.8% to ALL 20,807,370 thousand at period-end (2017: ALL 17,229,570 thousand), with growth being reported in retail customers as well as in business customers, driven mainly by the flexible savings products and current accounts offered by the bank, as well as by the increased customer base. Fibank Albania has an agreement with the Albanian Insurance Agency giving pensioners the opportunity to access their pensions from any of the bank's branches in the country.

The equity of First Investment Bank – Albania increased and reached ALL 3,407,540 thousand compared to ALL 2,656,013 thousand at the end of 2017 due to an increase in retained earnings and revaluation and other reserves.

During the year Fibank Albania developed its card business by organizing a number of promotional campaigns, incl. joint initiatives with VISA and the Internet portal for reservations Booking.com, and registered growth in the number as well as in volume of the card transactions. During the period, a 16.4% growth was registered in the utilized limits on credit cards, which reached ALL 199,491 thousand at period-end (2017: ALL 171,441 thousand). The Bank is certified by Visa to offer debit and credit chip cards to individual and corporate clients and has in-house chip personalization card center.

In 2018, First Investment Bank – Albania Sh.a. expanded its branch network by opening three new branches in the cities of Lezhë, Sarandë and Lushnjë, thus the total number of branches reaching to 12. The bank has headquarters and branches in Tirana, as well as branches in the other larger cities of Durres, Vlora, Elbasan, Fier, Shkoder, Korca and Berat. Through its branch network, the Bank was the first one in the Albanian market to offer products of investment gold and other precious metals.

First Investment Bank – Albania Sh.a. continued to develop its corporate social responsibility and commitment to society by supporting a number of social initiatives in Albania. In March 2018 Fibank Albania together with the Mother and Child Hospital Foundation (FSNF) organized a special Public Flash Mob campaign in Tirana among youths and young parents called #celebrateHer "The Waltz of Love" on violence against young girls and women, incl. in pregnancy period.

On the occasion of the Kid's Day, the bank took part in an campaign of the Albanian non-profit organization „Down Syndrome Albania" in support of children with Down Syndrome and of their families.

In October 2018 in the framework of the International Day against Poverty, Fibank Albania took part in an initiative organized by the Albanian Red Cross, in which employees of the bank together with media characters and people in the Tirana Social Center offered warm lunch to poor people, incl. families in need, elderly people and children excluded due to difficult economic and social situation.

At the end of the year First Investment Bank – Albania took part in a campaign for free and voluntary blood donation, in which a number of employees of the bank and other volunteers took part, with the main goal to promote voluntary blood donation in Albania which is vital to saving thousands of lives.

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

The financial statements of the bank are prepared in accordance with International Financial Reporting Standards, and audited by a registered auditor. For 2018, the registered auditor of the bank was BDO Albania.

DINERS CLUB BULGARIA AD

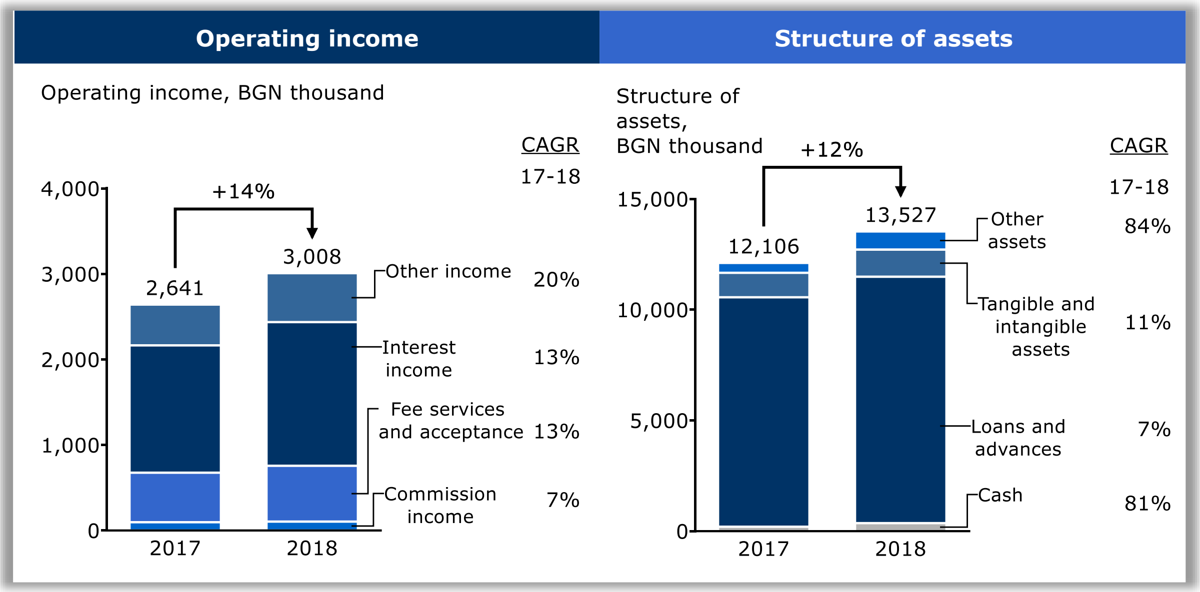
Diners Club Bulgaria AD is a joint stock company incorporated in November 1996, its main business activity being the issuance of Diners Club credit cards and processing of payments with them. In 2005, First Investment Bank acquired 80% of the company's capital. In 2010, Diners Club Bulgaria was licensed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

Over the years, Diners Club Bulgaria AD has consistently worked towards increasing the penetration of the Diners Club brand in the local market by offering new services for cardholders, and expanding the network of POS terminals accepting payments with Diners Club cards. The company has partnerships signed with a number of financial institutions in Bulgaria, thus creating an opportunity for constant increase in the locations for carrying out payments with Diners Club cards. In 2018, the company continued to promote contactless payments, and started to gradually re-issue the cards Diners Club Classic, Diners Club First Lady Pink and Diners Club First Lady Red with function for contactless payments. In this regard, the company has an application developed for contactless payment on POS terminals Ingenico and Verifone. During the period, Diners Club Bulgaria successfully started a new integrated system for secure payments in internet "ProtectBuy" (3D secure internet payments) for cardholders and merchants.

During the year, with the support of Fibank the innovative Evolve credit card was developed. This new generation card unites two global brands, Diners Club and MasterCard, into one payment instrument. Holders of Evolve credit cards can choose which of the two brands to use when making a payment, as well as benefit from a number of additional services, including a cashback program, a Concierge program and participation in other award programs and discounts. For the purpose of stimulating payments and the issuance of new Diners Club cards, in 2018 continued the carrying out of different promotional campaigns.

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 2018 the company reported a net profit of BGN 438 thousand, compared to BGN 264 thousand a year earlier. This increase was influenced by the higher net operating income (2018: BGN 2,903 thousand; 2017: BGN 2,557 thousand), including interest income, commissions and service charges. Operating expenses of Diners Club Bulgaria amounted to BGN 1,641 thousand, and remained close to the levels of the previous year at BGN 1,623 thousand. The general and administrative expenses for 2018 were BGN 1,505 thousand (2017: BGN 1,487 thousand), while impairment costs were BGN 51 thousand (2017: BGN 109 thousand). Financial expenses increased to BGN 824 thousand for the period (2017: BGN 670 thousand), including interest and other financial expenses.



The company's assets increased by 11.7% to BGN 13,527 thousand (2017: BGN 12,106 thousand), mainly due to an increase in receivables from customers which amounted to BGN 11,122 thousand or 7.4% more than at the end of 2017 (BGN 10,357 thousand). Loans and advances to individuals formed 99.0% of all receivables from customers (2017: 98.7%).

Borrowings also increased, drawn bank overdraft amounts reaching BGN 10,737 thousand compared to BGN 9,029 thousand a year earlier. The equity of the company amounted to BGN 2,146 thousand at the end of the period (2017: BGN 2,394 thousand). The average number of staff for 2018 was 14 employees.

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

FI HEALTH INSURANCE AD

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

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

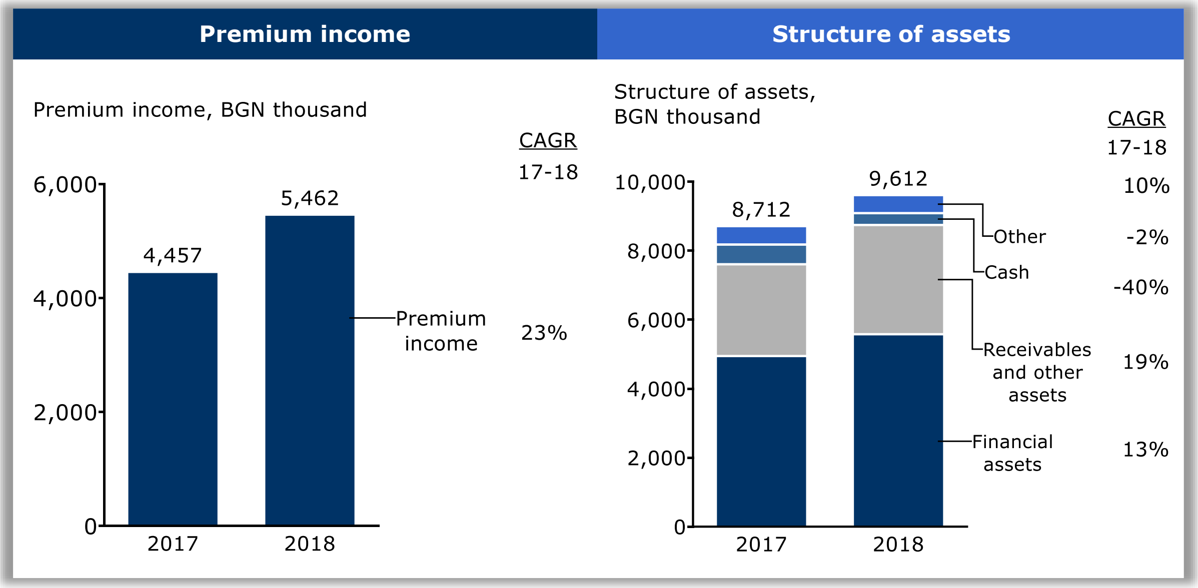
Fi Health Insurance AD has a one-tier management system, comprising a Board of Directors and Executive management (Executive Director). Executive Director of Fi Health Insurance AD is Mr. Nikola Bakalov, who has extensive professional experience in the financial sector, including management positions in First Investment Bank AD related to card payments. Since July 2014, Mr. Nikola Bakalov has been a member of the Managing Board of the Association of Health Insurance Companies. Since 2016, the company has been represented jointly by its executive director and procurator, as Ms.

Tsvetomira Karapchanska was appointed as procurator, being a sales manager of the company for many years beforehand. Since 2016, the functions of compliance, internal control, and risk management have been functioning within the company.

In 2018, Fi Health Insurance continued to develop its operations by extending its license for insurance with the coverage of one additional risk for other financial losses. During the period, the company realized successful campaigns to offer new insurance products and attract new customers, incl. signed and prepared for execution new agreements for health insurance, which gave grounds for increase in the premium income, as well as in the customer base, serviced by the insurance company. A new VIP package medical insurance "Health" was developed with prevention included, outpatient medical care, hospital treatment, as well as expenses for medicines, which is being offered to customers of First Investment Bank using the Smart Lady program for women entrepreneurs.

The product range of the company includes insurance coverage designed for both individuals and business customers, primarily from the micro and SME segments, including the "Peace of Mind with Fi Health" and "Occupational Accident" insurance products, the "FiHealth Protect" insurance offered with credit cards, the "FiHealth Partner" insurance designed for individuals, as well as group insurance policies suitable for employees of corporate clients. In 2018, new products were launched specifically developed for micro and SME clients under the Smart Lady program of First Investment Bank with "Peace of Mind with Fi Health" insurance included and the additional "Health with Fi Health" insurance focusing on prevention of significant diseases, hospital treatment and outpatient medical care.

In 2018, Fi Health Insurance increased the amount of the premium income to BGN 5,462 thousand, compared to BGN 4,457 thousand in 2017. The net profit reported for the period amounted to BGN 329 thousand, while the total comprehensive income was BGN 331 thousand. The company manages insurance risk through established limits, procedures for approval of submitted claims, and various methods of assessment and control.



The company's assets grew by 10.3%, to BGN 9,612 thousand at year-end (2017: BGN 8,712 thousand), driven by the increased receivables and other assets (2018: BGN 3,168 thousand; 2017: BGN 2,662 thousand), incl. receivables on insurance contracts, as well as the increased financial assets (2018: BGN 5,579 thousand; 2017: BGN 4,945 thousand), which mainly comprise bank deposits and Bulgarian government securities. As at 31 December 2018, the equity of Fi Health Insurance AD amounted to BGN 6,185 thousand, compared to BGN 5,827 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 2018 Fi Health Insurance renewed its agreement with a reinsurance company having a credit rating of B++ (S&P).

As at 31 December 2018 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 section "Bank Profile", as well as note 36 „Subsidiary undertakings" of the Consolidated financial statements for the year ended 31 December 2018.

MEETING THE 2018 GOALS

No	Goal	Achievement
1	Emphasize on the development of retail and SME banking	◈ Retail, micro and SME loans increased their share in the Group's total loan portfolio to respectively 26.5%, 2.2% and 13.6% at the end of 2018, compared to 26.1%, 2.1% and 13.1% a year earlier. ◈ Retail, micro and SME portfolios also increased in absolute amount, up to BGN 1,711 million, BGN 140 million and BGN 879 million. ◈ In line with customer needs, new credit products and programs for these segments were developed during the year. Competitive lending terms were offered according to the market environment, including the Restart loan, the Smart Lady program and the updated Right of Choice housing loan. ◈ The market shares of the Bank in these strategic segments are 9.27% for consumer loans and 6.68% for mortgage loans. *For more information, see the Financial review section*
2	Keep the focus on high quality of service and customer satisfaction	◈ Acknowledgment of the achievements in this direction are the awards received during the year, including for Innovation and Continuous Improvement of the Quality of Products and Services in the Company of the Year competition organized by Business Lady magazine; as Favorite Brand of Bulgarians in the Banks category of the competition My Love Marks; and in the Innovations category of the international Efma-Accenture DMI Awards 2018. *For more information, see the Awards 2018 section.*
3	Expand market presence through new sales channels and methods	◈ The Bank developed its My Fibank mobile application as an alternative banking channel. Digital banking is constantly improved, upgrade and new functionalities are added. ◈ First Investment Bank elaborated the channels for online loan applications at its website: www.credit.fibank.bg. ◈ New products were developed providing additional opportunities for cross-selling, including active offering of banking programs and packages and promotion of factoring services. *For more information, see the Distribution channels section.*
4	Offer new products and service packages tailored to the needs of customers	◈ A new Smart Lady program was launched aimed at supporting female entrepreneurs. The program mainly targets micro, small and medium-sized businesses run by women, as well as businesses producing products and services designed for women. ◈ A new Cash-in service was introduced in 2018, using cards issued by Fibank at ATMs of the Bank. ◈ A new retail product Profitable Account was offered, featuring a current account linked to a term deposit. ◈ An innovative Evolve credit card of a new generation was developed, combining three brands (Fibank, Diners Club and MasterCard) into a single payment instrument. *For more information, see the Business review section.*

No	Goal	Achievement
5	Continue to develop innovative e-services based on high technology solutions	In May 2018, a new software Fibank Token was launched as a means of signature and authentication in the electronic banking system. A new electronic deposit product My Deposit was launched, opened and managed entirely online through the My Fibank electronic banking system A new generation digitalized card representing a digital version of a plastic credit/debit card issued by Fibank. New functionalities were added such as online change of payment card transaction limits, push notifications, currency exchange via the mobile application, etc. *For more information, see the Digital banking section.*
6	Maintain stable capital ratios and capital buffers above the regulatory requirements	Plans for capital levers in key areas were implemented, including through profit retention, diversification of the loan portfolio and conservative risk management. From 1 January 2018, First Investment Bank maintains a new capital buffer for other systemically important institutions (OSII) in the amount of 0.5% for 2018, which will gradually increase to 1% in 2020. At the end of 2018, the Bank's capital ratios on a consolidated basis were well above the statutory requirements: Common Equity Tier 1 capital ratio 13.30%, Tier 1 capital ratio 16.15% and total capital ratio 16.15%, with minimum requirements under Regulation (EU) No 575/2013 being respectively 4,5%, 6% and 8%. *For more information, see the Capital section.*
7	Maintain a moderate risk profile and an effective risk control environment	In 2018, Fibank carried out its activities in line with the adopted risk strategy and business objectives, with the aim of further enhancing the safeguards against inherent risks. A new process was introduced to measure and validate the risk management models used by the Bank for the purpose of ensuring their reliability, accuracy and effective implementation. The Bank's valuation models for project financing were improved. Automation of scoring processes for retail customers was carried out in order to enhance the efficiency of credit approval. The liquidity measurement, monitoring and control system was further developed, including by development and maintenance of a maturity ladder as part of the additional liquidity monitoring indicators. *For more information, see the Risk management section.*
8	Apply high corporate standards in line with best international practices and the applicable regulatory requirements	First Investment Bank developed and launched a new mobile investor relations application, providing quick access to financial information, the Bank's financial calendar, as well as other data and news of interest to investors. The Bank holds regular meetings with minority shareholders as part of its transparency policy, providing an opportunity for open dialogue between them and the senior management of the Bank.

		In 2018, the General Meeting of Shareholders elected a new independent member of the Audit Committee who was also appointed its Chair. First Investment Bank implemented a project to bring its business in line with the requirements of the General Data Protection Regulation (GDPR). A Data Protection Officer (DPO) was appointed at the Bank, playing an instrumental role in ensuring the lawful processing of personal data. *For more information, see the Corporate governance section.*
9	Strengthen the position as a good and preferred employer through new initiatives and activities in the management of human capital	During the year, First Investment Bank provided a number of trainings to its employees in order to increase their professional qualification and achieve better performance and customer satisfaction. In 2018, the project for development and implementation of a new Intranet portal was successfully completed. The portal will increase the efficiency of work processes and further enhance the quality of service. The successful practice continued to distinguish employees with key contribution to delivering high performance, customer service development and team interaction through the recognition program "Together We Can Do More". The Bank was granted funding in excess of BGN 220,000 under the training project "Knowledge Development for Future Management", implemented with the financial support of the Human Resource Development Operational Program. *For more information, see the Human capital section.*
10	Continue the socially responsible policy, supporting socially significant projects and initiatives	In 2018, First Investment Bank continued its social policy by supporting a number of projects, such as raising funds for the construction and repair of a new Center for the Issues of Little People in Bulgaria, as well as conducting for yet another year a campaign for free and voluntary blood donation. Fibank organized a number of initiatives focused on promoting financial literacy among children from a very young age. The first International conference "Women in Business" was also held during the period, as part of Fibank's Smart Lady program designed to support women entrepreneurs in Bulgaria. In December 2018, First Investment Bank presented its charity calendar for 2019 which is part of a social project aimed at young and talented Bulgarian athletes, supporting the Bulgarian Rhythmic Gymnastics Federation (BRGF). *For more information, see the Social responsibility section.*

SUBSEQUENT EVENTS

There are no subsequent events after the end of the reporting period, which require additional disclosure.

DEVELOPMENT GOALS FOR 2019

- To continue to develop as a universal, customer-oriented bank with a focus on retail and SME banking.
- To introduce new market-oriented services that will contribute to long-term customer relationships.
- To further develop its distribution channels with a view to providing full banking service both through the branch network and the remote banking platform.
- To implement new solutions for optimizing the performance of operations in line with the changing environment and future development trends.
- To introduce the new technologies aiming at outpacing development of digital services.
- To maintain a sustainable business model and sound capital ratios in line with regulatory requirements.
- To develop its ethical values and corporate governance standards in line with applicable European guidelines and international practices.
- To maintain a conservative approach and effective control environment in risk management.
- To implement new initiatives in human capital management aimed at upgrading the skills and enhancing the career development of employees, at creating positive working environment and corporate values.
- To continue its socially responsible policy supporting significant social projects and initiatives.

OTHER INFORMATION

MEMBERS OF THE SUPERVISORY BOARD

Evgeni Lukanov - Chairman of the Supervisory Board

Mr. Lukanov joined First Investment Bank AD in 1998 as Deputy Director, and later as Director and General Manager of the Tirana Branch, Albania. From 2001 to 2003 he was Director of the Bank's Vitosha Branch (Sofia).

Mr. Lukanov has occupied a number of senior positions with First Investment Bank AD. From 2003 to 2007 he was Director of the Risk Management Department and Member of the Managing Board. From 2004 to 2012 - Executive Director and Member of the Managing Board of First Investment Bank AD.

During his years of work in First Investment Bank AD, Mr. Lukanov has been Chairman of the Credit Council and the Liquidity Council of the Bank. He has been in charge of the following departments: Risk Management, Impaired Assets and Provisioning, Loan Administration, Specialized Monitoring and Control, Retail Banking, Methodology, and Liquidity.

Mr. Lukanov has also been member of the Managing Board of First Investment Bank – Albania Sh.a.

At the beginning of February 2012, Mr. Lukanov was elected as Chairman of the Supervisory Board of First Investment Bank AD and as Chairman of the Risk Committee to the Supervisory Board of the Bank.

Mr. Lukanov holds a Masters Degree in Economics from the University of National and World Economy, Sofia. Prior to joining First Investment Bank AD, Mr. Evgeni Lukanov worked as currency broker with First Financial Brokerage House OOD.

Besides his position on the Supervisory Board of the Bank, Mr. Lukanov is also Chairman of the Board of Directors of Fi Health Insurance AD. He is owner of ET Imeksa-Evgeni Lukanov and holds more than 10% of the capital of Avea OOD.

Maya Georgieva - Deputy Chair of the Supervisory Board

Prior to joining First Investment Bank, Ms. Maya Georgieva worked with the Bulgarian National Bank for 19 years where she gained considerable experience in international banking relationships and payments, banking statistics and firm crediting. Her last appointment with BNB was as Head of the Balance of Payments Division.

Ms. Maya Georgieva joined First Investment Bank AD in 1995 as Director of the International Department. From 1998 to 2012 she served as Executive Director of First Investment Bank and Member of the Managing Board. During her years of work in 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.

She was granted several times with the "Banker of the Year" award of the Bulgarian financial weekly "Banker" - in 2001 and 2011, as well as in 2018 for overall contribution to the development of the banking system.

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.

Mr. Mutafchiev is not an owner and does not own controlling share in companies.

Radka Mineva - Member of the Supervisory Board

Prior to joining First Investment Bank AD, Ms. Mineva worked as a capital markets dealer at the Bulgarian National Bank where she gained considerable experience in banking. During the time spent with the Central Bank, she specialized at the Frankfurt Stock Exchange and the London Stock Exchange as a capital markets dealer.

Ms. Mineva started her career with the foreign trade enterprise Main Engineering Office, where she worked for 9 years; she also spent three years as an expert at RVM Trading Company.

Since 2000, Ms. Mineva has been a Member of the Supervisory Board of First Investment Bank AD.

She is a graduate of the University of National and World Economy in Sofia, with a degree in Trade and Tourism.

Besides her position on the Supervisory Board of the Bank, Ms. Mineva is Manager of Balkan Holidays Services OOD - a company with activities in the sphere of tourism, transportation, hotel business, tour operation, and tour agency services. Ms. Mineva is also Manager of Balkan Holidays Partners OOD - a company engaged in international and domestic tourism services, foreign economic transactions, and financial management. Ms. Mineva owns more than 25% of the capital of Balkan Holidays Partners OOD. She is also Member of the Managing Board of the non-profit organization “National Board of Turism”.

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 2001 to 2012 Mr. Skortchev was Member of the Managing Board and Executive Director of the Bank. During his years of work in the Bank, Mr. Skortchev has been responsible for the following departments: Card Payments, Operations, Gold and Numismatics, Internet Banking, Dealing, Security and Office Network-Sofia.

Alongside his responsibilities at the Bank, Mr. Skortchev has also occupied other senior executive positions. Mr. Skortchev has been Chairman of the Supervisory Board of UNIBank, Republic of Macedonia, member of the Supervisory Board of CaSys International, Republic of Macedonia, member of the Board of Directors of Diners Club Bulgaria AD, member of the Board of Directors of Bankservice AD, member of the Board of Directors of Medical center FiHealth AD, and Manager of FiHealth OOD.

In the begining of February 2012, as a Member of the Supervisory Board of the First Investment Bank AD, Mr. Skortchev was elected as Chairman of the Remuneration Committee to the Supervisory Board of the Bank.

Mr. Skortchev holds a Masters Degree in International Economic Relations from the Higher Institute of Economics (now the University of National and World Economy) in Sofia. He has specialized in banking in Luxembourg, in swap deals at Euromoney, and in futures and options at the Chicago Stock Exchange.

Mr. Skortchev holds more than 10% of the capital of Investment intermediary Delta Stock AD.

Jyrki Koskelo – Member of the Supervisory Board

Mr. Jyrki Koskelo was elected as member of the Supervisory Board of First Investment Bank AD in June 2015. In his capacity as an independent member Mr. Koskelo supports the Supervisory Board in setting up the business objectives and the strategy of the Bank, the corporate culture and values, as well as in overseeing good corporate governance practices and effective risk management. Mr. Koskelo has long-term experience in banking and global financial markets, as well as wide professional practice in different geographical regions.

Mr. Koskelo worked in the International Finance Corporation (IFC - a member of the World Bank Group) for 24 years, from 1987 to late 2011. The first 13 years he worked as an Investment Officer covering the Central and Eastern Europe and Africa regions. In 2000, he was appointed as Director Work-out Loans and in 2004 he became Director Global Financial Markets. In 2007, he was appointed as Vice President (reporting to the CEO) and a member of the IFC’s Management Committee. Mr. Koskelo led the formulation and implementation of the IFC’s investment strategy, policies, and practices across industries and regions, including in Central and Eastern Europe, Latin America and Africa. His major legacies include IFC’s entry to Global Trade Finance Programs, decentralization of the organization with significant staffing across emerging markets, IFC’s leading role in private sector side of Vienna Initiative to support Central Europe banks after Lehman Crisis and establishment of IFC’s Asset Management subsidiary’s first $3 billion fund for capitalization of weak banks in poor countries.

Prior to joining the IFC, he spent close to 10 years in senior management positions in the private sector in the Middle East and in USA.

Mr. Koskelo currently holds a number of senior and advisory positions in European and African organizations and financial institutions including:

- AATIF (Africa Agriculture and Trade Investment Fund), Luxemburg – Member of the Board of Directors, Chairman of the Investment Committee;
- EXPO Bank, Czech Republic – Member of the Supervisory Board;
- Invest Solar Africa, Botswana – Chairman of the Board of Directors.

During the period 2012 - 2017 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, as well as senior adviser in Al Jaber Group, UAE.

Mr. Koskelo holds a Master of Science (M.Sc.) degree in Civil Engineering from the Technical University of Helsinki, Finland and a Master of Business Administration (MBA) in International Finance from the Massachusetts Institute of Technology (MIT), Sloan School of Management in Boston, USA.

MEMBERS OF THE MANAGING BOARD

Nedelcho Nedelchev – Chief Executive Officer (CEO) and Chairman of the Managing Board

Mr. Nedelcho Nedelchev was appointed Chief Executive Officer (CEO) and Chairman of the Management Board of First Investment Bank AD in May 2017. During the 2007-2012 period Mr. Nedelchev was member of the Supervisory Board of First Investment Bank AD, and in 2013 he managed the project of acquisition of Unionbank EAD, and was member of its Supervisory Board until its merger into Fibank.

Mr. Nedelchev started his career in the Aval In brokerage house. In 1997 he was financial analyst in First Financial Brokerage House OOD, was soon thereafter promoted to Head of Analysis, and in 2001 became one of its managers. In 2003 he was appointed Deputy Minister of Transport and Communications of the Republic of Bulgaria, and in the 2003-2005 period was also Deputy Chairman and Chairman of the Board of Directors of Bulgarian Telecommunications Company AD. From September 2005 to March 2006, Mr. Nedelchev was an adviser to the Minister of State Administration. During his professional career he has been involved in the management of a number of companies operating in the energy and telecommunications sector in Bulgaria, as well as in the field of financial consulting.

Mr. Nedelchev holds a Master's degree in International Economic Relations from the University of National and World Economy in Sofia and has professional licenses and certifications in the field of international financial and commodity markets, investment services and activities, management, business planning, issued by internationally recognized institutions such as the World Bank, the Wholesale Markets Brokers' Association (London) and others.

In the Bank he is responsible for the Compliance function, the Corporate Communication Department, the Marketing and Advertising Department, the Human Capital Management Department, the Administration Department, the Strategic Planning and Development Department, the Asset Management Department and the Protocol and Secretariat Department.

Besides his position in the Bank, Mr. Nedelchev is a Chairman of the Managing Board of First Investment Bank – Albania Sh.a., a Member of the Board of Directors of Borica AD and Member of the Board of Directors of Flips Media EAD. He owns more than 25% of the capital of Project Synergy OOD.

Sevdalina Vassileva – Chief Retail Banking Officer (CRBO), Member of the Managing Board and Executive Director

Mrs. Sevdalina Vassileva joined First Investment Bank AD in 2017 as Director of the Strategic Planning and Development Department. She was subsequently appointed as Executive Director, member of the Management Board of First Investment Bank AD and Chief Retail Banking Officer (CRBO).

The professional experience of Mrs. Vassileva in the banking sphere started in 2007 in Eurobank EFG Bulgaria AD (Postbank) as Director, Consumer Lending and Executive Director of one of the group's companies. From 2010 to 2016 she was Retail Banking Manager at Alpha Bank – Bulgaria Branch. Her career began in 1998 at Coca - Cola Hellenic Bottling Company Bulgaria AD, where she held various management positions in marketing and sales for 6 years. From 2004 until 2007 she was a member of the management team of United Milk Company EAD. Prior to joining First Investment Bank AD, Sevdalina Vassileva was part of the team of Bella Bulgaria AD, serving as Director of Business Development and Expansion.

Outside her strictly professional duties, in her spare time she mentors entrepreneurs and start-ups, assisting them in the development and realization of their ideas, mainly in the field of new technologies.

Sevdalina Vassileva is the Chair of the Management Board of the Alumni Association of the Faculty of Economics and Business Administration at the Sofia University St. Kliment Ohridski, where she works towards improving the professional orientation and training of young people, as well as promoting the contacts and cooperation between the business, academia and institutions.

Mrs. Vassileva has graduated from the Faculty of Economics and Business Administration of Sofia University, with an MBA degree in Management Information Systems. In 1996 she specialized in Marketing and Management at Lund University, Sweden.

In the Bank she is responsible for the Retail Banking Department, the Private Banking Department, the Organisation and Control of Customer Service Department, the Branch Network Department, the Card Payments Department, the Gold and Commemorative Coins Department, the Digital Banking Department and the Vault.

Besides her position in the Bank, Mrs. Vassileva is a Member of the Board of Directors of Diners Club Bulgaria AD and Member of the Board of Directors of Balkan Financial Services EAD.

Svetozar Popov – Chief Risk Officer (CRO), Member of the Managing Board and Executive Director

Mr. Svetozar Popov joined First Investment Bank AD in 2004 as part of the Risk Management Department, and was shortly thereafter promoted to Head of the Credit Risk Division. From 2006 to 2008 he served as Deputy Director of Risk Management, during which period he also chaired the Bank's Credit Council. From 2016 to 2017, Mr. Popov held the office of Chief Compliance Officer (CCO), and in May 2017 he was appointed as Chief Risk Officer (CRO), Member of the Management Board and Executive Director of First Investment Bank AD.

From 2008 to 2015, Mr. Popov was member of the Managing Board and Executive Director of Universal Investment Bank AD, Macedonia, where he gained significant management experience and was responsible for the areas of risk management, credit administration, and finance. Prior to joining First Investment Bank AD, Mr. Popov worked at Raiffeisenbank (Bulgaria) EAD as an SME loan officer.

Mr. Popov holds a Master's degree in Finance from the University of National and World Economy in Sofia, and has obtained additional qualifications in the field of financial analysis from the European Bank for Reconstruction and Development (EBRD) and other internationally recognized institutions, as well as practical experience in foreign banks.

In the Bank he is responsible for the Risk Analysis and Control Department, the Credit Risk Management, Monitoring and Provisioning Department, the Impaired Assets Department, the Loan Administration Department, Security Department and the specialized unit Information Security.

Besides his position in the Bank, Mr. Popov is a Chairman of the Supervisory Board of UNIBank, Republic of Macedonia and a Manager of Debita OOD.

Chavdar Zlatev - Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director

Mr. Chavdar Zlatev joined the team of First Investment Bank AD in 2004 as Chief specialist in the SME Lending Department. Soon afterwards he was promoted to Deputy Director of the Department. From 2006 to 2009 he was manager of the Vitosha branch of First Investment Bank AD. He was subsequently appointed Deputy Director of the Branch Network Department, and in 2010 promoted to Director of the Department. In early 2011, he was appointed Director of the Corporate Banking Department, and has participated in the development and implementation of a number of banking products. In November 2014 Mr. Zlatev was elected member of the Managing Board of First Investment Bank AD, and from February 2018 was appointed as Chief Corporate Banking Officer (CCBO), Member of the Managing Board and Executive Director.

Prior to joining First Investment Bank AD, Mr. Zlatev worked in CB Unionbank AD as a senior bank officer, Corporate clients. He holds a master‘s degree in Macroeconomics from the University of National and World Economy in Sofia. He has specialized loan products and practices in Bank of Ireland, as well as contemporary banking practices in Banco Popolare di Verona.

Responsibilities in the Bank – Corporate Banking Department, Corporate Sales and Public Procurements Department.

Besides his position with the Bank, Mr. Zlatev is a member of the Management Board of First Investment Bank – Albania Sh.a. and a member of the Board of Directors of FiHealth Insurance AD. He is manager and sole owner of Elea Property EOOD.

Jivko Todorov – Chief Financial Officer (CFO) and Member of the Managing Board

Mr. Jivko Todorov joined First Investment Bank AD in June 2014 as Chief Financial Officer. At the end of 2015, Mr. Todorov was elected Member of the Managing Board of the Bank.

Prior to joining First Investment Bank AD, Mr. Todorov worked as Chief Financial Officer (CFO) for Alpha Bank Bulgaria (2012-2014) and for ING Bank NV – Sofia Branch (2004-2012), where he started his banking career in 1997.

Mr. Jivko Todorov holds a Master’s degree in Accounting and Control from the University for National and World Economy in Sofia and is an Executive MBA at HULT International Business School, London UK.

In the Bank he is responsible for the Finance Department, the Accounting Department, the Treasury Department, the Investor Relations Department and the Financial Institutions, Correspondent Banking Department and Intensive Loans Management Department.

Mr. Todorov is a member of the CFO Club in Bulgaria. In 2018, he was awarded in the competition “CFO of the Year 2018”, organized by EY Bulgaria with first award in the category “Strategy for development of the financial function”.

Besides his position in the Bank, Mr. Todorov is a Member of the Board of Directors of Balkan Financial Services EAD.

Nadia Koshinska – Member of the Managing Board and Director of SME Banking Department

Ms. Nadia Koshinska joined Fibank in 1997 as a corporate loan expert. In 2002, she was appointed Deputy Director Loan Administration and held this position until 2004. In 2004 Nadia Koshinska was appointed Director SME Lending Department responsible for increasing the market share of the Bank through implementing special programs and dedicated products for SMEs. Also in 2004, she was appointed as a member of the Credit Council. At the end of 2015, Ms. Koshinska was elected as Chief Retail Banking Officer (CRBO) and Member of the Managing Board, while since September 2017 is a Member of the Managing Board and Director of SME Banking Department.

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

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

In the Bank she is responsible for the SME Banking Department.

Ms. Koshinska does not hold outside professional positions.

The present Activity report (on a consolidated basis) for 2018 was approved by the Managing Board of First Investment Bank AD in accordance with the Bank's internal regulations at a meeting dated 25 April 2019.

Signed

Nedelcho Nedelchev

Chief Executive Officer,

Chairman of the Managing Board

Signed

Svetozar Popov

Executive Director,

Chief Risk Officer,

Member of the Managing Board

Signed

Jivko Todorov

Chief Financial Officer,

Member of the Managing Board

On item 2 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

- Independent Auditors' Report on First Investment Bank's financial statements for 2018 (individual)
- Independent Auditors' Report on First Investment Bank's financial statements for 2018 (consolidated)

INDEPENDENT AUDITORS REPORT

To the shareholders of
First Investment Bank AD

Report on the audit of the stand alone financial statements

Opinion

We have audited the stand alone financial statements of First Investment Bank AD ("the Bank") containing the stand alone statement of financial position as at 31 December 2018 and the stand alone statement of profit and loss and other comprehensive income, the stand alone statement of changes in equity and the stand alone statement of cash flows for the year ended on that date, as well as the notes to the stand alone financial statements that also contain a summary of significant accounting policies.
In our opinion, the accompanying stand alone financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

Basis for opinion

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

Key audit matters

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

Impairment of customer receivables

Findings of substance	**Matters discussed with audit committee**
Impairment is a material judgment of management in respect of losses incurred within the Bank's loan portfolio. The Bank assesses the need for impairment of loans on an individual and portfolio basis. Loans represent 60% of the Bank's assets. The Bank categorizes its receivables from customers in 4 business segments: retail banking, small and medium size enterprises, microlending and corporate clients. The share of receivables from corporate customers is the largest - 57% of the total receivables from customers. Because of their materiality and uncertainty related to the process of identifying deteriorating loans, the assessment of objective evidence of impairment and the determination of recoverable value is defined as a key audit matter. The process includes various assumptions and factors, including the counterparty's financial condition, expected future cash flows, collateral value. As a result, the use of different modeling techniques and assumptions may lead to differences in the valuation of loan loss provisions. Exposures that give the greatest uncertainty to valuations are those where there is a risk of cash flow shortages or collateral insufficiency.	The issues discussed cover the positive results and good practices set out in the provisioning model. The Bank has complied with IFRS requirements when developing policy and provisioning rules. Improvements have been discussed in the procedures that the bank should introduce in order to: – a clearer documenting of judgments about the future cash flows of borrowers and the expected development of future credit exposures, with particular attention being paid to bank lending for working capital. – systematically confirming the commitment of the borrowers' owners to provide ongoing support to the companies. A recommendation was also discussed with The Audit Committee that the banks' risk management bodies monitor the changes in risk factors, the macroeconomic framework and other data used in the provisioning models, and the material changes to be timely reflected in the provisioning models.
How this key audit matter was addressed during the audit	
Procedures carried out in support of our conclusions and discussions: - The internal rules of the bank have been reviewed, we have gained understanding of key controls in key business processes, and tests of effectiveness of controls are performed according to the audit strategy.	

Findings of substance	Matters discussed with audit committee
- A sample of borrowers has been reviewed on a risk-based basis for which substantive procedures have been performed in relation to the assessment of the adequacy of the recognized impairment provision. - For individually accrued provisions, we tested assumptions about the identification and quantification of impairments, including future cash flow projections and credit collateral estimates. We examined a sample of credit exposures that continue to be, have become, or have been, at risk of impairment. - For collective impairment provisions, we reviewed the methodology used by the Bank to determine them, the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. - For selected non-performing loans, we have evaluated the management forecasts for cash flow generation, collateral estimates and other repayment sources. In addition, we have tested a sample of performing loans for which we have assessed the financial performance indicators for weaknesses and other risks that could jeopardize the ability to repay exposures.	
References in the Annual Financial Statements • Note 17 and 17a • Note 2 (j) • Note 3 C (iii)	

Repossessed assets

Findings of substance	Matters discussed with audit committee
The position in the financial statements amounting to BGN 804,707 thousand is disclosed in the respective subgroups. The Buildings group contains assets of varying degrees of completeness and are in line with their condition at the acquisition date. During the year there were sales of assets amounting to BGN 178,688 thousand, of which BGN 165,494 thousand - through leasing of assets under finance leases. The Bank has recognized in the group Other income/(expenses), net (Note 12) profit of BGN 81,117 thousand. The Bank, like any other banking institution, is exposed to a significant risk on the realization of assets acquired as collateral.	The actions and procedures that the bank should implement in order to enable the bank to track the changes in the portion of revenues and expenses by groups and subgroups by the time of realization of the respective assets were discussed. In addition, we have set out our recommendation to improve asset inventory processes that have been acquired as collateral in order to better and fully implement the national financial reporting framework.

Findings of substance	Matters discussed with audit committee
How this key audit matter was addressed during the audit	
Procedures carried out in support of our conclusions and discussions: - The internal rules of the bank have been reviewed, we have gained understanding of key controls in key business processes, and tests of effectiveness of controls are performed according to the audit strategy. - For a sample of newly acquired collateral assets amounting to BGN 6,124 thousand, the acquisition documents were reviewed and the fair value reports were reviewed for a sample of BGN 548,782 thousand. - Supporting documents for our sample have been reviewed in connection with the largest object - a brokerage agreement, a rental agreement, a commission contract and the annexes to them. Substantive procedures have been carried out to confirm the completeness and accuracy of reclassification between the different groups. - We examined the supporting documents for a sample of written off assets amounting to BGN 165,494 thousand, in order to obtain sufficient assurance about the transactions.	
References in the Annual Financial Statements • Note 12 • Note 21	

Litigation and provisions

Findings of substance	Matters discussed with audit committee
The Bank, like any other banking institution, is exposed to a significant risk of litigation and regulatory scrutiny. The magnitude of the impact cannot always be predicted but may result in provisions for contingent and other liabilities depending on the relevant facts and circumstances. The level of provisions is subject to management and judgment based on legal advice. The Bank has recognized provisions of BGN 734 thousand for litigation. In connection with issued bank guarantees, the Bank has blocked funds amounting to BGN 43,094 thousand, which are disclosed in Note 24 as in the financial statements included in the Other Assets sub-group.	Recognition and measurement of provisions has been discussed with the Audit Committee to ensure that the Bank has correctly applied its provisioning policies. Disputes have been discussed in which the Bank has not recognized provisions to ensure that there is no need for additional provision, in particular: the legal department of the bank reports to the Audit Committee on the current status of litigation. Considerable changes have been discussed, taking into account potential changes in provisions. The discussion is also done in order to identify all material litigation.

Findings of substance	**Matters discussed with audit committee**
Due to the uncertainties arising from the occurrence and bringing of claims related to lawsuits against the bank, there is a risk of incomplete or untimely recording in the financial statements of legal claims that are relevant to the respective reporting period.	
How this key audit matter was addressed during the audit	
Procedures carried out in support of our conclusions and discussions: - The internal rules of the bank have been reviewed, we have gained understanding of key controls in key business processes, and audits have been tested for the effectiveness of controls. - A letter was received from the legal department of the bank, as well as from external legal advisors, on information about cases brought in foreign jurisdictions and subsequent proceedings in Bulgaria. Listed are the pending litigation cases in Bulgarian and Romanian courts, where no final decisions are in force.	
References in the Annual Financial Statements • Note 24 • Note 29	

Other matters

In August 2018 the Bulgarian National Bank imposed a Compulsory Administrative measure in relation to breach of art. 60, point 1 from the Credit Institutions Act. The breach relates to providing a loan collaterized with the own shares of the bank. A monetary penalty is imposed which is fully repaid. As at 31 December 2018 the Bank has removed the reason for the breach.

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

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

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

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

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

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.

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

Report on Other Legal and Regulatory Requirements

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

In addition to our responsibilities and reporting in accordance with ISAs, described above in the "Other information other than the financial report and the audit report on it" 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). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

a) The information included in the management report referring to the financial year for which the financial statements have been prepared is consistent with those financial statements.
b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
c) The corporate governance statement referring to the financial year for which the financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.
d) The non-financial declaration for the financial year for which the financial statements have been prepared has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

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

Additional Reporting on the Audit of the 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 34 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 2018, 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 2018, 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 financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.

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

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

- Mazars OOD and BDO Bulgaria OOD have been appointed as statutory auditors of the financial statements for the year ended 31 December 2018 of the First Investment Bank (the "Bank") at the General Meeting of Shareholders held on 21 June 2018 for a period of one year.
- The audit of the financial statements for the year ending 31 December 2018 of the Bank is the second full continuous engagement to a statutory audit of this enterprise by Mazars OOD and a fourth full continuous engagement to a statutory audit of this entity by BDO Bulgaria OOD.
- We confirm that our audit opinion is consistent with the additional report submitted to the Audit Committee of the Bank, in accordance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We confirm that we have not provided the specified in Art. 64 of the Independent Financial Audit Act forbidden services outside the audit.
- We confirm that we have retained our independence in relation to the Bank in conducting the audit.

Sofia, 5 April 2019

For BDO Bulgaria Ltd:

Nedyalko Apostolov
Manager

Stoyanka Apostolova
Registered auditor responsible for the audit
Bulgaria Boulevard, 51 b, fl. 4

For MAZAR Ltd.:

Atanasios Petropoulos
Procurator

Milena Mladenova
Registered auditor responsible for the audit
Bul. Tsar Osvoboditel № 2

INDEPENDENT AUDITORS REPORT

To the shareholders of
First Investment Bank AD

Report on the audit of the consolidated financial statements
Opinion

We have audited the consolidated financial statements of First Investment Bank AD and its subsidiaries ("the Group") containing the consolidated statement of financial position as at 31 December 2018 and the consolidated statement of profit and loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended on that date, as well as the notes to the consolidated financial statements that also contain a summary of significant accounting policies.
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of First Investment Bank AD and its subsidiaries as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union (EU).

Basis for opinion

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

Key audit matters

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

Findings of substance - Impairment of customer receivables	Matters discussed with audit committee
Impairment is a material judgment of management in respect of losses incurred within the First Investment Bank AD's loan portfolio. First Investment Bank AD assesses the need for impairment of loans on an individual and portfolio basis. Loans represent 60% of the assets of First Investment Bank AD. First Investment Bank AD categorizes its receivables from customers in 4 business segments: retail banking, small and medium enterprises, microcredit and corporate clients. The share of receivables from corporate customers is the largest - 55% of the total receivables from customers. Because of their materiality and uncertainty related to the process of identifying deteriorating loans, the assessment of objective evidence of impairment and the determination of recoverable value is defined as a key audit matter. The process includes various assumptions and factors, including the counterparty's financial condition, expected future cash flows, collateral value. As a result, the use of different modeling techniques and assumptions may lead to differences in the valuation of loan loss provisions. Exposures that give the greatest uncertainty to valuations are those where there is a risk of cash flow shortages or collateral insufficiency.	The issues discussed cover the positive results and good practices set out in the provisioning model. First Investment Bank AD has complied with IFRS requirements when developing policy and provisioning rules. Improvements have been discussed in the procedures that First Investment Bank AD should introduce in order to: – a clearer documenting of judgments about the future cash flows of borrowers and the expected development of future credit exposures, with particular attention being paid to lending for working capital by First Investment Bank AD. – systematically confirming the commitment of the borrowers' owners to provide ongoing support to the companies. A recommendation was also discussed with The Audit Committee that the risk management bodies of First Investment Bank AD monitor the changes in risk factors, the macroeconomic framework and other data used in the provisioning models, and the material changes to be timely reflected in the provisioning models.

Findings of substance - Impairment of customer receivables	Matters discussed with audit committee
How this key audit matter was addressed in our audit:	
Procedures carried out in support of our conclusions and discussions: - The internal rules of First Investment Bank AD have been reviewed, we have gained understanding of key controls in key business processes, and tests of effectiveness of controls are performed according to the audit strategy. - A sample of borrowers has been reviewed on a risk-based basis for which substantive procedures have been performed in relation to the assessment of the adequacy of the recognized impairment provision. - For individually accrued provisions, we tested assumptions about the identification and quantification of impairments, including future cash flow projections and credit collateral valuation. We examined a sample of credit exposures that continue to be, have become, or have been, at risk of impairment. - For collective impairment provisions, we reviewed the methodology used by First Investment Bank AD to determine them, the reasonableness of the underlying assumptions and the sufficiency of the data used by the management. - For selected non-performing loans, we have evaluated the management forecasts for cash flow generation, collateral valuations and other repayment sources. In addition, we have tested a sample of performing loans for which we have assessed the financial performance indicators for weaknesses and other risks that could jeopardize the ability to repay exposures.	
References in the Annual Financial Statements • Note 18 and 18a • Note 2 (j) • Note 3 C (iii)	

Findings of substance - Assets acquired as collateral	Matters discussed with audit committee
The position in the consolidated financial statements amounting to BGN 812,934 thousand is disclosed in the respective subgroups. The Buildings group contains assets of varying degrees of completeness and are in line with their condition at the acquisition date. During the year there were sales of assets amounting to BGN 178,933 thousand, of which BGN 165,494 thousand - through leasing of assets under finance leases.	The actions and procedures that First Investment Bank AD should implement in order to enable First Investment Bank AD to track the changes in the portion of revenues and expenses by groups and subgroups by the time of realization of the respective assets were discussed. In addition, we have set out our recommendation to improve asset inventory processes that have been acquired as collateral in order to better and fully implement the national financial reporting framework.

Findings of substance - Assets acquired as collateral	Matters discussed with audit committee
First Investment Bank AD has recognized in the group Other expenses, net (Note 12) income of BGN 81,098 thousand. First Investment Bank AD, like any other banking institution, is exposed to a significant risk on the realization of assets acquired as collateral.	
How this key audit matter was addressed in our audit:	
Procedures carried out in support of our conclusions and discussions: - The internal rules of First Investment Bank AD have been reviewed, we have gained understanding of key controls in key business processes, and tests of effectiveness of controls are performed according to the audit strategy. - For a sample of newly acquired collateral assets amounting to BGN 6,124 thousand, the acquisition documents were reviewed and the fair value reports were reviewed for a sample of BGN 548,782 thousand. - Supporting documents for our sample have been reviewed in connection with the largest object - a brokerage agreement, a rental agreement, a commission contract and the annexes to them. Substantive procedures have been carried out to confirm the completeness and accuracy of reclassification between the different groups. - We examined the supporting documents for a sample of written off assets amounting to BGN 165,494 thousand, in order to obtain sufficient assurance about the transactions.	
References in the Annual Consolidated Financial Statements • Note 12 • Note 22	

Findings of substance - Litigation and provisions	Matters discussed with audit committee
First Investment Bank AD, like any other banking institution, is exposed to a significant risk of litigation and regulatory scrutiny. The magnitude of the impact cannot always be predicted but may result in provisions for contingent and other liabilities depending on the relevant facts and circumstances. The level of provisions is subject to management and judgment based on legal advice.	Recognition and measurement of provisions has been discussed with the Audit Committee to ensure that First Investment Bank AD has correctly applied its provisioning policies. Disputes have been discussed in which First Investment Bank AD has not recognized provisions to ensure that there is no need for additional provision, in particular:

<table>
<tr><th>Findings of substance - Litigation and provisions</th><th>Matters discussed with audit committee</th></tr>
<tr><td>First Investment Bank AD has recognized provisions of BGN 734 thousand for litigation.
In connection with issued bank guarantees, First Investment Bank AD has blocked funds amounting to BGN 43,094 thousand, which are disclosed in Note 24 in the consolidated financial statements included in the Other Assets sub-group.
Due to the uncertainties arising from the occurrence and bringing of claims related to lawsuits against First Investment Bank AD, there is a risk of incomplete or untimely recording in the consolidated financial statements of legal claims that are relevant to the respective reporting period.</td><td>the legal department of First Investment Bank AD reports to the Audit Committee on the current status of litigation. Considerable changes have been discussed, taking into account potential changes in provisions.
The discussion is also done in order to identify all material litigation.</td></tr>
<tr><td colspan="2">How this key audit matter was addressed in our audit:</td></tr>
<tr><td colspan="2">Procedures carried out in support of our conclusions and discussions:

- The internal rules of First Investment Bank AD and its subsidiries have been reviewed, we have gained understanding of key controls in key business processes, and audits have been tested for the effectiveness of controls in accordance with the audit strategy.
- A letter was received from the legal department of First Investment Bank AD, as well as from external legal advisors, on information about cases brought in foreign jurisdictions and subsequent proceedings in Bulgaria. Listed are the pending litigation cases in Bulgarian and Romanian courts, where no final decisions are in force.</td></tr>
<tr><td colspan="2">References in the Annual Consolidated Financial Statements
• Note 24
• Note 29</td></tr>
</table>

Other matters

In August 2018 the Bulgarian National Bank imposed a Compulsory Administrative measure in relation to breach of art. 60, point 1 from the Credit Institutions Act. The breach relates to providing a loan collaterized with the own shares of the bank. A monetary penalty is imposed which is fully repaid. As at 31 December 2018 the Bank has removed the reason for the breach.

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

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

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

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

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

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of 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 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 consolidated 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 consolidated 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.

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

Based on the procedures performed, our opinion is that:

a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated 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.
d) The consolidated non-financial declaration for the financial year for which the consolidated financial statements have been prepared has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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

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

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

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

The information about related party transactions is disclosed in Note 34 to the consolidated financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the consolidated financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related party transactions have not been disclosed in the accompanying consolidated financial statements for the year ended 31 December 2018, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures on related party transactions were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not for the purpose of expressing a separate opinion on related party transactions.

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

Our responsibilities for the audit of the consolidated financial statements as a whole, described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report include an evaluation as to whether the consolidated financial statements present the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the consolidated financial statements for the year ended 31 December 2018, no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations and disclosures in accordance with the relevant requirements of IFRSs as adopted by the European Union. The results of our audit procedures on Group's transactions and events significant for the consolidated financial statements were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not for the purpose of expressing a separate opinion on those significant transactions.

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

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

- Mazars OOD and BDO Bulgaria OOD have been appointed as statutory auditors of the consolidated financial statements for the year ended 31 December 2018 of First Investment Bank and its subsidiaries (the "Group") at the General Meeting of Shareholders held on 21 June 2018 for a period of one year.
- The audit of the consolidated financial statements for the year ending 31 December 2018 of First Investment Bank and its subsidiaries is the second full continuous engagement to a statutory audit of this enterprise by Mazars OOD and a fourth full continuous engagement to a statutory audit of this entity by BDO Bulgaria OOD.
- We confirm that our audit opinion is consistent with the additional report submitted to the Audit Committee of First Investment Bank, in accordance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We confirm that we have not provided the specified in Art. 64 of the Independent Financial Audit Act banned services outside the audit.

— We confirm that we have retained our independence in relation to First Investment Bank and its subsidiaries in conducting the audit.

Sofia, 25 April 2019

For BDO Bulgaria Ltd:

Nedyalko Apostolov
Manager

Stoyanka Apostolova
Registered auditor responsible for the audit
Bulgaria Boulevard, 51 b, fl. 4

For MAZARS Ltd.:

Atanasios Petropoulos
Procurator

Milena Mladenova
Registered auditor responsible for the audit
Bul. Tsar Osvoboditel № 2

On item 3 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

- Annual financial statements of First Investment Bank for 2018 (individual)
- Annual financial statements of First Investment Bank for 2018 (consolidated)

FIRST INVESTMENT BANK AD

INDIVIDUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
WITH INDEPENDENT AUDITORS' REPORT THEREON

Individual statement of profit or loss and of other comprehensive income for the year ended 31 December 2018

In BGN '000

	Note	2018	2017
Interest income		312,212	340,218
Interest expense		(61,327)	(92,640)
Net interest income	**6**	**250,885**	**247,578**
Fee and commission income		115,372	116,650
Fee and commission expense		(21,826)	(17,799)
Net fee and commission income	**7**	**93,546**	**98,851**
Net trading income	8	12,279	15,435
Other net operating income	9	15,653	27,450
TOTAL INCOME FROM BANKING OPERATIONS		**372,363**	**389,314**
Administrative expenses	10	(202,315)	(196,635)
Allowance for impairment	11	(82,500)	(77,511)
Other income/(expenses), net	12	64,776	(20,480)
PROFIT BEFORE TAX		**152,324**	**94,688**
Income tax expense	13	11,814	(9,222)
NET PROFIT		**164,138**	**85,466**
Other comprehensive income for the period			
Items which should or may be reclassified as profit or loss			
Revaluation reserve of investments in securities		(3,739)	2,067
Total other comprehensive income		**(3,739)**	**2,067**
TOTAL COMPREHENSIVE INCOME		**160,399**	**87,533**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 66.

NEDELCHO NEDELCHEV	CHAVDAR ZLATEV	JIVKO TODOROV
Chief Executive Officer	*Executive Director*	*Chief Financial Officer*

Audited as per the auditors' report dated 05/04/2019:

BDO Bulgaria OOD

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor responsible for the audit

Mazars OOD

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor responsible for the audit

Individual statement of financial position as at 31 December 2018

In BGN '000

	Note	2018	2017
ASSETS			
Cash and balances with Central Banks	14	1,615,646	1,425,252
Investments in securities	15	681,464	699,560
Loans and advances to banks and other financial institutions	16	125,472	54,402
Loans and advances to customers	17	5,525,957	5,018,298
Property and equipment	18	80,627	89,271
Intangible assets	19	13,339	6,395
Derivatives held for risk management		905	1,596
Current tax assets		605	14
Repossessed assets	21	804,707	977,434
Investment Property	22	242,558	218,212
Investments in subsidiaries	23	36,179	36,357
Other assets	24	110,378	115,780
TOTAL ASSETS		**9,237,837**	**8,642,571**
LIABILITIES AND CAPITAL			
Due to banks	25	17,243	5,743
Due to other customers	26	8,021,439	7,338,375
Liabilities evidenced by paper	27	118,156	118,517
Hybrid debt	28	208,786	208,786
Derivatives held for risk management		88	-
Deferred tax liability	20	1,696	14,255
Current tax liabilities		-	2,111
Other liabilities	29	57,516	25,500
TOTAL LIABILITIES		**8,424,924**	**7,713,287**
Issued share capital	30	110,000	110,000
Share premium	30	97,000	97,000
Statutory reserve	30	39,861	39,861
Revaluation reserve of investments in securities		10,881	19,524
Revaluation reserve on property		4,500	4,500
Other reserves and retained earnings	30	550,671	658,399
TOTAL SHAREHOLDERS' EQUITY		**812,913**	**929,284**
TOTAL LIABILITIES AND GROUP EQUITY		**9,237,837**	**8,642,571**

The statement of the financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 66.

NEDELCHO NEDELCHEV
Chief Executive Officer

CHAVDAR ZLATEV
Executive Director

JIVKO TODOROV
Chief Financial Officer

Audited as per the auditors' report dated 05/04/2019:

BDO Bulgaria OOD

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor responsible for the audit

Mazars OOD

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor responsible for the audit

Individual statement of cash flows for the year ended 31 December 2018

In BGN '000

	2018	2017
Net cash flow from operating activities		
Net profit	164,138	85,466
Adjustment for non-cash items		
Allowance for impairment	82,500	77,511
Net interest income	(250,885)	(247,578)
Depreciation and amortization	14,840	15,725
Tax expense	(11,814)	9,222
Loss from sale and write-off of tangible and intangible fixed assets, net	11	220
(Profit) from sale of other assets, net	(81,248)	(10,487)
(Positive) revaluation of investment property	(13,669)	-
	(96,127)	**(69,921)**
Change in operating assets		
Decrease in financial assets at fair value through profit or loss	26,058	1,601
(Increase) in financial assets at fair value in other comprehensive income	(23,573)	(142,084)
(Increase) in loans and advances to banks and financial institutions	(12)	(2,277)
(Increase) in loans to customers	(955,688)	(269,150)
(Increase)/decrease in other assets	6,102	(22,914)
	(947,113)	**(434,824)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	11,500	(993)
Increase/(decrease) in amounts owed to other depositors	697,806	(323,358)
Net increase in other liabilities	31,083	6,689
	740,389	**(317,662)**
Interest received	375,791	409,201
Interest paid	(75,898)	(124,841)
Dividends received	61	4,423
Tax on profit, paid	(3,031)	(7,909)
NET CASH FLOW FROM OPERATING ACTIVITIES	**(5,928)**	**(541,533)**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(13,159)	(8,994)
Sale of tangible and intangible fixed assets	8	281
Sale of other assets	270,894	112,615
Decrease in investments	10,136	223,848
NET CASH FLOW FROM INVESTING ACTIVITIES	**267,879**	**327,750**
Financing activities		
Increase/(decrease) in borrowings	(532)	47,931
NET CASH FLOW FROM FINANCING ACTIVITIES	**(532)**	**47,931**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**261,419**	**(165,852)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,467,355**	**1,633,207**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**1,728,774**	**1,467,355**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 66.

NEDELCHO NEDELCHEV	CHAVDAR ZLATEV	JIVKO TODOROV
Chief Executive Officer	*Executive Director*	*Chief Financial Officer*

Audited as per the auditors' report dated 05/04/2019:

BDO Bulgaria OOD

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor
responsible for the audit

Mazars OOD

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor
responsible for the audit

Individual statement of shareholders' equity for the year ended 31 December 2018

In BGN '000

	Issued share capital	Share premium	Other reserves and retained earnings	Revaluation reserve of investments in securities	Revaluation reserve on property	Statutory reserve	Total
Balance at 01 January 2017	**110,000**	**97,000**	**572,933**	**17,457**	**4,500**	**39,861**	**841,751**
Total comprehensive income for the period							
Net profit for the year ended 31 December 2017	-	-	85,466	-	-	-	85,466
Other comprehensive income for the period							
Revaluation reserve on available for sale investments	-	-	-	2,067	-	-	2,067
Balance as at 31 December 2017	**110,000**	**97,000**	**658,399**	**19,524**	**4,500**	**39,861**	**929,284**
Initial application of IFRS 9							
Effect from the initial application of IFRS 9 as regards impairment losses	-	-	(276,770)	-	-	-	(276,770)
Effect from the initial application of IFRS 9 as regards the revaluation reserve of investments in securities	-	-	4,904	(4,904)	-	-	-
Change in balances as at 1 January 2018	**110,000**	**97,000**	**386,533**	**14,620**	**4,500**	**39,861**	**652,514**
Total comprehensive income for the period							
Net profit for the year ended 31 December 2018	-	-	164,138	-	-	-	164,138
Other comprehensive income for the period							
Revaluation reserve of investments in securities	-	-	-	(3,739)	-	-	(3,739)
Balance as at 31 December 2018	**110,000**	**97,000**	**550,671**	**10,881**	**4,500**	**39,861**	**812,913**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 66.

The financial statements have been approved by the Managing Board on 4 April 2019 and signed on its behalf by:

NEDELCHO NEDELCHEV	CHAVDAR ZLATEV	JIVKO TODOROV
Chief Executive Officer	*Executive Director*	*Chief Financial Officer*

Audited as per the auditors' report dated 05/04/2019:

BDO Bulgaria OOD

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor responsible for the audit

Mazars OOD

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor responsible for the audit

Notes to the financial statements

1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) was incorporated in 1993 in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

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

The Bank has foreign operations in Cyprus.

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

(b) Statement of compliance

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

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

(c) Presentation

The financial statements are presented in Bulgarian Leva (BGN) rounded to the nearest thousand.
The financial statements are prepared in accordance with the fair value principle of derivative financial instruments, financial instruments recognised at fair value in profit or loss, as well as assets recognised at fair value in other comprehensive income. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

The present financial statements of the Bank are not consolidated. These individual financial statements form an integral part of the consolidated financial statements. Information about the basic earnings per share is given in the consolidated financial statements.

(d) New standards, amendments and interpretations effective as of 01 January 2018

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:

- 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), endorsed by the EU on 22 September 2016, published in the Official Journal on 29 October 2016
- IFRS 9 Financial Instruments (issued on 24 July 2014), endorsed by the EU on 22 November 2016, published in the Official Journal on 29 November 2016
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016), endorsed by the EU on 31 October 2017, published in the Official Journal on 9 November 2017
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016), endorsed by the EU on 3 November 2017, published in the Official Journal on 9 November 2017
- Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016), endorsed by the EU on 7 February 2018, published in the Official Journal on 8 February 2018

1. Basis of preparation, continued

(d) New standards, amendments and interpretations effective as of 01 January 2018, continued

- IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters for transition to IFRS 7, IAS 19 and IFRS 10 which are no longer applicable.
- IAS 28 Investments in Associates and Joint Ventures – Measuring an associate or joint venture at fair value. The amendment clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016), endorsed by the EU on 26 February 2018, published in the Official Journal on 27 February 2018
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016), endorsed by the EU on 14 March 2018, published in the Official Journal on 15 March 2018
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016), endorsed by the EU on 28 March 2018, published in the Official Journal on 3 April 2018

The adoption of these amendments to the existing standards has not led to any changes in the Bank's accounting policies with the exception of the application of IFRS 9.

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

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

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

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

As of 01.01.2018 a number of available-for-sale financial assets at total amount of BGN 18,286 thousand are measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest. The related fair value gains were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018. Management does not report a significant effect on the equity components from this change in accounting

The other financial assets held by the Bank at 01.01.2018 include:

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

Fibank
Първа инвестиционна банка

(d) New standards, amendments and interpretations effective as of 01 January 2018, continued

- equity investments, amounting to BGN 4,164 thousand available-for-sale, up to now measured at fair value through profit or loss which the Bank continued to measure on the same basis under IFRS 9;

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

- debt instruments, amounting to BGN 1,261 thousand currently classified as financial assets available-for-sale which meet the conditions for classification at amortised cost under IFRS 9. Management does not report a significant effect on the equity components (revaluation reserve of investments in securities) from this change in accounting.

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

An expected credit loss-based impairment should be recognised on the Bank's trade receivables and investments in debt-type assets currently classified as AFS and HTM unless classified as at fair value through profit or loss in accordance with the new criteria. The Bank recognises impairment also on its off-balance sheet commitments on the basis of the expected loss. Based on the assessments undertaken as at 01.01.2018, the Bank reports a certain increase in the loss allowance

- for trade debtors by BGN 258,322 thousand;
- securities at amortised cost in the amount of BGN 158 thousand;
- off-balance sheet commitments amounting to BGN 18,290 thousand.

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

At 01.01.2018 the Bank intends to present the changes in the fair value of investments in equity instruments in profit or loss, not in other comprehensive income.

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

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

IFRS 16 Leases, effective as of 1 January 2019, replaces the instructions to IAS 17 Leases and makes changes to the accounting for leases, especially for lessees.

According to IAS 17 lessees were required to distinguish between finance leases (recognised in the balance sheet) and operating leases (off-balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting lease payments to be made and the right-of-use asset for almost all lease agreements.

1. Basis of preparation, continued

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

IASB envisaged exemptions for short-term leases or leases of low-value assets; these exemptions may only be applied by the lessee.

Lessor accounting remains largely unchanged.

According to IFRS 16, a lease agreement or an agreement containing a lease, is an agreement which grants the right to control the use of an asset over a given period of time against remuneration.

The management is in the process of assessing the effect from application of the standard, but cannot yet provide quantitative information. The following steps have been undertaken:

- All agreements are subjected to comprehensive review in order to assess whether further agreements may be considered as lease agreements pursuant to the new definition of IFRS 16;
- A decision is to be made which transition approach to opt for - either a full or a modified retrospective transition approach (which means that comparative information will not be restated). Under the modified approach it is possible not to assess whether existing agreements contain leases and other relief. The decision which approach to chose is important because it cannot be changed later.
- Current disclosures on financial lease and operating lease agreements are being assessed, since they might be the basis for determining the capitalised amount and may become right-of-use assets.
- It is being determined what accounting simplification is applicable to lease agreements and whether the right to exemption will be used.
- The requirements to the existing IT system are being reviewed;
- the additional required disclosures are being assessed.

Management does not expect a significant effect from application of this standard, since in the analysed rental agreements to which the Bank is a party as a tenant:

- The right to control the asset is not transferred because in practice the Bank's ability to receive substantially all of the economic benefits from use of the asset in practice is limited. In essence, all rental agreements to which the Bank is a party deprive it of the right to sublease the property to third parties.
- In the analysed rental agreements the right to control the use of the asset is not transferred, and the bank is limited in making relevant decisions regarding how to use the rented asset, as it can only make decisions related to the operating use and maintenance of said asset. In essence, as regards all rental agreements, the Bank has no right to change the approved manner of use for the property by making a decision to use it for purposes different from those initially approved. The lessor, on the other hand, being the owner, may at any time change the instructions for use given upon the initial agreement. This in practice deprives the bank as lessee of the full right to control the use of the asset.
- Due to the reasons listed above the Bank assumes that a significant portion of the rental agreements to which the Bank is a party as a lessee do not fall within the scope of the definition for lease.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017), endorsed by the EU on 22 March 2018, published in the Official Journal on 26 March 2018
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017), effective 1 January 2019;

1. Basis of preparation, continued

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

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

- IFRS 17 Insurance Contracts (issued on 18 May 2017)
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017), effective 1 January 2019.
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018), effective 1 January 2019
- IFRS 14 Regulatory Deferral Accounts, effective 1 January 2016.
- IFRIC 23 Uncertainty over Income Tax Treatments, effective 1 January 2019
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017), effective 1 January 2019
- IFRS 11 Joint Arrangements - the company does not revaluate its previous share in jointly controlled activities when acquiring joint control over the operations.
- IAS 12 Income Taxes - the company recognises all tax consequences from the payment of dividends in the same way as the dividends themselves.
- IAS 23 Borrowing Costs - the company treats as part of the total borrowings any borrowing initially taken out to develop an asset when the asset is ready for the planned use or sale.
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018), effective 1 January 2020.

2. Significant accounting policies

(a) Income recognition

(i) Interest income

Interest income and expense is recognised in the profit or loss as it accrues, taking into account the effective yield of the asset (liability) or an applicable floating rate. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank 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.

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

2. Significant accounting policies, continued

(a) Income recognition, continued

(ii) Fees and Commissions

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

(iii) Net trading income

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

(iv) Dividend income

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

(b) Basis of consolidation of subsidiaries

Investments in subsidiaries are stated at cost, minus the accrued impairment.

2. Significant accounting policies, continued

(c) Foreign currency transactions

(i) Functional and presentation currency

The financial statements are presented in Bulgarian leva, which is the Bank's functional and presentation currency.

Transactions and balances

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

(iii) Foreign operations

The functional currency of the foreign operations in Cyprus is determined by the management to be the Euro. In determining the functional currency of the foreign operations, the Bank takes into account the fact that they are carried out as an extension of the reporting entity.

(d) Financial assets

(I) Recognition

The Bank recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Bank initially recognizes trade and other receivables on the date of transaction. Advances to customers are recognised when cash is advanced to the borrowers. At initial recognition, the Bank measures all financial assets at fair value plus, in the case of financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The Bank classifies financial assets in the following categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, or financial assets measured at fair value through profit or loss. Management determines the classification of investments at initial recognition according to the business model for management of the specific class of financial assets and the contractual features of the cash flows associated with that financial asset.

(ii) Financial assets at amortised cost

Debt instruments held within the Bank's business model whose objective is to hold assets in order to collect contractual cash flows and where the contractual cash flows give rise only to principal and interest payments are recognised at amortised cost. After the initial recognition assets are booked at amortised cost.

Recognition at amortised cost requires application of the effective interest rate method. The amortised cost of a financial asset is the value at which the financial asset was initially recognised, minus the principal repayments plus or minus the amortisation accrued by using the effective interest rate method for each difference between the initial value and the value at the maturity date and minus impairment.

2. Significant accounting policies, continued

(d) Financial assets, continued

(Iii) Financial assets at fair value through other comprehensive income

Debt instruments held within the Bank's business model whose objective is to hold assets in order to collect contractual cash flows or to sell the asset and where the contractual cash flows give rise only to principal and interest payments are recognised at fair value in other comprehensive income. After initial recognition, the asset is measured at fair value with changes in fair value in revaluation reserve of investments in securities (other comprehensive income). When the debt instrument is written off, the profit or loss accrued and recognised in other comprehensive income is transferred to profit or loss.

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

The position contains two categories: financial assets held for trading and financial assets not classified in the above two categories. A financial asset is classified in this category if it was acquired for the purpose of short-term sale or if its contractual characteristics do not meet the requirement for generating payments of only principal and interest. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Bank does not designate any debt instrument as at fair value through profit or loss to remove or significantly reduce an accounting mismatch.

(v) Capital instruments at fair value through other comprehensive income

The Bank may make an irrevocable election to recognize changes in fair value of investments in equity instruments through other comprehensive income, not through profit or loss. A gain or loss from fair value changes will be shown in other comprehensive income and will not be reclassified subsequently to profit or loss. When the equity instrument is written off, the profit or loss accrued and recognised in other comprehensive income is directly transferred to other reserves and retained earnings.

(vi) Fair value measurement principles

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

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

When there is no quoted price in an active market, the Bank 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.

2. Significant accounting policies, continued

(d) Financial assets, continued

(vi) Fair value measurement principles, continued

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 Bank 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 Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

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

(vii) Derecognition

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

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

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

In transactions in which the Bank 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 Bank 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 the central bank and short-term highly liquid accounts and advances to banks with original maturity of up to three months.

(f) Investments

Investments that the Bank holds for the purpose of short-term profit taking or repurchases are classified as financial assets for trading. Investments in debt instruments held by the Bank as part of a business model for the purpose of collecting contractual cash flows are classified as financial assets at amortised cost. Investments in debt instruments held by the Bank as part of a business model for the purpose of collecting contractual cash flows and sale are classified as financial assets at fair value in other comprehensive income. All other investments, including those whose contractual terms do not meet the requirement for generation of only principal and interest payments are classified as recognised at fair value in profit or loss.

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

(ii) Repurchase agreements

The Bank 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 are reported as liabilities to either banks or other customers.

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

(h) Borrowings

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

If the Bank 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.

The Bank writes off financial liabilities when they are repaid, i.e. when the contractual obligation is fulfilled, revoked or expires.

(i) Offsetting

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

(j) Impairment of financial assets

The Bank recognizes 12-month expected credit loss as loss allowance when there is no significant increase in the credit risk since initial recognition. When there is a significant increase in credit risk since initial recognition, expected credit losses for the remaining life of the financial assets are recognized as loss allowance.

Whether credit risk is significantly increased or not is determined based on the following factors and events for the debtor or the exposure:

- Internal behavioural scoring of natural persons, companies and institutions whose exposures are above the threshold for significance;
- Decrease in credit rating (internal or external) by a given number of notches for companies and institutions whose exposures are above the threshold for significance.
- Delinquencies;
- Other factors.

(k) Property and equipment

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

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

Assets	%
• Buildings	3 - 4
• Equipment	10 - 50
• Fixtures and fittings	10 - 15
• Motor vehicles	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 acquired by the Bank 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	%
• Licenses and trademarks	14
• Software and licences	8 - 50

(m) Investment Property

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

(n) Provisions

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

(o) Acceptances

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

(p) Off-balance sheet commitments

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

(q) Taxation

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

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

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

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

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

The Bank 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 2018 are stated below and are related to the impairment of financial instruments, income tax and the following notes related to other elements of the financial statements:

- Note 5 - determining of the fair value of the financial instruments through valuation techniques, in which the input data for the financial assets and liabilities are not based on the available market information.
- Note 20 - 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.

(ii) Assessment of repossessed assets from collaterals

Assets accepted as collateral are recognized at the lower of the cost of acquisition and the net realizable value. When evaluating the net realizable value of the assets the Bank 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 Bank is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(s) Employee benefits

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

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

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

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

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

Termination benefits
Termination benefits are recognised as an expense when the Bank is committed demonstrably,

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

Short-term employee benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably. The Bank 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.

3. Risk management disclosures

A. Trading activities

The Bank maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Bank's trading activities are customer driven. In anticipation of customer demand, the Bank 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 Bank to provide customers with money market products at competitive prices.

The Bank manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(i) Credit risk

The risk that counterparts to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

Settlement risk is the risk of loss due to counterpart failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

(ii) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Bank assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Bank's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits for buying or selling instruments set by senior management .

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain unchanged for the specified time interval. Value at risk is calculated using one day horizon and 99 per cent confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of interest VaR for all positions carried at fair value that was experienced in 2018:

	31 December	**2018**			**31 December**
in thousands of BGN	**2018**	**average**	**low**	**high**	**2017**
VaR	319	527	310	1,036	573

B. Non-trading activities

Below is a discussion of the various risks the Bank 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 Bank will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, subordinated debt instruments and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds.

The Bank 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 Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. The body managing liquidity is the Assets, Liability and Liquidity Management Council.

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 the Recovery and Restructuring of Credit Institutions and Investment Intermediaries, First Investment Bank AD prepared a recovery plan if financial difficulties occur. It includes qualitative and quantitative early warning signals and indicators of recovery such as capital and liquidity indicators, income indicators, market-oriented indicators upon the occurrence of which recovery measures are triggered. Liquidity indicators include Liquidity Coverage Ratio (LCR); net withdrawal of financing; liquid assets to deposits by non-financial customers ratio; Net Stable Funding Ratio (NSFR). Different stress test scenarios related to idiosyncratic shock, system shock and aggregate shock have been prepared. In case of liquidity pressure, there are systems in place to ensure prompt and adequate reaction which include obtaining additional funds from local and international markets through issuance of appropriate financial instruments depending on the specific case as well as sale of non-liquid assets. The levels of decision making are clearly determined.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

Liquidity risk, continued

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.

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

Liquid assets

In BGN '000	**31 December 2018**	**31 December 2017**
Balances with BNB	1,034,757	874,096
Current accounts and amounts with other banks	684,823	585,440
Unencumbered debt securities	447,449	461,492
Gold	5,585	6,089
Total liquid assets	**2,172,614**	**1,927,117**

Reasonable liquidity management requires avoidance of concentration of the borrowings from large depositors. Analysis of the significant borrowings in terms of total amount is performed on a daily basis and the diversity of the total liabilities portfolio is supervised.

As at 31 December 2018 the thirty largest non-bank unguaranteed depositors represent 4.93% of total deposits from other customers (31 December 2017: 4.20%).

One of the main ratios used by the Bank for managing liquidity risk is the ratio of liquid assets to total borrowings from other clients.

	31 December 2018	**31 December 2017**
Ratio of liquid assets to total borrowings from other clients	27.09%	26.26%

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

Liquidity risk, continued

The following table provides an analysis of the financial assets and liabilities of the Bank into relevant maturity groupings based on the remaining periods to repayment.

Maturity table as at 31 December 2018

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	1,615,646	-	-	-	-	**1,615,646**
Financial assets at fair value through profit or loss	7,180	-	-	-	17,498	**24,678**
Financial assets at fair value through other comprehensive income	656,038	-	-	-	-	**656,038**
Financial assets at amortised cost	-	-	-	748	-	**748**
Loans and advances to banks and other financial institutions	122,257	628	78	2,509	-	**125,472**
Loans and advances to	365,219	177,246	751,899	4,231,593	-	**5,525,957**
Other trading assets	905	-	-	-	-	**905**
Total financial assets	**2,767,245**	**177,874**	**751,977**	**4,234,850**	**17,498**	**7,949,444**
Liabilities						
Due to banks	17,243	-	-	-	-	**17,243**
Due to other customers	3,420,931	923,335	2,647,256	1,029,917	-	**8,021,439**
Liabilities evidenced by paper	5	1,222	3,441	113,488	-	**118,156**
Hybrid debt	-	-	-	-	208,786	**208,786**
Other financial liabilities, net	(2)	63	27	-	-	**88**
Total financial liabilities	**3,438,177**	**924,620**	**2,650,724**	**1,143,405**	**208,786**	**8,365,712**
Net liquidity gap	**(670,932)**	**(746,746)**	**(1,898,747)**	**3,091,445**	**(191,288)**	**(416,268)**

The table shows investments at fair value through other comprehensive income with a maturity of up to 1 month in order to reflect the management's ability to sell them within a short-term period, if needed.

The Bank does not recognize as liquidity risk the current undrawn amounts of loans extended because the management considers that, based on the agreed conditions, the Bank can at any time terminate the extension of funds to its borrowers in case it is expected that their credit risk will increase.

Loans and advances to customers reflect also financial lease receivables.

3. Risk management disclosures, continued

B. Non-trading activities, continued

Liquidity risk, continued

Maturity table as at 31 December 2017

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	1,425,252	-	-	-	-	**1,425,252**
Financial assets held for trading	6,906	-	-	-	-	**6,906**
Investments available for sale	657,219	-	-	-	15,820	**673,039**
Financial assets held to maturity	-	-	9,785	9,830	-	**19,615**
Loans and advances to banks and other financial institutions	52,258	-	-	2,144	-	**54,402**
Loans and advances to	361,046	226,920	970,662	3,459,670	-	**5,018,298**
Other financial assets, net	1,720	(124)	-	-	-	**1,596**
Total financial assets	**2,504,401**	**226,796**	**980,447**	**3,471,644**	**15,820**	**7,199,108**
Liabilities						
Due to banks	5,743	-	-	-	-	**5,743**
Due to other customers	2,775,979	868,041	2,625,066	1,069,289	-	**7,338,375**
Liabilities evidenced by paper	2	-	241	118,274	-	**118,517**
Hybrid debt	-	-	-	-	208,786	**208,786**
Total financial liabilities	**2,781,724**	**868,041**	**2,625,307**	**1,187,563**	**208,786**	**7,671,421**
Net liquidity gap	**(277,323)**	**(641,245)**	**(1,644,860)**	**2,284,081**	**(192,966)**	**(472,313)**

3. Risk management disclosures, continued

B. Non-trading activities, continued

Liquidity risk, continued

The following table provides a remaining maturities analysis of the financial assets and liabilities of the Bank as at 31 December 2018 based on the contractual undiscounted cash flows.

in thousands of BGN	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**More than 1 year**	**Total**
Financial assets					
Cash and balances with Central Banks	1,615,646	-	-	-	**1,615,646**
Financial assets at fair value through profit or loss	7,180	-	-	17,498	**24,678**
Financial assets at fair value through other comprehensive income	656,038	-	-	-	**656,038**
Financial assets at amortised cost	-	-	-	1,427	**1,427**
Loans and advances to banks and other financial institutions	122,257	628	78	2,509	**125,472**
Loans and advances to customers	365,616	178,826	775,834	5,218,588	**6,538,864**
Total financial assets	**2,766,737**	**179,454**	**775,912**	**5,240,022**	**8,962,125**
Financial liabilities					
Due to banks	17,243	-	-	-	**17,243**
Due to other customers	3,421,197	923,964	2,654,002	1,042,623	**8,041,786**
Liabilities evidenced by paper	5	1,224	3,455	118,682	**123,366**
Hybrid debt	-	-	22,883	264,295	**287,178**
Total financial liabilities	**3,438,445**	**925,188**	**2,680,340**	**1,425,600**	**8,469,573**
Derivatives held for risk management					
For trading, outgoing cash flow	189	82	27	-	298
For trading, incoming cash flow	1,096	19	-	-	1,115
Cash flow from derivatives, net	**907**	**(63)**	**(27)**	**-**	**817**

3. Risk management disclosures, continued

B. Non-trading activities, continued

Liquidity risk, continued

The following table provides a remaining maturities analysis of the financial assets and liabilities of the Bank as at 31 December 2017 based on the contractual undiscounted cash flows.

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Total
Financial assets					
Cash and balances with Central Banks	1,425,252	-	-	-	**1,425,252**
Financial assets held for trading	6,906	-	-	-	**6,906**
Investments available for sale	657,219	-	-	15,820	**673,039**
Financial assets held to maturity	-	-	9,785	10,164	**19,949**
Loans and advances to banks and other financial institutions	52,258	-	-	2,144	**54,402**
Loans and advances to customers	361,911	229,333	1,005,834	4,437,445	**6,034,523**
Total financial assets	**2,503,546**	**229,333**	**1,015,619**	**4,465,573**	**8,214,071**
Financial liabilities					
Due to banks	5,743	-	-	-	**5,743**
Due to other customers	2,776,322	868,904	2,634,819	1,088,535	**7,368,580**
Liabilities evidenced by paper	2	-	243	123,792	**124,037**
Hybrid debt	-	-	-	241,349	**241,349**
Total financial liabilities	**2,782,067**	**868,904**	**2,635,062**	**1,453,676**	**7,739,709**
Derivatives held for risk management					
For trading, outgoing cash flow	35,127	8,182	-	-	43,309
For trading, incoming cash flow	36,847	8,058	-	-	44,905
Cash flow from derivatives, net	**1,720**	**(124)**	**-**	**-**	**1,596**

3. Risk management disclosures, continued

B. Non-trading activities, continued

Liquidity risk, continued

The expected cash flows of the Bank from some financial assets and liabilities are different from the cash flows as per the loan contract. The main differences are:

- There is an expectation that the deposits on demand and term deposits will remain stable and will increase.
- Retail mortgages have original maturity of 25 years on average, but the expected average effective maturity is 14 years as some clients take advantage of the early repayment possibility.

(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 Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Basic Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value defined as the difference between fair value of assets and fair value of liabilities.

The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/-100bp as at 31 December 2018 is BGN +35.2/-18.4 Mio.

The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2018 is BGN 19.5/-15.4 Mio.

	Net interest income		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Effect in millions of BGN				
31 December 2018				
as at 31 December	19.5	-15.4	35.2	-18.4
Average for the period	12.9	-12.6	30.0	-15.2
Maximum for the period	19.5	-15.4	35.2	-18.4
Minimum for the period	10.2	-11.2	26.8	-12.2
31 December 2017				
as at 31 December	8.5	-11.1	24.6	-15.2
Average for the period	5.1	-6.1	18.3	-14.5
Maximum for the period	8.5	-3.9	24.6	-12.7
Minimum for the period	2.6	-11.1	15.4	-19.2

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2018 and the periods in which financial liabilities and assets reprice.

			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	409,746	409,746	-	-	-	-
Financial assets at fair value through profit or loss	2,625	-	2,625	-	-	-
Financial assets at fair value through other comprehensive income	656,038	26,558	629,480	-	-	-
Financial assets at amortised cost	748	748	-	-	-	-
Loans and advances to banks and other financial institutions	24,689	-	4,985	-	19,704	-
Loans and advances to customers	4,894,769	3,777,368	2,984	31,442	133,222	949,753
Total interest-bearing assets	**5,988,615**	**4,214,420**	**640,074**	**31,442**	**152,926**	**949,753**
Liabilities						
Due to banks	17,243	17,243	-	-	-	-
Due to other customers	7,960,194	2,327,154	1,032,532	923,335	2,647,256	1,029,917
Liabilities evidenced by paper	118,155	105,642	4	1,205	44	11,260
Hybrid debt	208,786	-	-	-	-	208,786
Total interest-bearing liabilities	**8,304,378**	**2,450,039**	**1,032,536**	**924,540**	**2,647,300**	**1,249,963**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2017 and the periods in which financial liabilities and assets reprice.

			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	607,359	561,691	45,668	-	-	-
Financial assets held for trading	2,742	-	2,742	-	-	-
Investments available for sale	657,219	21,129	636,090	-	-	-
Financial assets held to maturity	19,615	-	-	-	9,785	9,830
Loans and advances to banks and other financial institutions	24,581	-	24,581	-	-	-
Loans and advances to customers	4,430,848	3,197,571	17,799	24,440	256,876	934,162
Total interest-bearing assets	**5,742,364**	**3,780,391**	**726,880**	**24,440**	**266,661**	**943,992**
Liabilities						
Due to banks	5,743	5,743	-	-	-	-
Due to other customers	7,312,758	1,822,302	928,060	868,041	2,625,066	1,069,289
Liabilities evidenced by paper	118,517	114,529	-	-	241	3,747
Hybrid debt	208,786	-	-	-	-	208,786
Total interest-bearing liabilities	**7,645,804**	**1,942,574**	**928,060**	**868,041**	**2,625,307**	**1,281,822**

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 Bank is exposed to currency risk in performing transactions in foreign currencies and foreign-currency denominated financial instruments.

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents it financial statements is the Bulgarian lev, the Bank's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Bank that are not denominated in the presentation currency of the Bank. These exposures were as follows:

in thousands of BGN	**2018**	**2017**
Monetary assets		
Euro	3,991,277	3,720,721
US dollar	616,039	559,932
Other	127,806	119,521
Gold	5,585	6,089
Monetary liabilities		
Euro	3,083,729	2,940,322
US dollar	616,138	559,945
Other	127,425	119,284
Gold	1,810	2,186
Net position		
Euro	907,548	780,399
US dollar	(99)	(13)
Other	381	237
Gold	3,775	3,903

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Bank by failing to discharge an obligation. The Bank is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Carrying amount	5,525,957	5,018,298	1,563,988	1,287,623	659,411	679,576	-	-
Amount committed/ guaranteed	-	-	-	-	-	-	757,588	820,432

The Bank's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. These exposures are as follows:

31 December 2018

in thousands of BGN

Class of exposure	**Gross amount of loans and advances to customers**	**Allowance for impairment**	**Carrying amount of loans and advances to customers**
Performing			
Collectively impaired	4,871,753	(116,038)	4,755,715
Non-performing			
Collectively impaired	351,996	(150,125)	201,871
Individually impaired	1,041,855	(473,484)	568,371
Total	**6,265,604**	**(739,647)**	**5,525,957**

31 December 2017

in thousands of BGN

Class of exposure	**Gross amount of loans and advances to customers**	**Allowance for impairment**	**Carrying amount of loans and advances to customers**
Performing			
Collectively impaired	4,378,341	(13,881)	4,364,460
Non-performing			
Collectively impaired	375,642	(194,343)	181,299
Individually impaired	856,174	(383,635)	472,539
Total	**5,610,157**	**(591,859)**	**5,018,298**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Distribution of trade receivables and impairment as adjustment for financial assets (loans and advances to customers) after application of IFRS 9:

	31/12/2018		01/01/2018	
	Gross amount of loans and advances to customers	**Allowance for impairment**	**Gross amount of loans and advances to customers**	**Allowance for impairment**
Exposures without increase of credit risk after the initial recognition (phase 1)	3,715,064	26,444	3,152,025	97,503
Exposures with significant increase of credit risk after the initial recognition (phase 2)	1,156,689	89,594	1,169,105	145,784
Non-performing (impaired) exposures (phase 3)	1,393,851	623,609	1,289,027	606,894
Total	**6,265,604**	**739,647**	**5,610,157**	**850,181**

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

As at 31 December 2018 the gross amount of overdue loans and advances to customers measured as exposures 90+ days overdue is BGN 815,860 thousand (2017: BGN 989,071 thousand).

In addition, the Bank is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (See Note 31).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

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	**2018**	**2017**
Trade	992,286	973,958
Industry	1,179,765	845,189
Services	655,577	614,790
Finance	107,517	110,290
Transport, logistics	316,628	319,282
Communications	106,858	46,577
Construction	258,219	192,606
Agriculture	194,749	207,877
Tourist services	244,533	168,356
Infrastructure	500,735	467,483
Private individuals	1,660,890	1,467,237
Other	47,847	196,512
Allowance for impairment	(739,647)	(591,859)
Total	**5,525,957**	**5,018,298**

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the statement of financial position date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

The Bank 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 2018 with total exposures outstanding amounting to BGN 187,051 thousand (2017: BGN 182,906 thousand) - ferrous and non-ferrous metallurgy, BGN 89,905 thousand (2017: BGN 85,061 thousand) – mining industry and BGN 104,489 thousand (2017: BGN 95,135 thousand) - power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 7 individual clients or groups (2017: 6) with each individual exposure exceeding 10% of the capital base of the Bank, based on the amortised cost of the respective loan facilities and after application of the required regulatory exemptions and techniques for reducing credit risk. The total amount of these exposures is BGN 644,781 thousand, which is 59.40% of the capital base (2017: BGN 634,732 thousand, representing 62.31% of the capital base).

(iii) Credit risk, continued

Loans extended by the branch in Cyprus amount to BGN 4,050 thousand (gross carrying amount before any allowances) (2017: BGN 5,921 thousand).

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations.

Collateral held against different types of assets:

Type of credit exposure	**Main type of collateral**	**Collateral coverage ratio**	
		2018	**2017**
Repurchase agreements	Tradable securities	101%	108%
Loans and advances to banks	None	-	-
Mortgage loans	Real estate	271%	302%
Consumer lending	Mortgage, warrant, financial and other collateral	36%	55%
Credit cards	None	-	-
Loans to companies	Mortgage, pledge of enterprise, pledge of long-term tangible assets, pledge of goods, pledge of other short-term tangible assets, financial and other collateral	447%	414%

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 (gross balance sheet value) extended to customers by the Bank by type of collateral to the amount of the collateral, excluding credit cards in the amount of BGN 187,577 thousand (2017: 246,291 thousand BGN).

In BGN '000	**2018**	**2017**
Mortgage	1,252,712	1,257,796
Pledge of receivables	1,954,391	1,529,225
Pledge of commercial enterprise	33,834	32,390
Securities	97,547	95,379
Other guaranties	2,271,538	1,780,165
Pledge of goods	9,692	13,148
Pledge of machines	102,479	101,650
Money deposit	12,219	28,000
Stake in capital	13,804	19
Other collateral	1,004	943
Unsecured	328,807	525,151
Total	**6,078,027**	**5,363,866**

Other collateral includes insurance policies up to the amount of the insurance cover, future receivables, remuneration transfers, etc.

Residential mortgage lending

The table below represents credit exposures from housing and mortgage loans to individual customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan to the value of the collateral. The gross amount excludes any impairment allowances. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is based on the collateral value at origination updated based on changes in house price indices.

in thousands of BGN	**2018**	**2017**
Loan to value (LTV) ratio		
Less than 50%	144,617	122,014
51% to 70%	189,006	157,231
71% to 90%	247,444	200,500
91% to 100%	50,730	34,513
More than 100%	68,514	77,572
Total	**700,311**	**591,830**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Loans to corporate customers

The loans to corporate customers constituting individually significant exposures are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan. However, collateral provides additional security and the Bank requests corporate borrowers to provide it. The Bank takes collateral in the form of a first charge over real estate, floating charges over all corporate assets, and other liens and guarantees.

The Bank routinely analyses collateral for possible changes in value due to market conditions, legal framework or debtor's actions. Where such changes lead to a breach in the requirements for sufficiency of collateral, the Bank requires provision of additional collateral within a certain timeframe.

As at 31 December 2018 the net carrying amount of individually impaired loans to corporate customers amounts to BGN 664,841 thousand (2017: BGN 559,061 thousand) and the value of collateral held against those loans amounts to BGN 628,107 thousand (2017: BGN 509,292 thousand).

The Bank constantly monitors the risk of default on already given loans and if there is available data for potential or actual problems, the Bank 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 market interest rates, repayment schedule, upon a client request, and others.

Loans renegotiated through the year

in BGN '000

Type of renegotiation	2018 Gross amount of loans and advances to customers	2018 Allowance for impairment	2017 Gross amount of loans and advances to customers	2017 Allowance for impairment
Loans to individuals	**183,721**	**5,798**	**212,951**	**16,373**
Change of maturity	116,667	4,385	128,199	15,621
Change in repayment installments	-	-	24	-
Change of interest rate	11,366	-	20,363	5
Change due to customers request	33,391	27	51,943	20
Other reasons	22,297	1,386	12,422	727
Loans to companies	**2,123,031**	**252,326**	**1,682,158**	**8,884**
Change of maturity	59,942	3,723	391,785	5,046
Change in repayment installments	163,528	9,380	77,268	397
Change of interest rate	112,060	313	234,904	399
Change due to customers request	1,260,193	188,589	931,764	1,411
Other reasons	527,308	50,321	46,437	1,631
Total:	**2,306,752**	**258,124**	**1,895,109**	**25,257**

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 Impaired Assets Department.

(iv) Government debt exposures

The Bank closely manages the credit risk on government debt exposures and as a result the overall quality of the government debt portfolio is very high.

The table below shows the carrying amount of the government debt portfolio by country issuer. The assets are presented without any allowance for impairment. The Bank does not recognise allowance for impairment against the government debt exposures which are measured at amortised cost as at 31 December 2018 and 31 December 2017 as well as those at fair value through other comprehensive income.

In BGN '000

31 December 2018

Portfolio	**Bulgaria**	**Lithuania**	**Latvia**	**Slovakia**	**USA**
at fair value through profit and loss	2,625	-	-	-	-
at fair value through other comprehensive income	320,264	43,677	67	2,069	247,145
at amortised cost	-	-	-	-	-
Total	**322,889**	**43,677**	**67**	**2,069**	**247,145**

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Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures, continued

in thousands of BGN

31.12.2017

Portfolio	**Bulgaria**	**Slovakia**	**Latvia**	**Lithuania**	**USA**
Financial assets held for trading	2,742	-	-	-	-
Investments available for sale	378,607	2,069	70	44,870	187,488
Financial assets held to maturity	-	-	-	-	-
Total	**381,349**	**2,069**	**70**	**44,870**	**187,488**

Maturity table of government debt securities by country issuer as at 31 December 2018

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	38,164	-	-	185,312	99,413	322,889
Lithuania	-	-	-	-	43,677	43,677
Latvia	-	-	-	-	67	67
Slovakia	-	-	-	-	2,069	2,069
USA	144,950	102,195	-	-	-	247,145
Total	**183,114**	**102,195**	**-**	**185,312**	**145,226**	**615,847**

Maturity table of government debt securities by country issuer as at 31 December 2017

In BGN '000

Country issuer	**Up to 1 Month**	**From 1 to 3 Months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**	**Total**
Bulgaria	43,768	-	706	194,098	142,777	381,349
Slovakia	-	-	-	-	2,069	2,069
Latvia	-	-	-	-	70	70
Lithuania	-	-	-	-	44,870	44,870
USA	187,488	-	-	-	-	187,488
Total	**231,256**	**-**	**706**	**194,098**	**189,786**	**615,846**

3. Risk management disclosures, continued

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 Bank for regulatory purposes consists of the following elements:

Common Equity Tier 1 capital

a) issued and paid up capital instruments (ordinary shares);
b) share premium from issuance of ordinary shares;
c) audited retained earnings;
d) accumulated other comprehensive income, including revaluation reserves;
e) other reserves;

Deductions from components of the Common Equity Tier 1 capital include intangible assets. The increase of CET1 includes the adjustments related to the transitional treatment of the effect from the initial application of IFRS 9.

Additional Tier 1 capital

The instruments of Additional Tier 1 capital include hybrid debt (see note 28). Deductions from components of Tier 1 capital include transitory regulatory adjustments relating to items that are included in the capital balance or the assets of the Bank, but are treated differently for capital adequacy regulation.

Tier 2 Capital

Tier 2 capital reflects previous regulatory adjustments related to the revaluation reserve from real property.

3. Risk management disclosures, continued

C. Capital adequacy, continued

Total own funds

In thousands of BGN	2018	2017
Common Equity Tier 1 capital		
Paid up capital instruments	110,000	110,000
(-) Indirect shareholding in Common Equity Tier 1 capital instruments	(60)	(185)
Premium reserves	97,000	97,000
Other reserves	426,393	612,795
Accumulated other comprehensive income	15,381	24,024
Deductions from Common Equity Tier 1 capital:		
(-) Intangible assets	(13,339)	(6,395)
Transitional adjustments of Common Equity Tier 1 capital	262,932	(3,526)
Other deductions	(8,385)	(10,138)
Common Equity Tier 1 capital	**889,922**	**823,575**
Additional Tier 1 capital instruments		
Hybrid debt	195,583	195,583
Tier 1 capital deductions:		
Transitional adjustments of Additional Tier 1 capital	-	(1,341)
Tier 1 Capital	**1,088,505**	**1,017,817**
Tier 2 Capital		
Transitional adjustments of Tier 2 capital	-	900
Total own funds	**1,088,505**	**1,018,717**

3. Risk management disclosures, continued

C. Capital adequacy, continued

The Bank calculates the following ratios:

a) the Common Equity Tier 1 capital ratio is the Common Equity Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;
b) the Tier 1 capital ratio is the Tier 1 capital of the institution expressed as a percentage of the total risk exposure amount;
c) the total capital ratio is the own funds of the institution expressed as a percentage of the total risk exposure amount.

The total risk exposure is calculated as the total of the riskweighted assets for credit, market and operational risk.

The Bank calculates the requirements for credit risk for its exposures in banking and trading portfolios based on a standardised approach. Exposures are taken into account using their balance sheet amount. Off-balance-sheet credit-related commitments are taken into account by applying different categories of conversion factors designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

The Bank calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

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

The total capital adequacy ratio cannot be below 14%, the Tier 1 capital adequacy cannot be less than 12%, and the CET1 adequacy cannot be less than 10.5% (with included capital buffer for systemic risk of 3%, protective capital buffer of 2.5%, and buffer for other systemically important institutions of 0.5%)

The Bank has complied with the regulatory capital requirements throughout the period.

Capital adequacy level is as follows:

3. Risk management disclosures, continued

C. Capital adequacy, continued

in thousands of BGN	Balance sheet/notional amount		Risk weighted assets	
	2018	**2017**	**2018**	**2017**
Risk weighted assets for credit risk				
Balance sheet assets				
Exposure class				
Central governments or central banks	1,653,035	1,490,553	95,783	790
Multilateral development banks	163	296	-	-
Institutions	561,045	481,505	146,453	128,067
Corporates	2,045,293	2,091,664	1,983,927	2,062,591
Retail	1,133,344	1,015,455	693,490	600,479
Secured by mortgages on immovable property	1,750,595	1,257,197	712,808	513,765
Exposures in default	876,298	653,837	969,928	746,972
Collective investments undertakings	2,675	2,549	2,675	2,549
Equity	55,497	53,605	109,766	108,139
Other items	1,395,437	1,575,276	1,218,963	1,384,248
Total	**9,473,382**	**8,621,937**	**5,933,793**	**5,547,600**
Off balance sheet items				
Exposure class				
Institutions	-	-	297	28
Corporates	268,245	392,777	69,033	90,593
Retail	444,287	392,519	5,962	7,488
Secured by mortgages on immovable property	45,349	35,136	9,205	6,718
Other items	-	-	-	57
Total	**757,881**	**820,432**	**84,497**	**104,884**
Derivatives				
Exposure class				
Central governments or central banks	-	-	-	-
Institutions	1,261	379	252	76
Corporates	83	750	83	750
Other items	923	1,115	923	1,115
Total	**2,267**	**2,244**	**1,258**	**1,941**
Total risk-weighted assets for credit risk			**6,019,548**	**5,654,425**
Risk-weighted assets for market risk			**5,300**	**6,000**
Risk-weighted assets for operational risk			**631,550**	**636,363**
Total risk-weighted assets			**6,656,398**	**6,296,788**

Capital adequacy ratios	Equity		Capital ratios %	
	2018	**2017**	**2018**	**2017**
Common Equity Tier 1 capital	**889,922**	**823,575**	**13.37%**	**13.08%**
Tier 1 Capital	**1,085,505**	**1,017,817**	**16.31%**	**16.16%**
Total own funds	**1,085,505**	**1,018,717**	**16.31%**	**16.18%**

4. Segment Reporting

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

Reporting and measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

Transactions between segments are conducted on an arm's length basis.

The Bank operates principally in Bulgaria, but also has operations in Cyprus.

In presenting information on the basis of geographical segments, revenue and operating income is allocated after interbranch eliminations based on the location of the Bank branch that generated the revenue. Segment assets and liabilities are allocated after interbranch eliminations based on their geographical location.

In BGN '000	**Bulgarian operations**		**Foreign operations**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Interest income	311,466	339,545	746	673	312,212	340,218
Interest expense	(61,305)	(92,520)	(22)	(120)	(61,327)	(92,640)
Net interest income	**250,161**	**247,025**	**724**	**553**	**250,885**	**247,578**
Fee and commission income	113,363	115,911	2,009	739	115,372	116,650
Fee and commission expense	(21,796)	(17,781)	(30)	(18)	(21,826)	(17,799)
Net fee and commission income	**91,567**	**98,130**	**1,979**	**721**	**93,546**	**98,851**
Net trading income	**11,094**	**14,744**	**1,185**	**691**	**12,279**	**15,435**
Administrative expenses	**(200,894)**	**(195,380)**	**(1,421)**	**(1,255)**	**(202,315)**	**(196,635)**
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Assets	**9,229,337**	**8,632,241**	**8,500**	**10,330**	**9,237,837**	**8,642,571**
Liabilities	**8,210,833**	**7,635,163**	**214,091**	**78,124**	**8,424,924**	**7,713,287**

4. Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 31 December 2018.

in thousands of BGN

Business	Assets	Liabilities	Interest income	Interest expense	Net fee and commission income	Net trading income	Other net operating income
Corporate customers	3,163,247	764,355	146,291	(820)	23,847	-	383
Small and medium enterprises	717,673	308,945	31,213	(491)	13,958		395
Retail Banking	1,645,037	6,948,139	124,293	(34,001)	56,331	-	1,844
Treasury	2,423,487	90,856	10,415	(2,598)	857	12,279	3,717
Other	1,288,393	312,629	-	(23,417)	(1,447)	-	9,314
Total	**9,237,837**	**8,424,924**	**312,212**	**(61,327)**	**93,546**	**12,279**	**15,653**

5. Financial assets and liabilities
Accounting classification and fair values

The Bank’s accounting policy on fair value measurements is set out in Note 2(d)(vi).

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: inputs are observable date for a given asset or liability. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument’s valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

5. Financial assets and liabilities, continued
Accounting classification and fair values, continued

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 Bank 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 Bank 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 Bank measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgement in determining appropriate portfolio level adjustments such as bid-ask spread.

Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

For more complex instruments, the Bank 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.

5. Financial assets and liabilities, continued
Accounting classification and fair values, continued

Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an Risk Management function, which is independent of Treasury division and reports to management, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements.

Specific controls include:

- verification of observable pricing;
- proposal of new models and changes to existing models is made by the Risk Analysis and Control Division and approved by the Management Board;
- calibration of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by Risk Analysis and Control division.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Risk Management division assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

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 The amounts are based on the amounts in the statement of financial position.

in thousands of BGN **31 December 2018**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	7,176	17,488	14	24,678
Financial assets at fair value through other comprehensive income	630,306	25,732	-	656,038
Derivatives held for risk management	905	(88)	-	817
Total	**638,387**	**43,132**	**14**	**681,533**

In BGN '000 **31 December 2017**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	6,906	-	-	6,906
Investments available for sale	613,104	59,925	10	673,039
Derivatives held for risk management	1,092	504	-	1,596
Total	**621,102**	**60,429**	**10**	**681,541**

The tables below set out analysis of the fair values of financial instruments not recognised at fair value, classified by fair value hierarchy level framework categorising fair value measurement

5. Financial assets and liabilities, continued
Accounting classification and fair values, continued

In BGN '000

31 December 2018	Level 1	Level 2	Level 3	Total fair values	Total balance sheet value
Assets					
Cash and balances with Central Banks	-	1,615,646	-	1,615,646	1,615,646
Financial assets at amortised cost	-	862	-	862	748
Loans and advances to banks and other financial institutions	-	125,472	-	125,472	125,472
Loans and advances to	-	770,242	4,986,901	5,757,143	5,525,957
Total	**-**	**2,512,222**	**4,986,901**	**7,499,123**	**7,267,823**
Liabilities					
Due to banks	-	17,243	-	17,243	17,243
Due to other customers	-	3,421,023	4,607,405	8,028,428	8,021,439
Liabilities evidenced by paper	-	118,128	-	118,128	118,156
Hybrid debt	-	208,786	-	208,786	208,786
Total	**-**	**3,765,180**	**4,607,405**	**8,372,585**	**8,365,624**

In BGN '000

31 December 2017	Level 1	Level 2	Level 3	Total fair values	Total balance sheet value
Assets					
Cash and balances with Central Banks	-	1,425,252	-	1,425,252	1,425,252
Financial assets held to maturity	-	20,146	-	20,146	19,615
Loans and advances to banks and other financial institutions	-	54,402	-	54,402	54,402
Loans and advances to	-	653,838	4,639,785	5,293,623	5,018,298
Total	**-**	**2,153,638**	**4,639,785**	**6,793,423**	**6,517,567**
Liabilities					
Due to banks	-	5,743	-	5,743	5,743
Due to other customers	-	2,775,979	4,562,282	7,338,261	7,338,375
Liabilities evidenced by paper	-	118,487	-	118,487	118,517
Hybrid debt	-	208,786	-	208,786	208,786
Total	**-**	**3,108,995**	**4,562,282**	**7,671,277**	**7,671,421**

5. Financial assets and liabilities, continued
Accounting classification and fair values, continued

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	**2018**	**2017**
Interest income		
Accounts with and placements to banks and financial institutions	1,478	777
Revenue from interest on liabilities	84	-
Retail Banking	115,692	121,840
Corporate customers	146,291	169,816
Small and medium enterprises	31,213	30,703
Microlending	8,601	9,137
Debt instruments	8,853	7,945
	312,212	**340,218**
Interest expense		
Deposits from banks	(10)	-
Deposits from other customers	(35,312)	(66,596)
Liabilities evidenced by paper	(1,017)	(890)
Hybrid debt	(22,883)	(22,929)
Interest on assets cost	(2,054)	(2,214)
Lease agreements and other	(51)	(11)
	(61,327)	**(92,640)**
Net interest income	**250,885**	**247,578**

For 2018 the recognized interest income from individually impaired financial assets (loans to customers) amounted to BGN 27,318 thousand (2017: BGN 57,728 thousand).

7. Net fee and commission income

in thousands of BGN

Fee and commission income	**2018**	**2017**
Letters of credit and guarantees	2,686	2,911
Payment operations	21,401	20,365
Customer accounts	30,254	29,559
Card services	32,642	30,152
Other	28,389	33,663
	115,372	**116,650**
Fee and commission expense		
Letters of credit and guarantees	(313)	(296)
Payment systems	(2,404)	(2,154)
Card services	(14,233)	(13,051)
Other	(4,876)	(2,298)
	(21,826)	**(17,799)**
Net fee and commission income	**93,546**	**98,851**

8. Net trading income

in thousands of BGN	**2018**	**2017**
Net trading income arises from:		
- Debt instruments	(108)	218
- Equities	(124)	247
- Foreign exchange rate fluctuations	12,511	14,970
Net trading income	**12,279**	**15,435**

9. Other net operating income

In BGN '000	**2018**	**2017**
Other net operating income arising from:		
- net income/(expense) from transactions and revaluation of gold and precious metals	452	65
Rental income	8,862	11,283
- Debt instruments	2,435	11,644
- Equities	1,282	-
- income from management of assigned receivables	584	-
- Gain on administration of loans acquired through business combination	2,038	4,458
Other net operating income	**15,653**	**27,450**

10. Administrative expenses

in thousands of BGN	2018	2017
General and administrative expenses comprise:		
- Personnel cost	66,061	61,642
- Depreciation and amortisation	14,840	15,725
- Advertising	15,603	17,722
- Building rent expense	32,462	32,443
-Telecommunication, software and other computer maintenance	11,737	11,217
- Other expenses for external services	61,612	57,886
Administrative expenses	**202,315**	**196,635**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2018 the total number of employees was 2,651 (31 December 2017: 3,045). The decrease in staff numbers is due to the outsourcing of activities related to the physical security of offices and buildings - since October 2018 these activities have been carried out by a licensed security company under contract with the Bank.

The amounts accrued in 2018 for services provided by the registered auditors for independent financial audit amounted to BGN 590 thousand. Over the year no amounts were accrued for other services unrelated to audit and provided by the registered auditors. The amounts charged in 2017 for services delivered by the registered auditors separately for independent financial audit and for other services unrelated to audit amount respectively to BGN 622 thousand and BGN 587 thousand.

11. Allowance for impairment

in thousands of BGN	2018	2017
Write-downs		
Loans and advances to customers	(159,158)	(92,758)
Investments in subsidiaries	(178)	-
Off balance sheet commitments	(1,012)	-
Reversal of write-downs		
Loans and advances to customers	59,558	15,247
Off balance sheet commitments	18,290	-
Impairment cost, net	**(82,500)**	**(77,511)**

The expense for impairment in 2018 and 2017 is due to additional allowances resulting from the development of credit risk in a period of challenging economic environment and the conservative approach applied by the Bank in recognising the risk of loss for certain individually impaired exposures.

12. Other income/(expenses), net

in thousands of BGN	2018	2017
Income from sale of assets	81,117	10,616
Revaluation of investment property	13,669	-
Income/(expense) from sale of investment property	168	(42)
Dividend income	61	4,433
Cost of guarantee schemes	(32,339)	(35,537)
Reversal of expense for provisions for pending court cases	102	308
Other income/(expenses), net	1,998	(258)
Total	**64,776**	**(20,480)**

13. Income tax expense

In BGN '000	2018	2017
Current taxes	(745)	(9,707)
Deferred taxes (See Note 20)	12,559	485
Income tax expense	**11,814**	**(9,222)**

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

in thousands of BGN	2018	2017
Accounting profit before taxation	**152,324**	**94,688**
Corporate tax at applicable tax rate (10% for 2018 and 10% for 2017)	15,232	9,469
Effect of tax rates of foreign subsidiaries and branches	325	-
Tax effect from the initial application of IFRS 9	(27,677)	-
Tax effect of permanent tax differences	302	(237)
Other differences	4	(10)
Income tax expense	**(11,814)**	**9,222**
Effective tax rate	(7.76%)	9.74%

14. Cash and balances with Central Banks

in thousands of BGN	2018	2017
Cash on hand		
- in BGN	123,104	130,659
- in foreign currency	49,041	56,395
Balances with Central Banks	1,035,796	875,355
Current accounts and amounts with foreign banks	407,705	362,843
Total	**1,615,646**	**1,425,252**

15. Investments in securities

In thousands of BGN	2018	2017
Bonds and notes issued by:		
Bulgarian Government		
- denominated in BGN	181,470	234,816
- denominated in foreign currencies	141,419	146,533
Foreign governments		
- treasury bills	247,145	187,488
- treasury bonds	45,813	47,009
Corporates	17,084	-
Foreign banks	26,480	63,730
Other issuers – equity instruments	22,053	19,984
Total	**681,464**	**699,560**
Of which:		
at fair value through other comprehensive income	656,038	673,039
at amortised cost	748	19,615
at fair value through profit and loss	24,678	6,906
Total	**681,464**	**699,560**

A portion of the reported bonds of the Bulgarian and of foreign governments amounting to BGN 85,216 thousand (BGN 87,279 thousand in 2017) are subject to a Total Return Swap Agreement.

At the end of 2018, as at the end of 2017, no securities were subject to repurchase agreements.

16. Loans and advances to banks and other financial institutions

(a) Analysis by type

in thousands of BGN	2018	2017
Placements with banks	23,059	21,748
Receivables under resale agreements	4,985	4,977
Other	97,428	27,677
Total	**125,472**	**54,402**

(b) Geographical analysis

in thousands of BGN	2018	2017
Domestic banks and financial institutions	28,901	11,680
Foreign banks and other financial institutions	96,571	42,722
Total	**125,472**	**54,402**

17. Loans and advances to customers

in thousands of BGN			31/12/2018
	Gross value	**Allowance for impairment**	**Amortised cost**
Retail Banking			
- Consumer loans	734,928	(47,974)	686,954
- Mortgage loans	700,311	(25,061)	675,250
- Credit cards	187,577	(29,900)	157,677
- Other programmes and collateralised financing	6,231	-	6,231
Small and medium enterprises	751,180	(33,507)	717,673
Microlending	139,943	(21,018)	118,925
Corporate customers	3,745,434	(582,187)	3,163,247
Including receivables from financial lease	389,909	(11,480)	378,429
Total	**6,265,604**	**(739,647)**	**5,525,957**

In BGN '000			31/12/2017
	Gross value	**Allowance for impairment**	**Amortised cost**
Retail Banking			
- Consumer loans	612,970	(42,663)	570,307
- Mortgage loans	591,830	(30,127)	561,703
- Credit cards	246,291	(35,480)	210,811
- Other programmes and collateralised financing	3,182	-	3,182
Small and medium enterprises	643,444	(71,289)	572,155
Microlending	120,882	(26,351)	94,531
Corporate customers	3,391,558	(385,949)	3,005,609
Including receivables from financial lease	108,218	(24)	108,194
Total	**5,610,157**	**(591,859)**	**5,018,298**

17. Loans and advances to customers, continued

(a) Movement in impairment allowances

in BGN '000	
Balance as at 31 December 2017	**591,859**
Effect from the initial application of IFRS 9	258,322
Balance as at 01 January 2018	**850,181**
Additional allowances	159,158
Amounts released	(59,558)
Write-offs	(210,953)
Effect from change in exchange rates	452
Other	367
Balance as at 31 December 2018	**739,647**

18. Property and equipment

in thousands of BGN	Land and Buildings	Fixtures and fittings	Motor vehicles	Assets under Construction	Leasehold Improvements	Total
Cost						
At 01 January 2017	**17,651**	**141,081**	**6,254**	**24,323**	**64,961**	**254,270**
Additions	-	3	-	8,991	-	8,994
Disposals	(137)	(2,826)	(68)	(371)	(530)	(3,932)
Transfers	137	4,092	405	(6,532)	1,423	(475)
At 31 December 2017	**17,651**	**142,350**	**6,591**	**26,411**	**65,854**	**258,857**
Additions	-	2	-	13,157	-	13,159
Disposals	-	(11,125)	(24)	(17)	(968)	(12,134)
Transfers	-	9,230	8	(20,757)	1,623	(9,896)
At 31 December 2018	**17,651**	**140,457**	**6,575**	**18,794**	**66,509**	**249,986**
Amortisation						
At 01 January 2017	**3,515**	**116,202**	**5,555**	**-**	**35,110**	**160,382**
Accrued during the year	634	8,091	312	-	3,598	12,635
On disposals	(17)	(2,816)	(68)		(530)	(3,431)
At 31 December 2017	**4,132**	**121,477**	**5,799**	**-**	**38,178**	**169,586**
Accrued during the year	633	7,650	305	-	3,300	11,888
On disposals	-	(11,123)	(24)		(968)	(12,115)
At 31 December 2018	**4,765**	**118,004**	**6,080**	**-**	**40,510**	**169,359**
Carrying amount						
At 01 January 2017	**14,136**	**24,879**	**699**	**24,323**	**29,851**	**93,888**
At 31 December 2017	**13,519**	**20,873**	**792**	**26,411**	**27,676**	**89,271**
At 31 December 2018	**12,886**	**22,453**	**495**	**18,794**	**25,999**	**80,627**

The fair value of assets constituting land and buildings was determined by independent property assessors holding recognised professional qualification and recent experience in assessing property with similar location and category. The Bank's policy requires that independent assessors determine the fair value sufficiently frequently so as to ensure that the balance sheet value does not differ significantly from the fair value at the end of the reporting period. As at 31 December 2018 the fair value of land and buildings was not significantly different from their balance sheet value as at that date. The fair value of land and buildings is categorised as Level 3 fair value on the basis of incoming data on the assessment methodology used.

18. Property and equipment, continued

Assessment methodology	Significant unobservable inputs	Connection between key unobservable inputs and fair value
1. Discounted cash flows: this valuation model takes into account the present value of cash flows generated by property, taking into account the expected growth of rental prices, the period required for cancellation, the level of occupancy, premiums such as periods in which no rent is paid and other expenses which are not paid by tenants. The expected net cash flows are discounted using discount rates adjusted for risk. Among other factors, when determining the discount rate, the quality of the building and its location are taken into account (first-rate or second-rate), as well as the creditworthiness of the tenant and the duration of the loan agreement.	1. Expected market growth of rent (4.5-6.8%, weighted average 5.6%). 2. Period for cancellation (6 months on average after each rental agreement). 3. Occupancy (90-95%, weighted average 92.5%). 4. Periods when no rent is paid (1 year for new rental agreement). 5. Risk adjusted discount rate (7.5-8%, weighted average 7.75%).	The fair value will increase (decrease) where: • the expected market growth of rent is higher (lower); • periods for cancellation are shorter (longer); • Occupancy is higher (lower); • the periods when no rent is paid are shorter (longer); or • the risk adjusted discount rate is lower (higher).
2. Market approach/Comparative approach. This method is based on the comparison of the property being evaluated to other similar properties which have been sold recently or which are available for sale. Using this method, the value of a given property is determined in direct comparison to other similar properties which have been sold in a period of time close to the time when the valuation is made. Based on detailed research, review and analysis of data from the property market, the value is formed and it is the most accurate indicator of market value. This method consists of using information about actual transactions in the real estate market in the last six months. Successful application of this method is only possible where a trustworthy database is available as regards actual transactions with properties similar to the property being valued. Information from real estate sites, local press and other such refers to future investment intentions of the seller and cannot be deemed a trustworthy source of information. When using such sites, the offer price for each analogous property is discounted at the valuator's discretion, but by no less than 5%.	1. Expected market growth of property (5-10%, weighted average 7.5%). 2. Time required to effect the sale (6 months on average after the offer is placed). 3. Transaction success rate (90-95%, weighted average 92.5%). 4. Location (1.0-1.05, weighted average 1.025). 5. Property status (1.0-1.1, weighted average 1.05).	The fair value will increase (decrease) where: • the expected market growth of property is higher (lower); • the period of time required for the sale is shorter (longer); • there is a change in the technical condition of the property

19. Intangible assets

in thousands of BGN	Software and licences	Total
Cost		
At 01 January 2017	**30,056**	**30,056**
Disposals	(5)	(5)
Transfers	475	475
At 31 December 2017	**30,526**	**30,526**
Disposals	-	-
Transfers	9,896	9,896
At 31 December 2018	**40,422**	**40,422**
Amortisation		
At 01 January 2017	**21,046**	**21,046**
Accrued during the year	3,090	3,090
On disposals	(5)	(5)
At 31 December 2017	**24,131**	**24,131**
Accrued during the year	2,952	2,952
On disposals	-	-
At 31 December 2018	**27,083**	**27,083**
Carrying amount		
At 01 January 2017	**9,010**	**9,010**
At 31 December 2017	**6,395**	**6,395**
At 31 December 2018	**13,339**	**13,339**

20. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10%.

Deferred income tax assets and liabilities are attributable to the following items:

In BGN '000	Assets		Liabilities		Net	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Property, equipment and intangibles	-	-	2,075	2,336	2,075	2,336
Investment Property	-	-	13,295	11,956	13,295	11,956
Tax loss	(13,510)	-	-	-	(13,510)	-
Other	(498)	(371)	334	334	(164)	(37)
Net tax (assets)/liabilities	**(14,008)**	**(371)**	**15,704**	**14,626**	**1,696**	**14,255**

Movements in temporary differences in 2018 at the amount of BGN 12,559 thousand are recognised in the profit for the year.

21. Repossessed assets

in thousands of BGN	2018	2017
Land	478,133	535,164
Buildings	283,933	304,731
Machines, plant and vehicles	41,852	136,773
Fixtures and fittings	789	766
Total	**804,707**	**977,434**

21. Repossessed assets, continued

Repossessed assets acquired as collateral are measured at the lower of cost and net realisable value. The net realizable value of the lands and buildings is approximately equal to their fair value. The assessment methodology for land and buildings is given in note 18.

22. Investment Property

in thousands of BGN	
Balance as at 01 January 2018	**218,212**
Transferred from repossessed assets	11,475
Revaluation of investment property to the fair value recognised at transfer	13,669
Write-offs upon sale	(798)
Balance as at 31 December 2018	**242,558**

23. Investments in subsidiaries

Investments in subsidiaries (see Note 36) are as follows:

In BGN '000
31/12/2018

Entity:	**% held**	**Acquisition cost**	**Allowance for impairment**	**Carrying amount**
First Investment Finance B.V., Netherlands	100%	3,947	-	3,947
Diners Club Bulgaria AD	94.79%	5,443	-	5,443
First Investment Bank – Albania Sh.a.	100%	23,420	-	23,420
Debita OOD	70%	105	(104)	1
Realtor OOD	51%	77	(74)	3
Fi Health Insurance AD	59.10%	3,315	-	3,315
Balkan Financial Services EAD	100%	50	-	50
Turnaround Management EOOD	100%	-	-	-
Creative Investment EOOD	100%	-	-	-
Lega Solutions EOOD	100%	-	-	-
AMC Imoti EOOD	100%	-	-	-
Total		**36,357**	**(178)**	**36,179**

in BGN '000

31/12/2017

Entity	**% held**	**Acquisition cost**	**Allowance for impairment**	**Carrying amount**
First Investment Finance B.V.,	100%	3,947	-	3,947
Diners Club Bulgaria AD	94.79%	5,443	-	5,443
First Investment Bank – Albania Sh.a.	100%	23,420	-	23,420
Debita OOD	70%	105	-	105
Realtor OOD	51%	77	-	77
Fi Health Insurance AD	59.10%	3,315	-	3,315
Balkan Financial Services EAD	100%	50	-	50
Turnaround Management EOOD	100%	-	-	-
Creative Investment EOOD	100%	-	-	-
Lega Solutions EOOD	100%	-	-	-
AMC Imoti EOOD	100%	-	-	-
Total		**36,357**	**-**	**36,357**

24. Other assets

in thousands of BGN	2018	2017
Deferred expense	10,735	10,086
Gold	5,585	6,089
Other assets	94,058	99,605
Total	**110,378**	**115,780**

25. Due to banks

in thousands of BGN	2018	2017
Term deposits	-	-
Payable on demand	17,243	5,743
Total	**17,243**	**5,743**

26. Due to other customers

in thousands of BGN	2018	2017
Retail customers		
- current accounts	1,204,229	988,942
- term and savings deposits	5,188,626	5,086,170
Businesses and public institutions		
- current accounts	1,184,170	858,977
- term deposits	444,414	404,286
Total	**8,021,439**	**7,338,375**

27. Liabilities evidenced by paper

in thousands of BGN	2018	2017
Acceptances under letters of credit	13,553	16,941
Debt related to agreements for full swap of profitability	73,525	73,334
Financing from financial institutions	31,078	28,242
Total	**118,156**	**118,517**

27. Other borrowed funds, continued

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 December 2018
State Fund Agriculture	2%	20.12.2019 - 15.02.2020	68
European Investment Fund – JEREMIE 2	0 % - 1.312%	30/09/2025	13,674
Bulgarian Bank for Development AD	1% - 3.50%	30.03.2019 - 30.11.2028	17,336
Total			**31,078**

In BGN '000

Lender	Interest rate	Maturity	Amortised cost as at 31 December 2017
State Fund Agriculture	2%	20.07.2018 - 15.02.2020	373
European Investment Fund – JEREMIE 2	0 % - 1.301%	30/09/2025	24,254
Bulgarian Bank for Development AD	3.50%	30/03/2019	3,615
Total			**28,242**

28. Hybrid debt

in thousands of BGN

	Principal amount	Amortised cost as at 31 December 2018
Hybrid debt with principal EUR 40 mio	78,233	84,929
Hybrid debt with principal EUR 60 mio	117,350	123,857
Total	**195,583**	**208,786**

in thousands of BGN

	Principal amount	Amortised cost as at 31 December 2017
Hybrid debt with principal EUR 40 mio	78,233	84,929
Hybrid debt with principal EUR 60 mio	117,350	123,857
Total	**195,583**	**208,786**

28. Hybrid debt, continued

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital. The Bank placed the bond issue under private subscription with a total nominal value of EUR 20,000 thousand, constituting the first tranche of a bond issue with an envisaged total amount of up to EUR 40,000 thousand. In June 2012 the Bank issued the second tranche of the instrument, also amounting to EUR 20,000 thousand and following permission from the Bulgarian National Bank included in its Tier 1 capital.
In November 2012 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital. The Bank placed the bond issue under private subscription with a total nominal value of EUR 20,000 thousand, constituting the first tranche of a bond issue with an envisaged total amount of up to EUR 60,000 thousand. In November 2013 the Bank issued the second and third tranches of the instrument, amounting to a total of EUR 40,000 thousand and following permission from the Bulgarian National Bank included them in its Tier 1 capital.

The bonds under both instruments are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem.
The two bond issues were admitted for trading at the Luxembourg Stock Exchange in 2014 based on prospects approved by the Luxembourg Commission de Surveillance du Secteur Financier.
The two hybrid instruments fully comply with the requirements of Regulation 575/2013 and are included in the additional tier 1 capital.

29. Other liabilities

in thousands of BGN	**2018**	**2017**
Liabilities to personnel	3,096	2,490
Provisions for pending court cases	734	836
Impairment on off balance sheet commitments	1,012	-
Other payables	52,674	22,174
Total	**57,516**	**25,500**

The provisions for pending court cases were calculated on the basis of the Bank's expectations (using internal and external experts) regarding the outcome of these court cases.

30. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2018

As at 31 December 2018 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.

30. Capital and reserves, continued

(b) Shareholders

The table below shows those shareholders of the Bank holding shares as at 31 December 2018 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	46,750,000	42.50
Mr. Tzeko Todorov Minev	46,750,000	42.50
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves include amounts set aside for purposes regulated by local legislation. According to Bulgarian legislation the Bank is obliged to set aside at least 1/10 of its annual profit as statutory reserve until the total amount of reserves reaches 1/10 of the Bank's share capital.

In 2018, as in the previous year, the Bank did not distribute dividends.

31. Commitments and contingent liabilities

(a) Contingent liabilities

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for contingent liabilities represent the maximum accounting loss that would be recognised in the statement of financial position if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

in thousands of BGN	**2018**	**2017**
Bank guarantees	228,705	235,120
Unused credit lines	512,911	505,350
Letters of credit	16,984	17,796
Other contingent liabilities	-	62,166
Total	**758,600**	**820,432**
Impairment on off balance sheet commitments	1,012	**-**

31. Commitments and contingent liabilities, continued

(a) Contingent liabilities, continued

These commitments and contingent liabilities have off balance-sheet credit risk and only organization fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

The contingent loan is a framework agreement for collateral management under numerous loan transactions made with one or more clients. The contingent loan does not lead to an obligation of the Bank to extend specific financial instruments. The conclusion of a specific loan transaction with the Bank client, e.g. extension of a loan or overdraft, contingent liabilities, such as bank guarantees and letters of credit, is subject to a separate decision and approval of the Bank.

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

32. Cash and cash equivalents

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

In BGN '000	**2018**	**2017**
Cash and balances with Central Banks	1,615,646	1,425,252
Loans and advances to banks and financial institutions with original maturity less than 3 months	113,128	42,103
Total	**1,728,774**	**1,467,355**

33. 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	**2018**	**2017**
FINANCIAL ASSETS		
Cash and balances with Central Banks	1,456,282	1,494,268
Investments in securities	681,664	689,847
Loans and advances to banks and other financial institutions	73,610	44,442
Loans and advances to customers	5,209,552	4,966,139
FINANCIAL LIABILITIES		
Due to banks	7,224	6,809
Due to other customers	7,629,367	7,430,423
Liabilities evidenced by paper	129,100	124,410
Hybrid debt	208,085	208,053

34. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or both parties are under common control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
In BGN '000	**2018**	**2017**	**2018**	**2017**
Loans				
Loans outstanding at beginning of the period	753	1,363	10,309	10,729
Loans issued/(repaid) during the period	1,016	(610)	11,606	(420)
Loans outstanding at end of the period	1,769	753	21,915	10,309
Deposits and loans received:				
At beginning of the period	8,708	7,831	101,244	21,089
Received/(paid) during the period	4,154	877	9,774	80,155
At the end of the period	12,862	8,708	111,018	101,244
Deposits placed				
Deposits at beginning of the period	-	-	19,604	12,477
Deposits placed/(matured) during the year	-	-	100	7,127
Deposits at end of the period	-	-	19,704	19,604
Other receivables				
At beginning of the period	-	-	23,482	12,377
Received/(paid) during the period	-	-	(1,336)	11,105
At the end of the period	-	-	22,146	23,482
Other borrowings				
At beginning of the period	-	-	100	100
Received/(paid) during the period	-	-	-	-
At the end of the period	-	-	100	100
Off-balance sheet commitments issued by the Bank				
At beginning of the period	1,291	2,259	2,609	3,587
Issued/(expired) during the period	(8)	(968)	860	(978)
At the end of the period	1,283	1,291	3,469	2,609

34. Related party transactions, continued

Type of related party	Parties that control or manage the Bank	Enterprises under common control
In BGN '000	**2018**	**2018**
Interest income	310	1,291
Interest expense	3	559
Fee and commission income	220	314
Fee and commission expense	3	450

The key management personnel of the Bank received remuneration of BGN 7,480 thousand for 2018 and other related parties received BGN 1,840 thousand.

35. Disclosure of leases

Financial lease as lease holder

At 31.12.2018 and at 31.12.2017 the Bank is not a party to effective financial lease agreements as lease holder.

Operating lease as lease holder

The future minimum payments under operating lease agreements to which the Bank is a party, are as follows:

	Minimum lease payments due			
	Up to 1 year In BGN '000	From 1 to 5 years In BGN '000	More than 5 years In BGN '000	Total In BGN '000
At 31 December 2018	27,102	87,878	69,089	184,069
At 31 December 2017	33,211	95,557	91,711	220,479

The lease payments recognised as expense for the year amount to BGN 32,989 thousand (2017: BGN 32 992 thousand). These amounts included the minimum lease payments.

36. Subsidiaries

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The company is owned by the Bank. The purpose for creating the entity is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments guaranteed by the Bank. The entity's issued and paid up share capital is EUR 18 thousand divided into 180 issued and paid up shares, each with nominal value of EUR 100.

(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 2018 the share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%.

(c) First Investment Bank − Albania Sh.a.

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank − Albania Sh.a. upon its incorporation. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 it effectively took over the activities of the former branch FIB – Tirana, assuming all rights and obligations, assets and liabilities.

As at 31 December 2018 the share capital of First Investment Bank – Albania Sh.a. was EUR 11,975 thousand, fully paid up, and the Bank's shareholding is 100%.

(d) Debita OOD and Realtor OOD

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in the Commercial Registry in January 2010. The capital of the two companies is BGN 150,000 each, distributed in shares with value of BGN 100 each, as follows:

1. Realtor OOD - 70%, i.e. 1.050 shares for the Bank and 30%, i.e. 450 shares for FFBH OOD.

2. Realtor OOD - 51%, i.e. 765 shares for the Bank and 49%, i.e. 735 shares for FFBH OOD.

The companies were established as servicing companies within the meaning of Article 18 of the Law on Special Investment Purpose Companies. The main lines of business for Debita OOD include acquisition, servicing, management and disposal of receivables and the related consultancy services; the main lines of business for Realtor OOD include management, servicing and maintenance of real estate, construction and refurbishment works and consultancy in the field of real estate.

36. Subsidiaries, continued

(e) Fi Health Insurance AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. With a decision of the Financial Supervision Commission issued in June 2013 the company has been granted a license to operate as an insurer. The name was changed to FI Health Insurance AD and the principal activity is insurance – Disease and Accident. In June 2018 the company expanded its license with one more insurance class - "Various financial loss". As at 31 December 2018 the share capital of the company is BGN 5,000 thousand, and the Bank's shareholding is 59.10%.

(f) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services EOOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed into a sole-shareholder company. As at 31 December 2018 the share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%.

(g) Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD

During the first half of 2013 the Bank established as the sole shareholder the companies Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD. Each company has the minimum required capital of BGN 2 and their principal activities include manufacturing and trade in goods and services in Bulgaria and abroad (Turnaround Management EOOD, Creative Investment EOOD), acquisition, management and sale of assets, information processing, financial consultations (Lega Solutions EOOD), etc.

(h) AMC Imoti EOOD

AMC Imoti EOOD was registered in September 2010 and was acquired by the Bank in 2013 through the purchase of MKB Unionbank EAD as its subsidiary. The scope of operations of the company includes

activities related to acquisition of property rights and their subsequent transfer, as well as research

and evaluation of real estate, property management, consulting and other services. As at 31 December 2018 the capital of the company is BGN 500 thousand, and the Bank is the sole owner.

37. Post balance sheet events

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

FIRST INVESTMENT BANK AD

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018
WITH INDEPENDENT AUDITORS' REPORT THEREON

Fibank
Първа инвестиционна банка

Individual statement of profit or loss and of other comprehensive income for the year ended 31 December 2018

In BGN '000

	Note	2018	2017
Interest income		331,046	356,173
Interest expense		(63,958)	(95,247)
Net interest income	6	**267,088**	**260,926**
Fee and commission income		119,992	120,787
Fee and commission expense		(22,881)	(18,641)
Net fee and commission income	7	**97,111**	**102,146**
Net trading income	8	10,809	15,326
Other net operating income	9	16,321	28,191
TOTAL INCOME FROM BANKING OPERATIONS		**391,329**	**406,589**
Administrative expenses	10	(212,066)	(204,698)
Allowance for impairment	11	(83,378)	(78,850)
Other income/(expenses), net	12	65,127	(20,431)
PROFIT BEFORE TAX		**161,012**	**102,610**
Income tax expense	13	10,534	(10,365)
GROUP PROFIT AFTER TAX		**171,546**	**92,245**
Other comprehensive income			
Items which should or may be reclassified as profit or loss			
Exchange rate differences from translation of foreign operations		2,920	518
Revaluation reserve of investments in securities		(407)	888
Total other comprehensive income		**2,513**	**1,406**
TOTAL COMPREHENSIVE INCOME		**174,059**	**93,651**
Net profit attributable to:			
Ordinary equity holders		171,388	92,175
Non-controlling interest		158	70
Total comprehensive income attributable to:			
Ordinary equity holders		173,901	93,581
Non-controlling interest		158	70
Basic and diluted earnings per share (BGN)	14	**1.56**	**0.84**

The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 71.

NEDELCHO NEDELCHEV
Chief Executive Officer

SVETOZAR POPOV
Executive Director

JIVKO TODOROV
Chief Financial Officer

Audited as per the auditors' report dated 25/04/2019:

BDO Bulgaria OOD

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor responsible for the audit

Mazars OOD

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor responsible for the audit

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Consolidated satement of the financial position as at 31 December 2018 in thousand BGN

	Note	2018	2017
ASSETS			
Cash and balances with Central Banks	15	1,674,754	1,478,594
Investments in securities	16	802,321	803,999
Loans and advances to banks and other financial institutions	17	125,483	54,402
Loans and advances to customers	18	5,716,062	5,162,907
Property and equipment	19	83,951	91,539
Intangible assets	20	14,402	7,342
Derivatives held for risk management		905	1,596
Current tax assets		605	63
Repossessed assets	22	812,934	984,448
Investment Property	23	242,558	218,212
Other assets	24	112,706	118,096
TOTAL ASSETS		**9,586,681**	**8,921,198**
LIABILITIES AND CAPITAL			
Due to banks	25	3,024	8,136
Due to other customers	26	8,342,691	7,583,819
Liabilities evidenced by paper	27	121,120	127,493
Hybrid debt	28	208,786	208,786
Derivatives held for risk management		88	-
Deferred tax liabilities	21	2,774	14,467
Current tax liabilities		259	2,213
Other liabilities	29	61,667	28,934
TOTAL LIABILITIES		**8,740,409**	**7,973,848**
Issued share capital	30	110,000	110,000
Share premium	30	97,000	97,000
Statutory reserve	30	39,865	39,865
Revaluation reserve of investments in securities		17,795	21,431
Revaluation reserve on property		4,500	4,500
Reserve from translation of foreign operations		1,395	(1,525)
Other reserves and retained earnings	30	573,087	673,571
TOTAL SHAREHOLDERS' EQUITY		**843,642**	**944,842**
Non-controlling interest		2,630	2,508
TOTAL GROUP EQUITY		**846,272**	**947,350**
TOTAL LIABILITIES AND GROUP EQUITY		**9,586,681**	**8,921,198**

The statement of the financial position is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 71.

NEDELCHO NEDELCHEV	SVETOZAR POPOV	JIVKO TODOROV
Chief Executive Officer	*Executive Director*	*Chief Financial Officer*

Audited as per the auditors' report dated 25/04/2019:

BDO Bulgaria OOD

Nedyalko Apostolov
Partner

Stoyanka Apostolova
Registered auditor
responsible for the audit

Mazars OOD

Athanassios Petropoulos
Partner

Milena Mladenova-Nikolova
Registered auditor
responsible for the audit

Consolidated statement of cash flows for the year ended 31 December 2018

	2018	2017
Net cash flow from operating activities		
Net profit	171,546	92,245
Adjustment for non-cash items		
Allowance for impairment	83,378	78,850
Net interest income	(267,088)	(260,926)
Depreciation and amortization	15,342	16,206
Tax expense	(10,534)	10,365
Loss from sale and write-off of tangible and intangible fixed assets, net	69	220
(Profit) from sale of other assets, net	(81,779)	(10,612)
(Positive) revaluation of investment property	(13,669)	-
	(102,735)	**(73,652)**
Change in operating assets		
Decrease in financial assets at fair value through profit or loss	25,859	1,545
(Increase) in financial assets at fair value in other comprehensive income	(32,235)	(127,721)
(Increase) in loans and advances to banks and financial institutions	(98)	(2,284)
(Increase) in loans to customers	(1,002,118)	(311,476)
Net (increase)/decrease in other liabilities	8,731	(23,985)
	(999,861)	**(463,921)**
Change in operating liabilities		
Increase/(decrease) in deposits from banks	(5,108)	4,794
Increase/(decrease) in amounts owed to other depositors	773,420	(295,119)
Net increase in other liabilities	30,947	6,462
	799,259	**(283,863)**
Interest received	393,486	423,690
Interest paid	(78,467)	(128,076)
Dividends received	105	4,478
Tax on profit, paid	(4,066)	(9,407)
NET CASH FLOW FROM OPERATING ACTIVITIES	**7,721**	**(530,751)**
Cash flow from investing activities		
(Purchase) of tangible and intangible fixed assets	(14,807)	(9,388)
Sale of tangible and intangible fixed assets	29	281
Sale of other assets	271,139	113,039
Decrease in investments	9,529	208,757
NET CASH FLOW FROM INVESTING ACTIVITIES	**265,890**	**312,689**
Financing activities		
Increase/(decrease) in borrowings	(6,415)	57,027
NET CASH FLOW FROM FINANCING ACTIVITIES	**(6,415)**	**57,027**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**267,196**	**(161,035)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD	**1,520,697**	**1,681,732**
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD (See Note 32)	**1,787,893**	**1,520,697**

The cash flow statement is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 71.

NEDELCHO NEDELCHEV *Chief Executive Officer*	SVETOZAR POPOV *Executive Director*	JIVKO TODOROV *Chief Financial Officer*

Audited as per the auditors' report dated 25/04/2019:	BDO Bulgaria OOD	
Nedyalko Apostolov *Partner*		Stoyanka Apostolova *Registered auditor responsible for the audit*
	Mazars OOD	
Athanassios Petropoulos *Partner*		Milena Mladenova-Nikolova *Registered auditor responsible for the audit*

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Consolidated statement of shareholders' equity for the year ended 31 December 2018

in thousands of BGN

	Issued share capital	*Share premium*	*Other reserves and retained earnings*	*Revaluation reserve of investments in securities*	*Revaluation reserve on property*	*Reserve from translation of foreign operations*	*Statutory reserve*	*Non-controlling interest*	*Total*
Balance at 01 January 2017	**110,000**	**97,000**	**584,513**	**20,543**	**4,500**	**(2,043)**	**39,865**	**2,458**	**856,836**
Total comprehensive income for the period									
Net profit for the year ended 31 December 2017	-	-	92,175	-	-	-	-	70	92,245
Other comprehensive income for the period									
Revaluation reserve on available for sale investments	-	-	-	888	-	-	-	-	888
Reserve from translation of foreign operations	-	-	-	-	-	518	-	-	518
Effect from deconsolidation of subsidiaries	-	-	(3,117)	-	-	-	-	(20)	(3,137)
Balance as at 31 December 2017	**110,000**	**97,000**	**673,571**	**21,431**	**4,500**	**(1,525)**	**39,865**	**2,508**	**947,350**
Initial application of IFRS 9									
Impairment losses	-	-	(276,776)	64	-	-	-	(36)	(276,748)
Revaluation reserve of investments in securities	-	-	4,904	(3,293)	-	-	-	-	1,611
Change in balances as at 1 January 2018	**110,000**	**97,000**	**401,699**	**18,202**	**4,500**	**(1,525)**	**39,865**	**2,472**	**672,213**
Total comprehensive income for the period									
Net profit for the year ended 31 December 2018	-	-	171,388	-	-	-	-	158	171,546
Other comprehensive income for the period									
Revaluation reserve of investments in securities	-	-	-	(407)	-	-	-	-	(407)
Reserve from translation of foreign operations	-	-	-	-	-	2,920	-	-	2,920
Balance as at 31 December 2018	**110,000**	**97,000**	**573,087**	**17,795**	**4,500**	**1,395**	**39,865**	**2,630**	**846,272**

The statement of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 5 to 71.
The financial statements have been approved by the Managing Board on 25 April 2019 and signed on its behalf by:

NEDELCHO NEDELCHEV *Chief Executive Officer*	SVETOZAR POPOV *Executive Director*	JIVKO TODOROV *Chief Financial Officer*

Audited as per the auditors' report dated 25/04/2019:	*BDO Bulgaria OOD*	
Nedyalko Apostolov *Partner*		Stoyanka Apostolova *Registered auditor responsible for the audit*
	Mazars OOD	
Athanassios Petropoulos *Partner*		Milena Mladenova-Nikolova *Registered auditor responsible for the audit*

Notes to the financial statements

1. Basis of preparation

(a) Statute

First Investment Bank AD (the Bank) was incorporated in 1993 in the Republic of Bulgaria and has its registered office in Sofia, at 37 Dragan Tzankov Blvd.

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

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

The consolidated financial statements of the Bank as at and for the year ended 31 December 2018 comprise the Bank and its subsidiaries (see note 36), together referred to as the "Group".

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

(b) Statement of compliance

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

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

(c) Presentation

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

The financial statements are prepared in accordance with the fair value principle of derivative financial instruments, financial instruments recognised at fair value in profit or loss, as well as assets recognised at fair value in other comprehensive income. Other financial assets and liabilities and non-financial assets and liabilities are stated at amortised cost or historical cost convention.

(d) New standards, amendments and interpretations effective as of 01 January 2018

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:

- 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), endorsed by the EU on 22 September 2016, published in the Official Journal on 29 October 2016
- IFRS 9 Financial Instruments (issued on 24 July 2014), endorsed by the EU on 22 November 2016, published in the Official Journal on 29 November 2016
- Clarifications to IFRS 15 Revenue from Contracts with Customers (issued on 12 April 2016), endorsed by the EU on 31 October 2017, published in the Official Journal on 9 November 2017
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (issued on 12 September 2016), endorsed by the EU on 3 November 2017, published in the Official Journal on 9 November 2017
- Annual Improvements to IFRS Standards 2014-2016 Cycle (issued on 8 December 2016), endorsed by the EU on 7 February 2018, published in the Official Journal on 8 February 2018
- IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters for transition to IFRS 7, IAS 19 and IFRS 10 which are no longer applicable.
- IAS 28 Investments in Associates and Joint Ventures – Measuring an associate or joint venture at fair value. The amendment clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital

organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (issued on 20 June 2016), endorsed by the EU on 26 February 2018, published in the Official Journal on 27 February 2018
- Amendments to IAS 40: Transfers of Investment Property (issued on 8 December 2016), endorsed by the EU on 14 March 2018, published in the Official Journal on 15 March 2018
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued on 8 December 2016), endorsed by the EU on 28 March 2018, published in the Official Journal on 3 April 2018

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies with the exception of the application of IFRS 9.

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

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

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

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

Management expects that some of the financial assets held to maturity amounting at 01.01.2018 to BGN 34,099 thousand to be accounted at fair value in other comprehensive income, because they represent government securities and are held as part of a business model for the purpose of collecting contractual cash flows, as well as of the cash flows from sale of the asset. Besides, the contractual cash flows from these financial instruments give rise only to principal and interest payments. With this change the management reports an effect in an increase in other comprehensive income (revaluation reserve of investments in securities) amounting to BGN 1,611 thousand.

As of 01.01.2018 a number of available-for-sale financial assets at total amount of BGN 18,286 thousand are measured at fair value through profit or loss as the cash flows are not solely payments of principal and interest. The related fair value gains were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018. Management does not report a significant effect on the equity components from this change in accounting

The other financial assets held by the Group at 01.01.2018 include:

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

- equity investments, amounting to BGN 4,164 thousand available-for-sale, up to now measured at fair value through profit or loss which the Group continued to measure on the same basis under IFRS 9;

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

- debt instruments, amounting to BGN 1,261 thousand currently classified as financial assets available-for-sale which meet the conditions for classification at amortised cost under IFRS 9. Management does not report a significant effect on the equity components (revaluation reserve of investments in securities) from this change in accounting.

IFRS 9 requires gains or losses realised on the sale of financial assets at fair value through other comprehensive income no longer to be transferred to profit or loss, but instead to be transferred from reserve to retained earnings. In 2018, no such gains or losses were recognised in relation to the disposal of available-for-sale financial assets.

An expected credit loss-based impairment should be recognised on the Group's trade receivables and investments in debt-type assets currently classified as AFS and HTM unless classified as at fair value through profit or loss in accordance with the new criteria. The Group recognises impairment also on its off-balance sheet commitments on the basis of the expected loss. Based on the assessments undertaken as at 01.01.2018, the Group reports a certain increase in the loss allowance

- for trade debtors by BGN 258,300 thousand;
- securities at amortised cost in the amount of BGN 158 thousand;
- off-balance sheet commitments amounting to BGN 18,290 thousand.

As at 01.01.2018, with the adoption of IFRS 9, impairment of financial assets at fair value is reported in other comprehensive income in the amount BGN 64 thousand. This amount does not affect the value of the respective financial assets, it ajusts the revaluation reserve of investments in securities (increase) against other reserves and retained earnings (decrease).

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

At 01.01.2018 the Gruup intends to present the changes in the fair value of investments in equity instruments in profit or loss, not in other comprehensive income.

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

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

IFRS 16 Leases, effective as of 1 January 2019, replaces the instructions to IAS 17 Leases and makes changes to the accounting for leases, especially for lessees.

According to IAS 17 lessees were required to distinguish between finance leases (recognised in the balance sheet) and operating leases (off-balance sheet). IFRS 16 requires lessees to recognise a lease liability reflecting lease payments to be made and the right-of-use asset for almost all lease agreements.

IASB envisaged exemptions for short-term leases or leases of low-value assets; these exemptions may only be applied by the lessee.

Lessor accounting remains largely unchanged.

According to IFRS 16, a lease agreement or an agreement containing a lease, is an agreement which grants the right to control the use of an asset over a given period of time against remuneration.

The management is in the process of assessing the effect from application of the standard, but cannot yet provide quantitative information. The following steps have been undertaken:

- All agreements are subjected to comprehensive review in order to assess whether further agreements may be considered as lease agreements pursuant to the new definition of IFRS 16;
- A decision is to be made which transition approach to opt for - either a full or a modified retrospective transition approach (which means that comparative information will not be restated). Under the modified approach it is possible not to assess whether existing agreements contain leases and other relief. The decision which approach to chose is important because it cannot be changed later.

- Current disclosures on financial lease and operating lease agreements are being assessed, since they might be the basis for determining the capitalised amount and may become right-of-use assets.
- It is being determined what accounting simplification is applicable to lease agreements and whether the right to exemption will be used.
- The requirements to the existing IT system are being reviewed;
- The additional required disclosures are being assessed.

Management does not expect a significant effect from application of this standard, since in the analysed rental agreements to which the Bank is a party as a tenant:

- The right to control the asset is not transferred because in practice the Bank's ability to receive substantially all of the economic benefits from use of the asset in practice is limited. In essence, all rental agreements to which the Bank is a party deprive it of the right to sublease the property to third parties.
- In the analysed rental agreements the right to control the use of the asset is not transferred, and the bank is limited in making relevant decisions regarding how to use the rented asset, as it can only make decisions related to the operating use and maintenance of said asset. In essence, as regards all rental agreements, the Bank has no right to change the approved manner of use for the property by making a decision to use it for purposes different from those initially approved. The lessor, on the other hand, being the owner, may at any time change the instructions for use given upon the initial agreement. This in practice deprives the bank as lessee of the full right to control the use of the asset.
- Due to the reasons listed above the Group assumes that a significant portion of the rental agreements to which the Bank is a party as a lessee do not fall within the scope of the definition for lease.
- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017), endorsed by the EU on 22 March 2018, published in the Official Journal on 26 March 2018
- IFRIC 23 Uncertainty over Income Tax Treatments (issued on 7 June 2017), effective 1 January 2019;

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 17 Insurance Contracts (issued on 18 May 2017)
- Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures (issued on 12 October 2017), effective 1 January 2019.
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (issued on 7 February 2018), effective 1 January 2019
- IFRS 14 Regulatory Deferral Accounts, effective 1 January 2016.
- IFRIC 23 Uncertainty over Income Tax Treatments, effective 1 January 2019
- Annual Improvements to IFRS Standards 2015-2017 Cycle (issued on 12 December 2017), effective 1 January 2019
- IFRS 11 Joint Arrangements - the company does not revaluate its previous share in jointly controlled activities when acquiring joint control over the operations.
- IAS 12 Income Taxes - the company recognises all tax consequences from the payment of dividends in the same way as the dividends themselves.
- IAS 23 Borrowing Costs - the company treats as part of the total borrowings any borrowing initially taken out to develop an asset when the asset is ready for the planned use or sale.
- Amendment to IFRS 3 Business Combinations (issued on 22 October 2018), effective 1 January 2020.

2. Significant accounting policies

(a) Income recognition

(i) Interest income and expense

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

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

(ii) Fees and Commissions

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

(iii) Net trading income

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

(iv) Dividend income

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

(b) Basis of consolidation

(i) Business Combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

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

(ii) Non-controlling interest

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

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

(iii) Subsidiaries

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

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

(iv) Loss of control

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

(v) Transactions eliminated on consolidation

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

(c) Foreign currency transactions

(i) Functional and presentation currency

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

Transactions and balances

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

(iii) Foreign operations

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

(d) Financial assets

(i) Recognition

The Group recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Group initially recognizes trade and other receivables on the date of transaction. Advances to customers are recognised when cash is advanced to the borrowers. At initial recognition, the Bank measures all financial assets at fair value plus, in the case of financial asset not measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

The Group classifies financial assets in the following categories: financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income, or financial assets measured at fair value through profit or loss. Management determines the classification of investments at initial recognition according to the business model for management of the specific class of financial assets and the contractual features of the cash flows associated with that financial asset.

(ii) Financial assets at amortised cost

Debt instruments held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows and where the contractual cash flows give rise only to principal and interest payments are recognised at amortised cost. After the initial recognition assets are booked at amortised cost.

Recognition at amortised cost requires application of the effective interest rate method. The amortised cost of a financial asset is the value at which the financial asset was initially recognised, minus the principal repayments plus or minus the amortisation accrued by using the effective interest rate method for each difference between the initial value and the value at the maturity date and minus impairment.

(iii) Financial assets at fair value through other comprehensive income

Debt instruments held within the Group's business model whose objective is to hold assets in order to collect contractual cash flows or to sell the asset and where the contractual cash flows give rise only to principal and interest payments are recognised at fair value in other comprehensive income. After initial recognition, the asset is measured at fair value with changes in fair value in revaluation reserve of investments in securities (other comprehensive income). When the debt instrument is written off, the profit or loss accrued and recognised in other comprehensive income is transferred to profit or loss.

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

The position contains two categories: financial assets held for trading and financial assets not classified in the above two categories. A financial asset is classified in this category if it was acquired for the purpose of short-term sale or if its contractual characteristics do not meet the requirement for generating payments of only principal and interest. Derivatives are also categorised as held for trading unless they are designated as hedges.

The Group does not designate any debt instrument as at fair value through profit or loss to remove or significantly reduce an accounting mismatch.

(v) Capital instruments at fair value through other comprehensive income

The Group may make an irrevocable election to recognize changes in fair value of investments in equity instruments through other comprehensive income, not through profit or loss. A gain or loss from fair value changes will be shown in other comprehensive income and will not be reclassified subsequently to profit or loss. When the equity instrument is written off, the profit or loss accrued and recognised in other comprehensive income is directly transferred to other reserves and retained earnings.

(vi) Fair value measurement principles

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

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

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

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

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

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

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

(vii) Derecognition

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

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

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

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

(e) Cash and cash equivalents

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

(f) Investments

Investments that the Group holds for the purpose of short-term profit taking or repurchases are classified as financial assets for trading. Investments in debt instruments held by the Group as part of a business model for the purpose of collecting contractual cash flows are classified as financial assets at amortised cost. Investments in debt instruments held by the Group as part of a business model for the purpose of collecting contractual cash flows and sale are classified as financial assets at fair value in other comprehensive income. All other investments, including those whose contractual terms do not meet the requirement for generation of only principal and interest payments are classified as recognised at fair value in profit or loss.

(g) Securities borrowing and lending business and repurchase transactions

(i) Securities borrowing and lending

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

(ii) Repurchase agreements

The Group enters into purchases (sales) of investments under agreements to resell (repurchase) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised.

The amounts paid are recognised in loans to either banks or customers. The receivables are shown as collateralised by the underlying security. Investments sold under repurchase agreements continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy for either assets held for trading or available-for-sale as appropriate. The proceeds from the sale are reported as liabilities to either banks or other customers.

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

(h) Borrowings

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

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

(i) Offsetting

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

(j) Impairment of financial assets

The Group recognizes 12-month expected credit loss as loss allowance when there is no significant increase in the credit risk since initial recognition. When there is a significant increase in credit risk since initial recognition, expected credit losses for the remaining life of the financial assets are recognized as loss allowance.

Whether credit risk is significantly increased or not is determined based on the following factors and events for the debtor or the exposure:

- Internal behavioural scoring of natural persons, companies and institutions whose exposures are above the threshold for significance;
- Decrease in credit rating (internal or external) by a given number of notches for companies and institutions whose exposures are above the threshold for significance.
- Delinquencies;
- Other factors.

(k) Property and equipment

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

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

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

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

(l) Intangible assets

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

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

Assets	**%**
• Licenses and trademarks	14 - 20
• Software and licences	8 - 50

(m) Investment Property

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

(n) Provisions

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

(o) Acceptances

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

(p) Off-balance sheet commitments

Acceptances are accounted for as liabilities evidenced by paper.

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 off-statement of financial position commitments when it has a present obligation as a result of a past event, when it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and when a reliable estimate can be made of the obligation.

(q) Taxation

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

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

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

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

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

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

Information on the valuations and the valuation uncertainty, for which there is a significant risk of change as of 31 December 2018 are stated below and are related to the impairment of financial instruments, income tax and the following notes related to other elements of the financial statements:

- Note 5 - determining of the fair value of the financial instruments through valuation techniques, in which the input data for the financial assets and liabilities are not based on the available market information.
- Note 19 - 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) Assessment of repossessed assets from collaterals

Assets accepted as collateral are recognized at the lower of the cost of acquisition and the net realizable value. When evaluating the net realizable value of the assets the Bank 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).

(ii) Income taxes

The Bank is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(s) Earnings per share

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

(t) Employee benefits

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

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

that benefit is discounted to determine its present value.

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

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

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

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognised as an expense if the Bank has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

Short-term employee benefits

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

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

(u) Insurance Contracts

Classification of insurance contracts

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

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

Written premiums

Written premiums are recognized as income on the basis of the due premium from the insured individuals for the underwriting year, which begins during the financial year, or the due single premium 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 premiums are insurance premiums for which there has been an violation of the General terms of the insurance contract or a change in the terms of the contract. Reversed premiums within the current year, related to policies written within the current year, decrease the Gross Written

Premiums of the Group. Reversed premiums within the current year, related to policies written within the previous year, increase the Gross Written Premiums of the Group.

Unearned-premium reserve

The unearned premium reserve is formed to cover the claims and administrative expenses, which are expected to arise on the respective type of insurance contract after the end of the reporting period. The basis for calculation of the unearned premium reserve corresponds to the base for recognition of the Group's written premiums.

The amount of the reserve is calculated under the precise day method, under which the premium is multiplied with a coefficient for deferral. The coefficient for deferral is calculated as a ratio between the number of the days within the following reporting period during which the contract is valid to the total number of days during which the contract is valid.

Unexpired risk reserve

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

Claims incurred

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

Outstanding claims reserve

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

Acquisition costs

Acquisition costs include accrued commission expense from agents and brokers.

3. Risk management disclosures

A. Trading activities

The Group maintains active trading positions in a limited number of non-derivative financial instruments. Most of the Group's trading activities are customer driven. In anticipation of customer demand, the Group carries an inventory of money market instruments and maintains access to market liquidity by trading with other market makers. These activities constitute the proprietary trading business and enable the Group to provide customers with money market products at competitive prices.

The Group manages its trading activities by type of risk involved and on the basis of the categories of trading instruments held.

(i) Credit risk

The risk that counterparts to financial instruments might default on their obligations. Default risk is monitored on an ongoing basis subject to Group's internal risk management procedures and is controlled through minimum thresholds for the credit quality of the counterpart and setting limits on exposure amount. Exposures arising from trading activities are subject to total exposure limits and are authorised by the appropriate person or body as set out in credit risk management procedures.

(ii) Market risk

Settlement risk is the risk of loss due to counterpart failing to deliver value (cash, securities or other assets) under contractually agreed terms. When trades are not cleared through clearing agent settlement risk is limited through simultaneous commencement of the payment and delivery legs.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Bank assumes market risk when taking positions in debt instruments, equities, derivatives and foreign exchange transactions. These risks are managed by enforcing limits on positions taken and their risk sensitivities as measured by value-at-risk, duration or other measures appropriate for particular position in view of its sensitivity to risk factors. The major risk factors that affect Bank's trading activities are changes of interest rates (interest rate risk), changes of exchange rates (foreign exchange risk) and changes of equity prices (equity price risk).

Exposure to market risk is formally managed in accordance with risk limits for buying or selling instruments set by senior management .

The quantitative measurement of interest rate risk is performed by applying VaR (Value at Risk) approach. The Value at Risk estimates the maximum loss that could occur over specified horizon, under normal market conditions, due to adverse changes in market rates if the positions remain unchanged for the specified time interval.

Value at risk is calculated using one day horizon and 99 per cent confidence level, meaning that there is 1% probability that a portfolio will incur a loss in one day greater than its VaR. Parameters of the VaR model are estimated on the basis of exponentially weighted historical price changes of risk factors.

The Value at Risk is calculated and monitored on a daily basis as part of the Bank's ongoing risk management. The following table summarises the range of interest VaR for all positions carried at fair value that was experienced in 2018:

	31 December	2018			31 December
in thousands of BGN	**2018**	**average**	**low**	**high**	**2017**
VaR	319	527	310	1,036	573

B. Non-trading activities

Below is a discussion of the various risks the Group is exposed to as a result of its non-trading activities and the approach taken to manage those risks.

(i) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities. Liquidity risk arises in the general funding of the Group's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturity and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame to meet the liability obligations.

Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper, subordinated debt instruments and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Group makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturity. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. The body managing liquidity is the Assets, Liability and Liquidity Management Council.

In compliance with the requirements of the Law on Credit Institutions, Ordinance No 7 of BNB for the organization and management of risks in banks and Directive 2014/59 / EU of the European Parliament and of the Council for establishing a framework for the recovery and resolution of credit institutions and investment firms, First Investment Bank AD prepared a recovery plan if financial difficulties occur. It includes qualitative and quantitative early warning signals and indicators of recovery such as capital and liquidity indicators, income indicators, market-oriented indicators upon the occurrence of which recovery measures are triggered. Liquidity indicators include Liquidity Coverage Ratio (LCR); net withdrawal of financing; liquid assets to deposits by non-financial customers ratio; Net Stable Funding Ratio (NSFR). Different stress test scenarios related to idiosyncratic shock, system shock and aggregate shock have been prepared.

In case of liquidity pressure, there are systems in place to ensure prompt and adequate reaction which include obtaining additional funds from local and international markets through issuance of appropriate financial instruments depending on the specific case as well as sale of non-liquid assets. The levels of decision making are clearly determined.

In order to reduce the liquidity risk, preventive measures have been taken aimed to extend the maturity of borrowings from customers, to encourage long-term relationships with clients and to increase customer satisfaction. In order to adequately manage liquidity risk, the Bank monitors cash flows on a daily basis.

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

Liquid assets	**2018**	**2017**
In BGN '000		
Balances with BNB	1,034,757	874,096
Current accounts and amounts with other banks	716,647	616,004
Unencumbered debt securities	453,915	468,590
Gold	5,699	6,198
Total liquid assets	**2,211,018**	**1,964,888**

Reasonable liquidity management requires avoidance of concentration of the borrowings from large depositors. Analysis of the significant borrowings in terms of total amount is performed on a daily basis and the diversity of the total liabilities portfolio is supervised.

As at 31 December 2018 the thirty largest non-bank unguaranteed depositors represent 4.74% of total deposits from other customers (31 December 2017: 4.06%).

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

	31 December 2018	**31 December 2017**
Ratio of liquid assets to total borrowings from other clients	26.50%	25.91%

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 2018

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	1,674,754	-	-	-	-	**1,674,754**
Financial assets at fair value through profit or loss	8,546	-	-	-	17,498	**26,044**
Financial assets at fair value through other comprehensive income	656,265	8,477	5,672	105,115	-	**775,529**
Financial assets at amortised cost	-	-	-	748	-	**748**
Loans and advances to banks and other financial institutions	122,268	628	78	2,509	-	**125,483**
Loans and advances to	383,619	179,694	778,985	4,373,764	-	**5,716,062**
Other trading assets	905	-	-	-	-	**905**
Total financial assets	**2,846,357**	**188,799**	**784,735**	**4,482,136**	**17,498**	**8,319,525**
Liabilities						
Due to banks	3,024	-	-	-	-	**3,024**
Due to other customers	3,559,155	933,212	2,739,394	1,110,930	-	**8,342,691**
Liabilities evidenced by paper	3,218	1,221	3,441	113,240	-	**121,120**
Hybrid debt	-	-	-	-	208,786	**208,786**
Other financial liabilities, net	(2)	63	27	-	-	**88**
Total financial liabilities	**3,565,395**	**934,496**	**2,742,862**	**1,224,170**	**208,786**	**8,675,709**
Net liquidity gap	**(719,038)**	**(745,697)**	**(1,958,127)**	**3,257,966**	**(191,288)**	**(356,184)**

The table shows investments at fair value through other comprehensive income with a maturity of up to 1 month in order to reflect the management's ability to sell them within a short-term period, if needed.

The Bank does not recognize as liquidity risk the current undrawn amounts of loans extended because the management considers that, based on the agreed conditions, the Bank can at any time terminate the extension of funds to its borrowers in case it is expected that their credit risk will increase.

Loans and advances to customers reflect also financial lease receivables.

Maturity table as at 31 December 2017

Fibank

Първа инвестиционна банка

Notes to the financial statements

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Maturity not defined	Total
Assets						
Cash and balances with Central Banks	1,478,594	-	-	-	-	**1,478,594**
Financial assets held for trading	7,979	-	-	-	-	**7,979**
Investments available for sale	658,218	4,070	10,733	53,465	15,820	**742,306**
Financial assets held to maturity	-	2,406	10,527	40,781	-	**53,714**
Loans and advances to banks and other financial institutions	52,258	-	-	2,144	-	**54,402**
Loans and advances to customers	381,300	229,923	988,734	3,562,950	-	**5,162,907**
Other trading assets	1,720	(124)	-	-	-	**1,596**
Total financial assets	**2,580,069**	**236,275**	**1,009,994**	**3,659,340**	**15,820**	**7,501,498**
Liabilities						
Due to banks	8,136	-	-	-	-	**8,136**
Due to other customers	2,892,510	883,287	2,687,171	1,120,851	-	**7,583,819**
Liabilities evidenced by paper	9,101	-	241	118,151	-	**127,493**
Hybrid debt	-	-	-	-	208,786	**208,786**
Total financial liabilities	**2,909,747**	**883,287**	**2,687,412**	**1,239,002**	**208,786**	**7,928,234**
Net liquidity gap	**(329,678)**	**(647,012)**	**(1,677,418)**	**2,420,338**	**(192,966)**	**(426,736)**

The following table provides a remaining maturities analysis of the financial assets and liabilities of the Group as at 31 December 2018 based on the contractual undiscounted cash flows.

in thousands of BGN	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	Total
Financial assets					
Cash and balances with Central Banks	1,674,754	-	-	-	**1,674,754**
Financial assets at fair value through profit or loss	8,546	-	-	17,498	**26,044**
Financial assets at fair value through other comprehensive income	656,265	8,549	5,853	115,824	**786,491**
Financial assets at amortised cost	-	-	-	1,427	**1,427**
Loans and advances to banks and other financial institutions	122,268	628	78	2,509	**125,483**
Loans and advances to customers	384,067	181,296	803,735	5,393,919	**6,763,017**
Total financial assets	**2,845,900**	**190,473**	**809,666**	**5,531,177**	**9,377,216**
Financial liabilities					
Due to banks	3,024	-	-	-	**3,024**
Due to other customers	3,559,467	933,878	2,746,763	1,125,297	**8,365,405**
Liabilities evidenced by paper	3,219	1,224	3,455	118,439	**126,337**
Hybrid debt	-	-	22,883	264,295	**287,178**
Total financial liabilities	**3,565,710**	**935,102**	**2,773,101**	**1,508,031**	**8,781,944**
Derivatives held for risk management					
For trading, outgoing cash flow	189	82	27	-	298
For trading, incoming cash flow	1,096	19	-	-	1,115
Cash flow from derivatives, net	**907**	**(63)**	**(27)**	**-**	**817**

3. Risk management disclosures, continued

B. Non-trading activities, continued

Liquidity risk, continued

The following table provides a remaining maturities analysis of the financial assets and liabilities of the Group as at 31 December 2017 based on the contractual undiscounted cash flows.

in thousands of BGN	Total

	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	More than 1 year	
Financial assets					
Cash and balances with Central Banks	1,478,594	-	-	-	**1,478,594**
Financial assets held for trading	7,979	-	-	-	**7,979**
Investments available for sale	658,221	4,105	11,074	74,731	**748,131**
Financial assets held to maturity	-	2,429	10,569	40,181	**53,179**
Loans and advances to banks and other financial institutions	52,258	-	-	2,144	**54,402**
Loans and advances to customers	382,232	232,368	1,024,543	4,569,915	**6,209,058**
Total financial assets	**2,579,284**	**238,902**	**1,046,186**	**4,686,971**	**8,551,343**
Financial liabilities					
Due to banks	8,136	-	-	-	**8,136**
Due to other customers	2,892,877	884,183	2,697,371	1,141,441	**7,615,872**
Liabilities evidenced by paper	9,105	-	243	123,663	**133,011**
Hybrid debt	-	-	-	241,349	**241,349**
Total financial liabilities	**2,910,118**	**884,183**	**2,697,614**	**1,506,453**	**7,998,366**
Derivatives held for risk management					
For trading, outgoing cash flow	35,127	8,182	-	-	43,309
For trading, incoming cash flow	36,847	8,058	-	-	44,905
Cash flow from derivatives, net	**1,720**	**(124)**	**-**	**-**	**1,596**

The expected cash flows of the Bank from some financial assets and liabilities are different from the cash flows as per the loan contract. The main differences are:

- There is an expectation that the deposits on demand will remain stable and will increase.
- Retail mortgages have original maturity of 19 years on average, but the expected average effective maturity is 12 years as some clients take advantage of the early repayment possibility.

(ii) Market risk

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank is also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the Bulgarian Basic Interest Rate, the LIBOR and EURIBOR, although these indices tend to move in high correlation. In addition, the actual effect will depend on a number of other factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

In order to quantify the interest rate risk of its non-trading activities, the Bank measures the impact of a change in the market rates both on net interest income and on the Bank's economic value defined as the difference between fair value of assets and fair value of liabilities.

The interest rate risk on the economic value of the Bank following a standardised shock of +100bp/-100bp as at 31 December 2018 is BGN +35.2/-18.4 Mio.

The interest rate risk on the Bank's net interest income one year forward following a standardised shock of +100bp/-100bp as at 31 December 2018 is BGN 19.5/-15.4 Mio.

	Net interest income		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Effect in millions of BGN				
31 December 2018				
as at 31 December	19.5	-15.4	35.2	-18.4
Average for the period	12.9	-12.6	30.0	-15.2
Maximum for the period	19.5	-15.4	35.2	-18.4
Minimum for the period	10.2	-11.2	26.8	-12.2
31 December 2017				
as at 31 December	8.5	-11.1	24.6	-15.2
Average for the period	5.1	-6.1	18.3	-14.5
Maximum for the period	8.5	-3.9	24.6	-12.7
Minimum for the period	2.6	-11.1	15.4	-19.2

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2018 and the periods in which financial liabilities and assets reprice.

in thousands of BGN	Total	Floating rate Instruments	Fixed rate instruments: Less than 1 month	Between 1 month and 3 months	Between 3 months and 1 year	More than 1 year
Assets						
Cash and balances with Central Banks	468,854	441,137	27,717	-	-	-
Financial assets at fair value through profit or loss	3,991	-	3,991	-	-	-
Financial assets at fair value through other comprehensive income	775,528	26,558	629,706	8,477	5,672	105,115
Financial assets at amortised cost	748	748	-	-	-	-
Loans and advances to banks and other financial institutions	24,689	-	4,985	-	19,704	-
Loans and advances to customers	5,081,948	3,934,279	7,266	31,613	141,480	967,310
Total interest-bearing assets	**6,355,758**	**4,402,722**	**673,665**	**40,090**	**166,856**	**1,072,425**
Liabilities						
Due to banks	3,024	3,024	-	-	-	-
Due to other customers	8,279,836	2,326,450	1,169,849	933,212	2,739,394	1,110,931
Liabilities evidenced by paper	121,120	105,394	3,217	1,205	44	11,260
Hybrid debt	208,786	-	-	-	-	208,786
Total interest-bearing liabilities	**8,612,766**	**2,434,868**	**1,173,066**	**934,417**	**2,739,438**	**1,330,977**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(ii) Market risk, continued

Interest rate risk, continued

The following table indicates the effective interest rates at 31 December 2017 and the periods in which financial liabilities and assets reprice.

Fixed rate instruments

Fibank

Notes to the financial statements

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	657,536	609,749	47,787	-	-	-
Financial assets held for trading	3,815	-	3,815	-	-	-
Investments available for sale	726,486	21,419	636,799	4,070	10,733	53,465
Financial assets held to maturity	53,714	-	-	2,406	10,527	40,781
Loans and advances to banks and other financial institutions	24,581	-	24,581	-	-	-
Loans and advances to customers	4,560,523	3,302,119	21,976	24,547	263,107	948,774
Total interest-bearing assets	**6,026,655**	**3,933,287**	**734,958**	**31,023**	**284,367**	**1,043,020**
Liabilities						
Due to banks	8,136	3,281	4,855	-	-	-
Due to other customers	7,558,202	1,916,169	950,724	883,287	2,687,171	1,120,851
Liabilities evidenced by paper	127,493	114,406	9,099	1,226	1,435	1,327
Hybrid debt	208,786	-	-	-	-	208,786
Total interest-bearing liabilities	**7,902,617**	**2,033,856**	**964,678**	**884,513**	**2,688,606**	**1,330,964**

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 in performing transactions in foreign currencies and foreign-currency denominated financial instruments.

As a result of the currency Board in place in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents it financial statements is the Bulgarian lev, the Group's financial statements are effected by movements in the exchange rates between the Bulgarian lev and currencies other than the Euro.

The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the presentation currency of the Group. These exposures were as follows:

in thousands of BGN	**2018**	**2017**
Monetary assets		
Euro	4,177,947	3,854,451
US dollar	627,557	569,389
Other	320,961	285,191
Gold	5,699	6,198
Monetary liabilities		
Euro	3,237,908	3,050,261
US dollar	628,397	569,750
Other	291,040	269,324
Gold	1,810	2,186
Net position		
Euro	940,039	804,190
US dollar	(840)	(361)
Other	29,921	15,867
Gold	3,889	4,012

In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Group manages foreign currency risk in line with policy that sets limits on currency positions and dealer limits.

(iii) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will cause a financial loss for the Group by failing to discharge an obligation. The Group is subject to credit risk through its lending activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees. The management of the credit risk exposures to borrowers is conducted through regular analysis of the borrowers' credit worthiness and the assignment of a rating grade. Exposure to credit risk is also managed in part by obtaining collateral and guarantees.

Notes to the financial statements

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Carrying amount	5,716,062	5,162,907	1,615,644	1,335,084	780,268	784,015	-	-
Amount committed/ guaranteed	-	-	-	-	-	-	781,402	845,463

The Group's primary exposure to credit risk arises through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of the assets on the balance sheet. These exposures are as follows:

31 December 2018 *in thousands of BGN*

Class of exposure	**Gross amount of loans and advances to customers**	**Allowance for impairment**	**Carrying amount of loans and advances to customers**
Performing			
Collectively impaired	5,050,018	(119,567)	4,930,451
Nonperforming			
Collectively impaired	352,361	(150,491)	201,870
Individually impaired	1,063,005	(479,264)	583,741
Total	**6,465,384**	**(749,322)**	**5,716,062**

31 December 2017 *in thousands of BGN*

Class of exposure	**Gross amount of loans and advances to customers**	**Allowance for impairment**	**Carrying amount of loans and advances to customers**
Performing			
Collectively impaired	4,514,558	(17,280)	4,497,278
Nonperforming			
Collectively impaired	378,338	(194,486)	183,852
Individually impaired	871,872	(390,095)	481,777
Total	**5,764,768**	**(601,861)**	**5,162,907**

Distribution of trade receivables and impairment as adjustment for financial assets (loans and advances to customers) after application of IFRS 9:

	31/12/2018		01/01/2018	
	Gross amount of loans and advances to customers	**Allowance for impairment**	**Gross amount of loans and advances to customers**	**Allowance for impairment**
Exposures without increase of credit risk after the initial recognition (phase 1)	3,882,962	28,912	3,281,605	100,305
Exposures with significant increase of credit risk after the initial recognition (phase 2)	1,167,056	90,655	1,175,287	146,380
Non-performing (impaired) exposures (phase 3)	1,415,366	629,755	1,307,876	613,625
Total	**6,465,384**	**749,322**	**5,764,768**	**860,310**

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

As at 31 December 2018 the gross amount of overdue loans and advances to customers measured as exposures 90+ days overdue is BGN 837,374 thousand (2017: 1,007,466 thousand).

In addition, the Group is exposed to off-balance sheet credit risk through commitments to extend credits and issue contingent liabilities (See Note 31).

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentrations of credit risk arise by location and type of customer in relation to the Group's investments, loans and advances and off-balance sheet commitments.

(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	**2018**	**2017**
Trade	1,037,381	1,017,879
Industry	1,201,664	861,778
Services	672,197	630,706
Finance	107,668	109,298
Transport, logistics	322,495	323,367
Communications	107,463	46,863
Construction	275,066	203,901
Agriculture	199,847	212,391
Tourist services	249,330	173,813
Infrastructure	501,084	467,483
Private individuals	1,742,417	1,519,859
Other	48,772	197,430
Allowance for impairment	(749,322)	(601,861)
Total	**5,716,062**	**5,162,907**

The amounts reflected in the tables represent the maximum accounting loss that would be recognised at the statement of financial position date if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for impairment.

The Group has extended loans to enterprises involved in different types of activities but within the same economic sector - industry. As such the exposures share a similar industry risk. There are three such groups of enterprises at 31 December 2018 with total exposures outstanding amounting to BGN 187,051 thousand (2017: 182,906 thousand) - ferrous and non-ferrous metallurgy, BGN 89,905 thousand (2017: 85,061 thousand) – mining industry and BGN 104,489 thousand (2017: 95,135 thousand) - power engineering.

The Bank has extended loans, confirmed letters of credit and granted guarantees to 7 individual clients or groups (2017: 6) with each individual exposure exceeding 10% of the capital base of the Bank, based on the amortised cost of the respective loan facilities and after application of the required regulatory exemptions and techniques for reducing credit risk. The total amount of these exposures is BGN 644,781 thousand, which is 58.21% of the capital base (2017: BGN 634,732 thousand, representing 61.85% of the capital base).

Loans extended by the branch in Cyprus amount to BGN 4,050 thousand (2017: BGN 5,921 thousand), in Albania amount to BGN 195,157 thousand (2017: BGN 149,696 thousand) gross carrying amount before any allowances)

The Group's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank's obligations.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

Collateral held against different types of assets:

Type of credit exposure	Main type of collateral	Collateral coverage ratio	
		2018	**2017**
Repurchase agreements	Tradable securities	101%	108%
Loans and advances to banks	None	-	-
Mortgage loans	Real estate	269%	297%
Consumer lending	Mortgage, warrant, financial and other collateral	38%	56%
Credit cards	None	-	-
Loans to companies	Mortgage, pledge of enterprise, pledge of long-term tangible assets, pledge of goods, pledge of other short-term tangible assets, financial and other collateral	442%	410%

The table below shows a breakdown of total gross loans and advances (gross balance sheet value) extended to customers by the Bank by type of collateral to the amount of the collateral, excluding credit cards in the amount of BGN 202,095 thousand (2017: 259,303 thousand BGN).

In BGN '000	**2018**	**2017**
Mortgage	1,389,600	1,360,608
Pledge of receivables	1,951,831	1,526,759
Pledge of commercial enterprise	33,834	32,390
Securities	103,697	100,487
Bank guarantees	-	-
Other guaranties	2,271,618	1,780,285
Pledge of goods	15,106	23,752
Pledge of machines	114,222	109,570
Money deposit	27,044	36,065
Stake in capital	13,804	19
Gold	-	-
Other collateral	1,004	943
Unsecured	341,529	534,586
Total	**6,263,289**	**5,505,464**

Other collateral includes insurance policies up to the amount of the insurance cover, future receivables, remuneration transfers, etc.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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	**2018**	**2017**
Loan to value (LTV) ratio		
Less than 50%	159,494	130,627
51% to 70%	204,262	165,873
71% to 90%	260,170	208,796
91% to 100%	54,215	36,089
More than 100%	74,440	80,786
Total	**752,581**	**622,171**

Loans to corporate customers

Individually significant loans to corporate customers are subject to individual credit appraisal and impairment testing. The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan. However, collateral provides additional security and the Group requests corporate borrowers to provide it. The Group takes collateral in the form of a first charge over real estate, floating charges over all corporate assets, and other liens and guarantees.

The Group routinely analyses collateral for possible changes in value due to market conditions, legal framework or debtor's actions. Where such changes lead to a breach in the requirements for sufficiency of collateral, the Group requires provision of additional collateral within a certain timeframe.

As at 31 December 2018 the net carrying amount of individually impaired loans to corporate customers amounts to BGN 676,046 thousand (2017: BGN 567,083 thousand) and the value of collateral held against those loans amounts to BGN 639,312 thousand (2017: BGN 517,313 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

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iii) Credit risk, continued

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 BGN ‘000

	2018		2017	
Type of renegotiation	**Gross amount of loans and advances to customers**	**Allowance for impairment**	**Gross amount of loans and advances to customers**	**Allowance for impairment**
Loans to individuals	**186,497**	**5,839**	**215,186**	**16,319**
Change of maturity	116,811	4,387	128,313	15,618
Change of amount of instalment	-	-	105	(2)
Change of interest rate	12,779	21	21,904	(32)
Change due to customers request	34,610	45	52,442	8
Other reasons	22,297	1,386	12,422	727
Loans to corporate clients	**2,119,413**	**252,094**	**1,693,140**	**8,621**
Change of maturity	60,241	3,727	391,785	5,046
Change of amount of instalment	163,528	9,380	80,258	325
Change of interest rate	117,723	397	242,896	208
Change due to customers request	1,261,350	188,606	931,764	1,411
Other reasons	516,571	49,984	46,437	1,631
Total:	**2,305,910**	**257,933**	**1,908,326**	**24,940**

Structure and organization of credit risk management functions

Credit risk management as a comprehensive process is accomplished under the supervision of the Management Board of the Bank. The Supervisory Board exercises control over the activities of the Management Board on the credit risk management either directly or through the Risk Committee, which supports the Supervisory Board with the extensive supervision over the risk management function in the Bank, including over the formation of risk exposures.

There are collective bodies in the Bank the function of which is to support the activities of the Management Board on the credit risk management- Credit Council and Restructuring Committee. The Credit Council supports the adopted credit risk management and forms an opinion on loans as per its limits of competence. The Restructuring Committee is a specialized body for supervision of the loan exposures with indicators for deterioration. In addition to the collective bodies in the Bank, there are other independent specialized bodies - the Risk Analysis and Control Department and the Credit Risk Management, Monitoring and Provisioning Department, which fulfil the functions of identification, evaluation and management of the credit risk, including performing additional second control over the risk exposures. The realization, coordination and current control over the lending process is organized from the following departments: Corporate Banking, SME financing, Retail Banking, and Loan Administration, while the problem assets management is performed by the Impaired Assets Department.

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures

The Group closely manages the credit risk on government debt exposures and as a result the overall quality of the government debt portfolio is very high.

The table below shows the carrying amount of the government debt portfolio by country issuer.

In BGN '000

31 December 2018

Portfolio	**Bulgaria**	**Albania**	**Slovakia**	**Latvia**	**Lithuania**	**USA**	**EFSF***	**Belgium**
Financial assets at fair value through profit or loss	3,991	-	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	320,264	114,391	2,069	67	43,677	247,145	1,951	2,659
Financial assets at amortised cost	-	-	-	-	-	-	-	-
Total	**324,255**	**114,391**	**2,069**	**67**	**43,677**	**247,145**	**1,951**	**2,659**

*European Financial Stability Facility

In BGN '000

31 December 2017

Portfolio	**Bulgaria**	**Albania**	**Slovakia**	**Latvia**	**Lithuania**	**USA**	**EFSF**	**Belgium**

Financial assets held for trading	3,815	-	-	-	-	-	-	-
Investments available for sale	379,985	63,243	2,069	70	44,870	187,488	1,945	2,701
Financial assets held to maturity	-	34,099	-	-	-	-	-	-
Total	**383,800**	**97,342**	**2,069**	**70**	**44,870**	**187,488**	**1,945**	**2,701**

3. Risk management disclosures, continued

B. Non-trading activities, continued

(iv) Government debt exposures

Maturity table of government debt securities by country issuer as at 31 December 2018

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	38,164	-	-	185,612	100,479	324,255
Albania	227	8,477	5,672	63,110	36,905	114,391
Slovakia	-	-	-	-	2,069	2,069
Latvia	-	-	-	-	67	67
Lithuania	-	-	-	-	43,677	43,677
USA	144,950	102,195	-	-	-	247,145
EFSF	-	-	-	-	1,951	1,951
Belgium	-	-	-	2,659	-	2,659
Total	**183,341**	**110,672**	**5,672**	**251,381**	**185,148**	**736,214**

Maturity table of government debt securities by country issuer as at 31 December 2017

in thousands of BGN

Country issuer	Up to 1 Month	From 1 to 3 Months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Bulgaria	43,971	-	706	194,410	144,713	383,800
Albania	1,000	4,070	13,881	62,686	15,705	97,342
Slovakia	-	-	-	-	2,069	2,069
Latvia	-	-	-	-	70	70
Lithuania	-	-	-	-	44,870	44,870
USA	187,488	-	-	-	-	187,488
EFSF	-	-	-	-	1,945	1,945
Belgium	-	-	-	-	2,701	2,701
Total	**232,459**	**4,070**	**14,587**	**257,096**	**212,073**	**720,285**

C. Capital adequacy

Since 1 January 2014, the provisions of the CRD IV package have been in force. Through Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, CRD IV package transposes into European law the provisions of the new capital standards for banks – Basel III.

Regulatory capital

The equity capital of the Group for regulatory purposes consists of the following elements:

Common Equity Tier 1 capital

a) issued and paid up capital instruments (ordinary shares);
b) share premium from issuance of ordinary shares;
c) audited retained earnings;
d) accumulated other comprehensive income, including revaluation reserves;
e) other reserves;

Deductions from components of the Common Equity Tier 1 capital include intangible assets. The increase of CET1 includes the adjustments related to the transitional treatment of the effect from the initial application of IFRS 9.

Additional Tier 1 capital

The instruments of Additional Tier 1 capital include hybrid debt (see note 28). Deductions from components of Tier 1 capital include regulatory adjustments relating to items that are included in the capital balance or the assets of the Bank, but are treated differently for capital adequacy regulation.

Tier 2 Capital

Tier 2 capital reflects previous regulatory adjustments related to the revaluation reserve from real property.

In thousands of BGN

Total own funds

	2018	**2017**
Paid up capital instruments	110,000	110,000
(-) Indirect shareholding in Common Equity Tier 1 capital instruments	(60)	(185)
Premium reserves	97,000	97,000
Other reserves	441,564	619,380
Accumulated other comprehensive income	23,690	25,931
Deductions from Common Equity Tier 1 capital:		
(-) Intangible assets	(14,402)	(6,885)
Transitional adjustments of Common Equity Tier 1 capital	262,910	(3,809)
Other deductions	(8,614)	(10,271)
Common Equity Tier 1 capital	**912,088**	**831,161**
Additional Tier 1 capital instruments		
Hybrid debt	195,583	195,583
Tier 1 capital deductions:		
Transitional adjustments of Additional Tier 1 capital	-	(1,439)
Tier 1 Capital	**1,107,671**	**1,025,305**

Tier 2 Capital		
Transitional adjustments of Tier 2 capital	-	900
Total own funds	**1,107,671**	**1,026,205**

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 is calculated as the total of the riskweighted assets for credit, market and operational risk.

The Group calculates the requirements for credit risk for its exposures in banking and trading portfolios based on the standardised approach. Exposures are taken into account using their balance sheet amount. Off-balance-sheet credit-related commitments are taken into account by applying different categories of conversion factors designed to convert these items into balance sheet equivalents. The resulting equivalent amounts are then weighted for risk using different percentages depending on the class of exposure and its credit rating assessment. Various credit risk mitigation techniques are used, for example collateralised transactions and guarantees. Forwards and options based derivative instruments are weighted for counterparty credit risk.

The Group calculates also capital requirements for market risk for foreign currency and commodity instruments in trading book and banking book.

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

The total capital adequacy ratio cannot be below 14%, the Tier 1 capital adequacy cannot be less than 12%, and the CET1 adequacy cannot be less than 10.5% (with included capital buffer for systemic risk of 3%, protective capital buffer of 2.5%, and buffer for other systemically important institutions of 0.5%)

The Group has complied with the regulatory capital requirements throughout the period.

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Notes to the financial statements

3. Risk management disclosures, continued

C. Capital adequacy, continued

Capital adequacy level is as follows:

In BGN '000	Balance sheet/notional amount		Risk exposures	
	2018	**2017**	**2018**	**2017**
Risk weighted exposures for credit risk				
Balance sheet assets				
Exposure class				
Central governments or central banks	1,800,687	1,616,735	237,480	120,911
Multirateral development banks	163	296	-	-
Institutions	585,417	506,187	151,327	133,003
Corporates	2,032,050	2,082,600	1,970,684	2,053,527
Retail	1,272,803	1,127,687	777,820	668,060
Secured by mortgages on immovable property	1,798,847	1,283,593	729,696	523,004
Exposures in default	893,175	665,598	986,805	758,733
Collective investments undertakings	2,675	2,549	2,675	2,549
Equity	19,872	20,795	20,703	26,114
Other items	1,415,552	1,591,442	1,231,501	1,394,519
Total	**9,821,241**	**8,897,482**	**6,108,691**	**5,680,420**
Off balance sheet items				
Exposure class				
Institutions	-	-	297	28
Corporates	265,128	390,491	68,862	90,430
Retail	471,215	419,837	6,398	7,603
Secured by mortgages on immovable property	45,349	35,136	9,205	6,718
Other items	-	-	-	57
Total	**781,692**	**845,464**	**84,762**	**104,836**
Derivatives				
Exposure class				
Institutions	1,261	379	252	76
Corporates	83	750	83	750
Other items	923	1,115	923	1,115
Total	**2,267**	**2,244**	**1,258**	**1,941**
Total risk-weighted exposures for credit risk			**6,194,711**	**5,787,197**
Total amount of exposures to market risk			**5,300**	**6,000**
Amount of exposures for deferred risk			**658,925**	**665,625**
Total amount of risk exposures			**6,858,936**	**6,458,822**

Capital adequacy ratios	**Equity**		**Capital ratios %**	
	2018	**2017**	**2018**	**2017**
Common Equity Tier 1 capital	**912,088**	**831,161**	**13.30%**	**12.87%**
Tier 1 Capital	**1,107,671**	**1,025,305**	**16.15%**	**15.87%**
Total own funds	**1,107,671**	**1,026,205**	**16.15%**	**15.89%**

Notes to the financial statements

4. Segment Reporting

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

Reporting and measurement of segment assets and liabilities and segment revenues and results is based on the accounting policies set out in the accounting policy notes.

Transactions between segments are conducted on an arm's length basis.

The Group operates principally in Bulgaria, but also has operations in Cyprus and Albania.

In presenting information on the basis of geographical segments, revenue and operating income is allocated after intragroup eliminations based on the location of the Bank branch that generated the revenue. Segment assets and liabilities are allocated after intragroup eliminations based on their geographical location.

In BGN '000	**Bulgarian operations**		**Foreign operations**		**Total**	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Interest income	312,537	340,526	18,509	15,647	331,046	356,173
Interest expense	(61,159)	(92,333)	(2,799)	(2,914)	(63,958)	(95,247)
Net interest income	**251,378**	**248,193**	**15,710**	**12,733**	**267,088**	**260,926**
Fee and commission income	113,935	116,456	6,057	4,331	119,992	120,787
Fee and commission expense	(22,145)	(18,093)	(736)	(548)	(22,881)	(18,641)
Net fee and commission income	**91,790**	**98,363**	**5,321**	**3,783**	**97,111**	**102,146**
Net trading income	**11,053**	**14,771**	**(244)**	**555**	**10,809**	**15,326**
Administrative expenses	**(202,800)**	**(197,160)**	**(9,266)**	**(7,538)**	**(212,066)**	**(204,698)**
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Assets	**9,202,397**	**8,604,827**	**384,284**	**316,371**	**9,586,681**	**8,921,198**
Liabilities	**8,189,960**	**7,625,939**	**550,449**	**347,909**	**8,740,409**	**7,973,848**

4.Segment Reporting, continued

The table below shows assets and liabilities and income and expense by business segments as at 31 December 2018.

in thousands of BGN

Business	Assets	Liabilities	Interest income	Interest expense	Net fee and commission income	Net trading income	Other net operating income
Corporate customers	3,152,784	754,755	145,650	(803)	23,682	-	383
Small and medium enterprises	840,256	347,282	39,517	(774)	13,987	-	395
Retail Banking	1,723,022	7,240,654	129,394	(36,198)	58,597	-	1,844
Treasury	2,603,463	79,601	16,485	(2,764)	2,296	10,809	4,385
Other	1,267,156	318,117	-	(23,419)	(1,451)	-	9,314
Total	**9,586,681**	**8,740,409**	**331,046**	**(63,958)**	**97,111**	**10,809**	**16,321**

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)(vi).

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: inputs are observable date for a given asset or liability. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

However, where the Group measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgement in determining appropriate portfolio level adjustments such as bid-ask spread.

Such adjustments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

For more complex instruments, the Group uses proprietary valuation models, which usually are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs include certain over the counter derivatives, certain loans and securities for which there is no active market and retained interests in securitisations. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Bank has an established control framework with respect to the measurement of fair values. This framework includes an Risk Management function, which is independent of Treasury division and reports to management, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include:

- verification of observable pricing;
- a review and approval process for new models and changes to models involving the Risk Analysis and Control Division and the Management Board;
- calibration of models against observed market transactions;
- analysis and investigation of significant daily valuation movements;
- review of significant unobservable inputs, valuation adjustments and significant changes to the fair value measurement of Level 3 instruments compared to previous month, by Risk Analysis and Control division.

Where third-party information, such as broker quotes or pricing services, are used to measure fair value, Risk Analysis and Control division assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS. This includes:

- verifying that the broker or pricing service is approved by the Bank for use in pricing the relevant type of financial instrument;
- understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- when prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement;
- where a number of quotes for the same financial instrument have been obtained, how fair value has been determined using those quotes.

The tables below set out analysis of financial instruments measured at fair value at the end of the reporting period classified by fair value hierarchy level framework categorising fair value measurement The amounts are based on the amounts in the statement of financial position.

in thousands of BGN

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	8,542	17,488	14	26,044
Financial assets at fair value through other comprehensive income	634,916	140,123	490	775,529
Derivatives held for risk management	905	(88)	-	817
Total	**644,363**	**157,523**	**504**	**802,390**

In BGN '000

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets held for trading	7,979	-	-	7,979
Investments available for sale	619,128	123,168	10	742,306
Derivatives held for risk management	1,092	504	-	1,596
Total	**628,199**	**123,672**	**10**	**751,881**

Notes to the financial statements

5. Financial assets and liabilities, continued

Accounting classification and fair values, continued

The tables below set out analysis of the fair values of financial instruments not recognised at fair value, classified by fair value hierarchy level framework categorising fair value measurement

in thousands of BGN

31 December 2018	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total balance sheet value**
Assets					
Cash and balances with Central Banks	-	1,674,754	-	1,674,754	1,674,754
Financial assets at amortised cost	-	862	-	862	748
Loans and advances to banks and other financial institutions	-	125,483	-	125,483	125,483
Loans and advances to	-	785,611	5,168,012	5,953,623	5,716,062
Total	**-**	**2,586,710**	**5,168,012**	**7,754,722**	**7,517,047**
Liabilities					
Due to banks	-	3,024	-	3,024	3,024
Due to other customers	-	3,559,273	4,791,901	8,351,174	8,342,691
Liabilities evidenced by paper	-	121,087	-	121,087	121,120
Hybrid debt	-	208,786	-	208,786	208,786
Total	**-**	**3,892,170**	**4,791,901**	**8,684,071**	**8,675,621**

In BGN '000

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total balance sheet value**
Assets					
Cash and balances with Central Banks	-	1,478,594	-	1,478,594	1,478,594
Financial assets held to maturity	-	56,140	-	56,140	53,714
Loans and advances to banks and other financial institutions	-	54,402	-	54,402	54,402
Loans and advances to customers	-	665,629	4,781,433	5,447,062	5,162,907
Total	**-**	**2,254,765**	**4,781,433**	**7,036,198**	**6,749,617**
Liabilities					
Due to banks	-	8,136	-	8,136	8,136
Due to other customers	-	2,892,520	4,691,190	7,583,710	7,583,819
Liabilities evidenced by paper	-	127,455	-	127,455	127,493
Hybrid debt	-	208,786	-	208,786	208,786
Total	**-**	**3,236,897**	**4,691,190**	**7,928,087**	**7,928,234**

5. Financial assets and liabilities, continued
Accounting classification and fair values, continued

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	**2018**	**2017**
Interest income		
Accounts with and placements to banks and financial institutions	1,595	891
Revenue from interest on liabilities	84	-
Retail Banking	120,721	126,072
Corporate customers	145,650	169,280
Small and medium enterprises	39,517	36,965
Microlending	8,673	9,213
Debt instruments	14,806	13,752
	331,046	**356,173**
Interest expense		
Deposits from banks	(33)	(28)
Deposits from other customers	(37,775)	(69,142)
Liabilities evidenced by paper	(1,006)	(820)
Hybrid debt	(22,883)	(22,929)
Interest on assets cost	(2,210)	(2,317)
Lease agreements and other	(51)	(11)
	(63,958)	**(95,247)**
Net interest income	**267,088**	**260,926**

For 2018 the recognized interest income from individually impaired financial assets (loans to customers) amounted to BGN 29,370 thousand (2017: BGN 59,363 thousand).

7. Net fee and commission income

in thousands of BGN

Fee and commission income	**2018**	**2017**
Letters of credit and guarantees	2,705	2,911
Payment operations	21,912	20,862
Customer accounts	31,730	30,863
Card services	34,033	31,375
Other	29,612	34,776
	119,992	**120,787**
Fee and commission expense		
Letters of credit and guarantees	(313)	(296)
Payment systems	(2,469)	(2,196)
Card services	(14,872)	(13,540)
Other	(5,227)	(2,609)
	(22,881)	**(18,641)**
Net fee and commission income	**97,111**	**102,146**

8. Net trading income

in thousands of BGN	**2018**	**2017**
Net trading income arises from:		
- Debt instruments	(135)	236
- Equities	(124)	247
- Foreign exchange rate fluctuations	11,068	14,843
Net trading income	**10,809**	**15,326**

9. Other net operating income

in thousands of BGN	**2018**	**2017**
Other net operating income arising from:		
- - net income/(expense) from transactions and revaluation of gold and precious metals	452	66
- -rental income	8,862	11,283
- Debt instruments	3,103	12,384
- Equities	1,282	-
- income from management of assigned receivables	584	-
- Gain on administration of loans acquired through business combination	2,038	4,458
Other net operating income	**16,321**	**28,191**

10. Administrative expenses

in thousands of BGN	2018	2017
General and administrative expenses comprise:		
- Personnel cost	70,315	64,968
- Depreciation and amortisation	15,342	16,206
- Advertising	16,623	18,379
- Building rent expense	33,602	33,475
-Telecommunication, software and other computer maintenance	12,400	11,832
- Other expenses for external services	63,784	59,838
Administrative expenses	**212,066**	**204,698**

Personnel costs include salaries, social and health security contributions under the provisions of the local legislation. At 31 December 2018 the total number of employees was 2,868 (31 December 2017: 3,221). The decrease in staff numbers is due to the outsourcing of activities related to the physical security of offices and buildings - since October 2018 these activities have been carried out by a licensed security company under contract with the Bank.

The amounts accrued in 2018 for services provided by the registered auditors for independent financial audit amounted to BGN 684 thousand. Over the year no amounts were accrued for other services unrelated to audit and provided by the registered auditors. The amounts charged in 2017 for services delivered by the registered auditors separately for independent financial audit and for other services unrelated to audit amount respectively to BGN 677 thousand and BGN 587 thousand.

11. Allowance for impairment

in thousands of BGN	2018	2017
Write-downs		
Loans and advances to customers	(163,028)	(95,924)
Investments in non-consolidated subsidiaries	(178)	-
(v) Capital instruments at fair value through other comprehensive income	26.	-
Off balance sheet commitments	(1,014)	-
Reversal of write-downs		
Loans and advances to customers	62,578	17,074
Off balance sheet commitments	18,290	-
Impairment, net	**(83,378)**	**(78,850)**

The expense for impairment in 2018 and 2017 is due to additional allowances resulting from the development of credit risk in a period of challenging economic environment and the conservative approach applied by the Bank in recognising the risk of loss for certain individually impaired exposures.

12. Other income/(expenses), net

	2018	2017

Income from sale of assets	81,098	10,642
Revaluation of investment property	13,669	-
Income/(expense) from sale of investment property	168	(42)
Dividend income	105	4,478
Net earned insurance premiums	3,865	3,577
Cost of guarantee schemes	(33,283)	(36,371)
Claims incurred	(2,812)	(2,334)
Reversal of expense for provisions for pending court cases	102	308
Other income/(expenses), net	2,215	(689)
Total	**65,127**	**(20,431)**

13. Income tax expense

	2018	2017
Current taxes	(2,017)	(10,855)
Deferred taxes (See Note 21)	12,551	490
Income tax expense	**10,534**	**(10,365)**

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

in thousands of BGN	2018	2017
Accounting profit before taxation	**161,012**	**102,610**
Corporate tax at applicable tax rate (10% for 2018 and 10% for 2017)	16,101	10,261
Effect from tax rates of foreign subsidiaries and branches	814	382
Tax effect from the initial application of IFRS 9	(27,677)	-
Tax effect of permanent tax differences	298	(241)
Other	(70)	(37)
Income tax expense	**(10,534)**	**10,365**
Effective tax rate	(6.54%)	10.10%

14. Earnings per share

	2018	2017
Net profit attributable to shareholders (in thousands of BGN)	171,388	92,175
Average weighted number of ordinary shares held (in thousands)	110,000	110,000
Earnings per share (BGN)	**1.56**	**0.84**

The basic earnings per share, calculated in accordance with IAS 33, are based on the profit attributable to ordinary equity holders of the Bank. In 2018 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	2018	2017

Cash on hand		
- in BGN	123,104	130,754
- in foreign currency	56,504	62,181
Balances with Central Banks	1,063,080	898,134
Current accounts and amounts with local banks	-	33
Current accounts and amounts with foreign banks	432,066	387,492
Total	**1,674,754**	**1,478,594**

16. Investments in securities

In thousands of BGN	**2018**	**2017**
Bonds and notes issued by:		
Bulgarian Government		
- denominated in BGN	182,617	235,889
- denominated in foreign currencies	141,639	147,911
Foreign governments		
- treasury bills	263,313	261,320
- treasury bonds	148,645	75,165
Corporates	17,574	-
Foreign banks	26,480	63,730
Other issuers – equity instruments	22,053	19,984
Total	**802,321**	**803,999**
Of which financial assets:		
at fair value through other comprehensive income	775,529	742,306
at amortised cost	748	53,714
at fair value through profit and loss	26,044	7,979
Total	**802,321**	**803,999**

A portion of the reported bonds of the Bulgarian and of foreign governments amounting to BGN 85,216 thousand (BGN 87,279 thousand in 2017) are subject to a Total Return Swap Agreement.

A portion of the reported securities issued by foreign governments amounting to BGN 3,328 thousand (BGN 9,973 thousand in 2017) are subject to redemption.

17. Loans and advances to banks and other financial institutions

(a) Analysis by type

in thousands of BGN	**2018**	**2017**
Placements with banks	23,059	21,748
Receivables under resale agreements	4,985	4,977
Other	97,439	27,677
Total	**125,483**	**54,402**

17. Loans and advances to banks and other financial institutions

(b) Geographical analysis

in thousands of BGN	2018	2017
Domestic banks and financial institutions	28,912	11,680
Foreign banks and other financial institutions	96,571	42,722
Total	**125,483**	**54,402**

18. Loans and advances to customers

in thousands of BGN			**31/12/2018**
	Gross value	**Allowance for impairment**	**Amortised cost**
Retail Banking			
- Consumer loans	750,285	(49,731)	700,554
- Mortgage loans	752,581	(26,362)	726,219
- Credit cards	202,095	(31,303)	170,792
- Other programmes and collateralised financing	6,231	-	6,231
Small and medium enterprises	879,136	(38,880)	840,256
Microlending	140,422	(21,196)	119,226
Corporate customers	3,734,634	(581,850)	3,152,784
Including receivables from financial lease	389,909	(11,480)	378,429
Total	**6,465,384**	**(749,322)**	**5,716,062**

In BGN '000			**31/12/2017**
	Gross value	**Allowance for impairment**	**Amortised cost**
Retail Banking			
- Consumer loans	622,681	(43,757)	578,924
- Mortgage loans	622,171	(31,628)	590,543
- Credit cards	259,303	(36,452)	222,851
- Other programmes and collateralised financing	3,182	-	3,182
Small and medium enterprises	753,438	(77,593)	675,845
Microlending	121,533	(26,515)	95,018
Corporate customers	3,382,460	(385,916)	2,996,544
Including receivables from financial lease	108,218	(24)	108,194
Total	**5,764,768**	**(601,861)**	**5,162,907**

(a) Movement in impairment allowances

in BGN '000	
Balance as at 31 December 2017	**601,861**
Adjustment against devaluation	150
Effect from the initial application of IFRS 9	258,299
Balance as at 01 January 2018	**860,310**
Additional allowances	163,028
Amounts released	(62,578)
Write-offs	(212,985)
Effect from change in exchange rates	1,180
Other	367

Balance as at 31 December 2018	**749,322**

19. Property and equipment

in thousands of BGN	**Land and Buildings**	**Fixtures and fittings**	**Motor vehicles**	**Assets under Construction**	**Leasehold Improvements**	**Total**
Cost						
At 01 January 2017	**17,651**	**147,683**	**6,630**	**25,647**	**66,703**	**264,314**
Additions	-	40	79	9,190	11	9,320
Exchange rate differences	-	67	6	6	30	109
Write-offs	(137)	(2,826)	(68)	(371)	(530)	(3,932)
Transfers	137	4,291	405	(6,737)	1,423	(481)
Othe adjustments - deconsolidation of subsidiaries below the substantiality threshold	-	(2,529)	(59)	-	-	(2,588)
At 31 December 2017	**17,651**	**146,726**	**6,993**	**27,735**	**67,637**	**266,742**
Additions	-	954		13,412	198	14,564
Exchange rate differences	-	322	31	22	137	512
Write-offs	-	(11,125)	(96)	(67)	(968)	(12,256)
Transfers	-	(9,388)	8	(20,949)	1,657	(9,896)
At 31 December 2018	**17,651**	**146,265**	**6,936**	**20,153**	**68,661**	**259,666**
Amortisation						
At 01 January 2017	**3,515**	**121,168**	**5,751**	**-**	**36,641**	**167,075**
Exchage rate differences	-	57	4	-	28	89
Accrued during the year	634	8,350	338	-	3,666	12,988
For write offs	(17)	(2,816)	(68)	-	(530)	(3,431)
Othe adjustments - deconsolidation of subsidiaries below the substantiality threshold	-	(1,516)	(2)	-	-	(1,518)
At 31 December 2017	**4,132**	**125,243**	**6,023**	**-**	**39,805**	**175,203**
Exchange rate differences		285	18	-	127	430
Accrued during the year	633	7,910	331	-	3,366	12,240
For write offs	-	(11,123)	(67)	-	(968)	(12,158)
At 31 December 2018	**4,765**	**122,315**	**6,305**	**-**	**42,330**	**175,715**
Carrying amount						
At 01 January 2017	**14,136**	**26,515**	**879**	**25,647**	**30,062**	**97,239**
At 31 December 2017	**13,519**	**21,483**	**970**	**27,735**	**27,832**	**91,539**
At 31 December 2018	**12,886**	**23,950**	**631**	**20,153**	**26,331**	**83,951**

19. Property and equipment, continued

Assessment methodology	Significant unobservable inputs	Connection between key unobservable inputs and fair value
1. Discounted cash flows: this valuation model takes into account the present value of cash flows generated by property, taking into account the expected growth of rental prices, the period required for cancellation, the level of occupancy, premiums such as periods in which no rent is paid and other expenses which are not paid by tenants. The expected net cash flows are discounted using discount rates adjusted for risk. Among other factors, when determining the discount rate, the quality of the building and its location are taken into account (first-rate or second-rate), as well as the creditworthiness of the tenant and the duration of the loan agreement.	1. Expected market growth of rent (4.5-6.8%, weighted average 5.6%). 2. Period for cancellation (6 months on average after each rental agreement). 3. Occupancy (90-95%, weighted average 92.5%). 4. Periods when no rent is paid (1 year for new rental agreement). 5. Risk adjusted discount rate (7.5-8%, weighted average 7.75%).	The fair value will increase (decrease) where: • the expected market growth of rent is higher (lower); • periods for cancellation are shorter (longer); • Occupancy is higher (lower); • the periods when no rent is paid are shorter (longer); or • the risk adjusted discount rate is lower (higher).

2. Market approach/Comparative approach. This method is based on the comparison of the property being evaluated to other similar properties which have been sold recently or which are available for sale. Using this method, the value of a given property is determined in direct comparison to other similar properties which have been sold in a period of time close to the time when the valuation is made. Based on detailed research, review and analysis of data from the property market, the value is formed and it is the most accurate indicator of market value. This method consists of using information about actual transactions in the real estate market in the last six months. Successful application of this method is only possible where a trustworthy database is available as regards actual transactions with properties similar to the property being valued. Information from real estate sites, local press and other such refers to future investment intentions of the seller and cannot be deemed a trustworthy source of information. When using such sites, the offer price for each analogous property is discounted at the valuator's discretion, but by no less than 5%.	1. 1. Expected market growth of property (5-10%, weighted average 7.5%). 2. 2. Time required to effect the sale (6 months on average after the offer is placed). 3. 3. Transaction success rate (90-95%, weighted average 92.5%). 4. Location (1.0-1.05, weighted average 1.025). 5. Property status (1.0-1.1, weighted average 1.05).	The fair value will increase (decrease) where: • the expected market growth of property is higher (lower); • the period of time required for the sale is shorter (longer); • there is a change in the technical condition of the property

The fair value of assets constituting land and buildings was determined by independent property assessors holding recognised professional qualification and recent experience in assessing property with similar location and category. The Group's policy requires that independent assessors determine the fair value sufficiently frequently so as to ensure that the balance sheet value does not differ significantly from the fair value at the end of the reporting period. As at 31 December 2018 the fair value of land and buildings was not significantly different from their balance sheet value as at that date. The fair value of land and buildings is categorised as Level 3 fair value on the basis of incoming data on the assessment methodology used.

20. Intangible assets

in thousands of BGN	**Software and licences**	**Goodwill**	**Total**
Cost			
At 01 January 2017	**31,601**	**674**	**32,275**
Additions	68	-	68
Exchange rate differences	18	-	18
Write-offs	(5)	-	(5)
Transfers	481	-	481
Othe adjustments - deconsolidation of subsidiaries below the substantiality threshold	(132)	(134)	(266)

At 31 December 2017	**32,031**	**540**	**32,571**
Additions	243	-	243
Exchange rate differences	88	-	88
Transfers	9,896	-	9,896
At 31 December 2018	**42,258**	**540**	**42,798**
Amortisation			
At 01 January 2017	**22,089**	**-**	**22,089**
Exchange rate differences	15	-	15
Accrued during the year	3,218	-	3,218
For write offs	(5)	-	(5)
Othe adjustments - deconsolidation of subsidiaries below the substantiality threshold	(88)	-	(88)
At 31 December 2017	**25,229**	**-**	**25,229**
Exchange rate differences	65	-	65
Accrued during the year	3,102	-	3,102
At 31 December 2018	**28,396**	**-**	**28,396**
Carrying amount			
At 01 January 2017	**9,512**	**674**	**10,186**
At 31 December 2017	**6,802**	**540**	**7,342**
At 31 December 2018	**13,862**	**540**	**14,402**

21. Deferred Taxation

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% for Bulgaria and of 15% for Albania.

The deferred tax as at 31 December 2018 refers to the following items of the statement of financial position:

In thousands of BGN

	Assets	Liabilities	Net
Property, equipment and intangibles	(125)	2,075	1,950
Investment Property	-	13,295	13,295
Tax loss	(13,510)	-	(13,510)
Other	(498)	1,537	1,039
Net tax (assets)/liabilities	**(14,133)**	**16,907**	**2,774**

The deferred tax as at 31 December 2017 refers to the following items of the statement of financial position:

	Assets	Liabilities	Net
Property, equipment and intangibles	(124)	2,336	2,212
Investment Property	-	11,956	11,956
Other	(371)	670	299
Net tax (assets)/liabilities	**(495)**	**14,962**	**14,467**

The movements of temporary differences in 2018 are recognised as follows:

In BGN '000	**31 December 2017**				**31 December 2018**
	Net liabilities	**Recognised during the period (in profit) or loss**	**Recognised during the period in equity**	**Other movements**	**Net liabilities**
Property, equipment and intangibles	2,212	(253)	-	(9)	1,950
Investment Property	11,956	1,339	-	-	13,295
Tax loss	-	(13,510)	-	-	(13,510)
Other	299	(127)	814	53	1,039
Net tax (assets)/liabilities	**14,467**	**(12,551)**	**814**	**44**	**2,774**

22. Repossessed assets

in thousands of BGN	**2018**	**2017**
Land	484,588	536,797
Buildings	285,705	310,112
Machines, plant and vehicles	41,852	136,773
Fixtures and fittings	789	766
Total	**812,934**	**984,448**

Repossessed assets acquired as collateral are measured at the lower of cost and net realisable value. The net realizable value of the lands and buildings is approximately equal to their fair value. The assessment methodology for land and buildings is given in note 19.

23. Investment Property

in thousands of BGN	
Balance as at 01 January 2018	**218,212**
Transferred from repossessed assets	11,475
Revaluation of investment property to the fair value recognised at transfer	13,669
Write-offs upon sale	(798)
Balance as at 31 December 2018	**242,558**

24. Other assets

in thousands of BGN	**2018**	**2017**
Deferred expense	11,414	10,347
Gold	5,699	6,198
Other assets	95,593	101,551
Total	**112,706**	**118,096**

25. Due to banks

in thousands of BGN	**2018**	**2017**
Term deposits	-	4,855
Payable on demand	3,024	3,281
Total	**3,024**	**8,136**

26. Due to other customers

in thousands of BGN	2018	2017
Retail customers		
- current accounts	1,301,585	1,070,890
- term and savings deposits	5,384,093	5,234,573
Businesses and public institutions		
- current accounts	1,203,878	870,896
- term deposits	453,135	407,460
Total	**8,342,691**	**7,583,819**

27. Liabilities evidenced by paper

in thousands of BGN	2018	2017
Acceptances under letters of credit	13,553	16,941
Liabilities under repurchase agreements	3,213	9,099
Debt related to agreements for full swap of profitability	73,276	73,211
Financing from financial institutions	31,078	28,242
Total	**121,120**	**127,493**

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 31/12/2018
State Fund Agriculture	2%	20.12.2019 - 15.02.2020	68
European Investment Fund – JEREMIE 2	0 % - 1.312%	30/09/2025	13,674
Bulgarian Bank for Development AD	1% - 3.50%	30.03.2019 - 30.11.2028	17,336
Total			**31,078**

In BGN '000

Lender	Interest rate	Maturity	Amortised cost as at 31/12/2017
State Fund Agriculture	2%	20.07.2018 - 15.02.2020	373
European Investment Fund – JEREMIE 2	0 % - 1.301%	30/09/2025	24,254
Bulgarian Bank for Development AD	3.50%	30/03/2019	3,615
Total			**28,242**

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28. Hybrid debt

in thousands of BGN

	Principal amount	Amortised cost as at 31 December 2018
Hybrid debt with principal EUR 40 mio	78,233	84,929
Hybrid debt with principal EUR 60 mio	117,350	123,857
Total	**195,583**	**208,786**

in thousands of BGN

	Principal amount	Amortised cost as at 31 December 2017
Hybrid debt with principal EUR 40 mio	78,233	84,929
Hybrid debt with principal EUR 60 mio	117,350	123,857
Total	**195,583**	**208,786**

In March 2011 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital. The Bank placed the bond issue under private subscription with a total nominal value of EUR 20,000 thousand, constituting the first tranche of a bond issue with an envisaged total amount of up to EUR 40,000 thousand. In June 2012 the Bank issued the second tranche of the instrument, also amounting to EUR 20,000 thousand and following permission from the Bulgarian National Bank included in its Tier 1 capital.

In November 2012 the Bank issued a hybrid instrument (bond issue) and, after obtaining permission from the Bulgarian National Bank, included it as Tier 1 capital. The Bank placed the bond issue under private subscription with a total nominal value of EUR 20,000 thousand, constituting the first tranche of a bond issue with an envisaged total amount of up to EUR 60,000 thousand. In November 2013 the Bank issued the second and third tranches of the instrument, amounting to a total of EUR 40,000 thousand and following permission from the Bulgarian National Bank included them in its Tier 1 capital.

The bonds under both instruments are registered, dematerialized, interest-bearing, perpetual, unsecured, freely transferable, non-convertible, deeply subordinated and without incentive to redeem.

The two bond issues were admitted for trading at the Luxembourg Stock Exchange in 2014 based on prospects approved by the Luxembourg Commission de Surveillance du Secteur Financier.

The two hybrid instruments fully comply with the requirements of Regulation 575/2013 and are included in the additional tier 1 capital.

29. Other liabilities

in thousands of BGN	2018	2017
Liabilities to personnel	3,104	2,498
Insurance contract provisions	3,226	2,705
Provisions for pending court cases	734	836
Impairment on off balance sheet commitments	1,015	1
Other payables	53,588	22,894
Total	**61,667**	**28,934**

30. Capital and reserves

(a) Number and face value of registered shares as at 31 December 2018

As at 31 December 2018 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 2018 together with the number and percentage of total issued shares.

	Number of shares	% of issued share capital
Mr. Ivailo Dimitrov Mutafchiev	46,750,000	42.50
Mr. Tzeko Todorov Minev	46,750,000	42.50
Other shareholders (shareholders holding shares subject to free trade on the Bulgarian Stock Exchange – Sofia)	16,500,000	15.00
Total	**110,000,000**	**100.00**

Currently all newly issued shares plus the part of the existing shares held by First Financial Brokerage House Ltd. sold to new investors under the IPO (a total of 16,500,000 shares) are freely traded on the floor of Bulgarian Stock Exchange – Sofia.

(c) Statutory reserve

Statutory reserves include amounts set aside for purposes regulated by local legislation. According to Bulgarian legislation the Bank is oblidged to set aside at least 1/10 of its annual profit as statutory reserve until the total amount of reserves reaches 1/10 of the Bank's share capital.

In 2018, as in the previous year, the Bank did not distribute dividends.

31. Commitments and contingent liabilities

(a) Contingent liabilities

The Group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for contingent liabilities represent the maximum accounting loss that would be recognised in the statement of financial position if counterparts failed completely to perform as contracted and any collateral or security proved to be of no value.

in thousands of BGN	**2018**	**2017**
Bank guarantees	230,239	235,521
Unused credit lines	536,049	530,796
Letters of credit	16,129	16,981
Other contingent liabilities	-	62,166
Total	**782,417**	**845,464**
Impairment on off balance sheet commitments	1,015	1

These commitments and contingent liabilities have off balance-sheet credit risk and only organization fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expire. Most of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

The contingent loan is a framework agreement for collateral management under numerous loan transactions made with one or more clients. The contingent loan does not lead to an obligation of the Bank to extend specific financial instruments. The negotiation of a specific loan transaction with the Bank client, e.g. extension of a loan or overdraft, contingent liabilities, such as bank guarantees and letters of credit, is subject to a separate decision and approval of the Bank.

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

32. Cash and cash equivalents

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

In BGN '000	**2018**	**2017**
Cash and balances with Central Banks	1,674,754	1,478,594
Loans and advances to banks and financial institutions with original maturity less than 3 months	113,139	42,103
Total	**1,787,893**	**1,520,697**

33. 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	2018	2017
FINANCIAL ASSETS		
Cash and balances with Central Banks	1,512,021	1,540,181
Investments in securities	791,344	802,458
Loans and advances to banks and other financial institutions	75,086	43,521
Loans and advances to customers	5,390,554	5,085,110
FINANCIAL LIABILITIES		
Due to banks	7,689	6,656
Due to other customers	7,923,879	7,655,253
Liabilities evidenced by paper	139,409	128,173
Hybrid debt	208,085	208,053

34. Related party transactions

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party on making financial or operational decisions, or both parties are under common control.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other transactions. These transactions were carried out on commercial terms and at market rates. The volume of these transactions and outstanding balances at the end of respective periods are as follows:

Type of related party	**Parties that control or manage the Bank**		**Enterprises under common control**	
In BGN '000	**2018**	**2017**	**2018**	**2017**
Loans				
Loans outstanding at beginning of the period	753	1,363	1,280	1,554
Loans issued/(repaid) during the period	1,016	(610)	9,899	(274)
Loans outstanding at end of the period	1,769	753	11,179	1,280
Deposits and loans received:				
At beginning of the period	8,708	7,831	15,370	3,325
Received/(paid) during the period	4,154	877	(2,442)	12,045
At the end of the period	12,862	8,708	12,928	15,370
Deposits placed				
Deposits at beginning of the period	-	-	19,604	9,822
Deposits placed/(matured) during the year	-	-	100	9,782
Deposits at end of the period	-	-	19,704	19,604
Other receivables				
At beginning of the period	-	-	23,482	-
Received/(paid) during the period	-	-	(1,364)	23,482
At the end of the period	-	-	22,118	23,482
Off-balance sheet commitments				
At beginning of the period	1,291	2,259	322	464
Issued/(expired) during the period	(8)	(968)	29	(142)
At the end of the period	1,283	1,291	351	322

34. Related party transactions, continued

Type of related party	**Parties that control or manage the Bank**	**Enterprises under common control**
In BGN '000	**2018**	**2018**
Interest income	310	614
Interest expense	3	8
Fee and commission income	220	148
Fee and commission expense	3	450

The key management personnel of the Bank received remuneration of BGN 7,480 thousand for 2018 and other related parties received BGN 1,840 thousand.

35. Disclosure of leases

Financial lease as lease holder

At 31.12.2018 and at 31.12.2017 the Bank is not a party to effective financial lease agreements as lease holder.

Operating lease as lease holder

The future minimum payments under operating lease agreements to which the Bank is a party, are as follows:

	Minimum lease payments due			
	To 1 year **In BGN '000**	**From 1 to 5 years** **In BGN '000**	**More than 5 years** **In BGN '000**	**Total** **In BGN '000**
At 31 December 2018	28,397	92,433	72,916	193,746
At 31 December 2017	34,110	96,719	92,142	222,971

The lease payments recognised as expense for the year amount to BGN 34,105 thousand (2017: BGN 33 991 thousand). These amounts included the minimum lease payments.

36. Subsidiaries

(a) First Investment Finance B.V.

In April 2003 the Bank created a special purpose entity, incorporated in the Netherlands, First Investment Finance B.V. The company is owned by the Bank. The purpose for creating the entity is to accomplish a narrow and well-defined objective of receiving loans from foreign financial institutions and attracting investors by issuing bonds and other financial instruments guaranteed by the Bank. The entity's issued and paid up share capital is EUR 18 thousand divided into 180 issued and paid up shares, each with nominal value of EUR 100. The Bank consolidates its investment in the enterprise.

(b) Diners Club Bulgaria AD

In May 2005 the Bank acquired 80% of the share capital of Diners Club Bulgaria AD. The company was incorporated in 1996 as a franchise and processing agent of Diners Club International. As at 31 December 2018 the share capital of the company is BGN 610 thousand, and the Bank's shareholding is 94.79%. The Bank consolidates its investment in the enterprise.

(c) First Investment Bank − Albania Sh.a.

In April 2006 the Bank acquired 99.9998% of the capital of First Investment Bank − Albania Sh.a. upon its incorporation. On 27 June 2007 First Investment Bank – Albania was granted a full banking licence by the Bank of Albania, and on 1 September 2007 it effectively took over the activities of the former branch FIB – Tirana, assuming all rights and obligations, assets and liabilities.

As at 31 December 2018 the share capital of First Investment Bank – Albania Sh.a. was EUR 11,975 thousand, fully paid up, and the Bank's shareholding is 100%. The Bank consolidates its investment in the enterprise.

(d) Debita OOD and Realtor OOD

Acting jointly the Bank and First Financial Brokerage House OOD (FFBH) set up two new companies Debita OOD and Realtor OOD, which were entered in the Commercial Registry in January 2010. The capital of the two companies is BGN 150,000 each, distributed in shares with value of BGN 100 each, as follows:

1. Realtor OOD - 70%, i.e. 1.050 shares for the Bank and 30%, i.e. 450 shares for FFBH OOD.

2. Realtor OOD - 51%, i.e. 765 shares for the Bank and 49%, i.e. 735 shares for FFBH OOD.

The companies were established as servicing companies within the meaning of Article 18 of the Law on Special Investment Purpose Companies.

(d) Debita OOD and Realtor OOD

The main lines of business for Debita OOD include acquisition, servicing, management and disposal of receivables and the related consultancy services; the main lines of business for Realtor OOD include management, servicing and maintenance of real estate, construction and refurbishment works and consultancy in the field of real estate. These companies are not included in the consolidated financial statements of the Group for the year ended 31 December 2018, as they are considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiaries is reconsidered at each reporting date.

(e) Fi Health Insurance AD

In the second half of 2010 the Bank acquired a majority stake capital of Health Insurance Fund FI Health AD (formerly Health Insurance Fund Prime Health AD), a company engaged in voluntary health insurance as well as acquisition, management and sale of investments in other companies. With a decision of the Financial Supervision Commission issued in June 2013 the company has been granted a license to operate as an insurer. The name was changed to FI Health Insurance AD and the principal activity is insurance – Disease and Accident. In June 2018 the company expanded its license with one more insurance class - "Various financial loss". As at 31 December 2018 the share capital of the company is BGN 5,000 thousand, and the Bank's shareholding is 59.10%. The Bank consolidates its investment in the enterprise.

(f) Balkan Financial Services EAD

In February 2011 the Bank acquired 100 shares representing 100% of the capital of Balkan Financial Services EOOD. The company is engaged in consultancy services related to implementation of financial information systems and software development. In January 2012 the company was transformed into a sole-shareholder company. As at 31 December 2018 the share capital of the company is BGN 50 thousand, and the Bank's shareholding is 100%. The company is not included in the consolidated financial statements of the Group for the year ended 31 December 2018, as it is considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiary is reconsidered at each reporting date.

(g) Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD

During the first half of 2013 the Bank established as the sole shareholder the companies Turnaround Management EOOD, Creative Investment EOOD and Lega Solutions EOOD. Each company has the minimum required capital of BGN 2 and their principal activities include manufacturing and trade in goods and services in Bulgaria and abroad (Turnaround Management EOOD, Creative Investment EOOD), acquisition, management and sale of assets, information processing, financial consultations (Lega Solutions EOOD), etc. These companies are not included in the consolidated financial statements of the Group for the year ended 31 December 2018, as they are considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiaries is reconsidered at each reporting date.

(h) AMC Imoti EOOD

AMC Imoti EOOD was registered in September 2010 and was acquired by the Bank in 2013 through the purchase of MKB Unionbank EAD as its subsidiary. The scope of operations of the company includes activities related to acquisition of property rights and their subsequent transfer, as well as research and evaluation of real estate, property management, consulting and other services. As at 31 December 2018 the capital of the company is BGN 500 thousand, and the Bank is the sole owner.

The company is not included in the consolidated financial statements of the Group for the year ended 31 December 2017, as it is considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiary is reconsidered at each reporting date.

(i) Other

The Bank indirectly holds the subsidiary Fi Health EOOD. The company is not included in the consolidated financial statements of the Group for the year ended 31 December 2018, as it is considered immaterial to the financial position, financial result and the cash flow of the Group for the year. The assessment for consolidation of the subsidiary is reconsidered at each reporting date.

37. Post balance sheet events

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

On item 7 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

Report of the Investor Relations Director for 2018

REPORT
OF THE INVESTOR RELATIONS DIRECTOR
OF FIRST INVESTMENT BANK FOR
2018

Dear Shareholders,

In 2018 First Investment Bank AD continued its efforts to maintain high professional standards by information disclosure practices ensuring compliance with its legal obligations as a public company, as well as greater transparency and flexibility in the interactions between First Investment Bank and its shareholders, potential investors, the regulatory authorities and the mass media.

Activities in 2018

The main objective of the Investor Relations Director is to ensure the efficient communication between First Investment Bank AD and its shareholders, the regulatory authorities, the Central Depository and the media. In performance of this key task in 2018 all investor relations activities were focused on implementing the obligations provided for in Article 116g(3) of the Public Offering of Securities Act (POSA):

- Timely submission of all required reports and notification from the company to the Financial Supervision Commission (FSC), the Bulgarian Stock Exchange – Sofia and the Central Depository;
- Efficient communication between the company's managing bodies and its shareholders and the persons interested in investing in the company's shares, by providing information about the current financial and economic position of the company;
- Keeping true and complete minutes of meetings of the company's managing and supervisory bodies;
- Keeping a register of all materials sent and all information disclosed.

Disclosure of Information

In 2018, as in previous years, detailed and accessible information on First Investment Bank AD was published in a timely manner. All regular reports required by the POSA and the ordinances for its implementation were submitted within the stipulated deadlines: consolidated and stand-alone quarterly and annual financial reports, as well as information required pursuant to 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.

The financial reports submitted in 2018 present truly and accurately the information about the Bank and contain all data required by law. The reports were submitted to the Financial Supervision Commission and the Bulgarian Stock Exchange – Sofia.

The reports are disclosed simultaneously to the Financial Supervision Commission and the Bulgarian Stock Exchange – Sofia, as well as to the public by the specialized POSA-compliant platform X3-News (8www.x3news.com) and the Bank's website (www.fibank.bg).

Other information which might have an effect on the price of FIBank's shares (ad hoc information) was submitted in compliance with the stipulated deadlines.

Effective Communication with the Investment Community

In 2018 the customary interest in the Bank's activities was expressed by institutional investors, financial analysts and the media.

A number of inquiries were received during the year – both by shareholders and by potential investors – most often with relation to the published financial statements and the expected future developments. All persons who requested information about First Investment Bank received detailed and timely responses in strict compliance with the legal norms concerning the disclosure of information on public companies.

On November 15th, 2018 a meeting of the Bank's management with minority shareholders was held. At the meetings the financial results of First Investment Bank AD were presented and various questions related to the Bank's policy for strict application of the best international corporate governance practices were discussed, along with the expectations about the upcoming asset quality review in the banking system. The present minority shareholders had the opportunity to ask their questions and discuss with the leadership of First Investment Bank AD important terms.

Keeping of minutes from the meetings of the Bank's governing bodies

In 2018 all meetings of the Supervisory Board and of the Managing Board of First Investment Bank AD were convened pursuant to the regulatory requirements and the Bank's internal rules and procedures. The meetings of the Supervisory Board were held at least once month, the meetings of the Managing Board were held at least twice a week and the minutes of meetings are accurate and detailed and are kept in an appropriate manner.

General Meetings of Shareholders

The regular Annual General Meeting of shareholders of First Investment Bank was held on 21 June 2018.

The General Meeting approved the audited financial statements of the Bank for 2017 (consolidated and stand-alone), the Management Reports of First Investment Bank for 2017 (consolidated and stand-alone), and the auditors' reports thereon, as well as the report of the Investor Relations Director of First Investment Bank for 2017, the report of the Internal Audit Unit for 2017 and the 2017 report of the Audit Committee of the Bank.

The General Meeting of Shareholders voted to capitalise the profit for 2017 and to include it in other provisions with general purpose, not to pay dividends or make other deductions from the profit for 2018 with a view to including the profit for 2018 in the Tier 1 capital. The General Meeting of Shareholders approved BDO Bulgaria OOD and Mazars OOD as auditors of First Investment Bank for 2018 and released from responsibility the members of the Managing and Supervisory Boards of the Bank for their activities in 2017.

The General Meeting of Shareholders adopted amendments to the By-Laws of FIBank. The GMS released Ms Radina Boyanova Beneva as member of the Audit Committee upon her request due to other work commitments, and elected as a new independent member of the Audit Committee Mr Georgi Stoyanov Trenchev for a three-year term in office. The GMS released Ms Ralitsa Ivanova Bogoeva as

Director of the Internal Audit Unit of the Bank and elected Plamen Todorov Dimitrov as the new Director of the Internal Audit Unit for a term of 5 years.

Register Keeping

In accordance with the requirements of POSA First Investment Bank AD has established and maintains a register of all materials sent and all information disclosed.

Outlook for 2019

As in 2018, in 2019 the investor relations activities at First Investment Bank AD will be focused on strict adherence to the legal requirements and on the further development and enhancement of the relations with the Bank's shareholders, the investment community and the public, in keeping with the best international practices in the field of investor relations.

In conclusion I would like to express my gratitude to the members of the Bank's Managing and Supervisory Boards and to all my colleagues who contribute to the effective processes of investor relations.

May 2019	(signed)
Sofia	V. Stamatova, IR Director

On item 8 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

Report of the Director of the Internal Audit Unit for 2018

REPORT

on the Activities of the Internal Audit Department for 2018

For the attention of:	General Meeting of the Shareholders of First Investment Bank AD Supervisory Board of First Investment Bank AD Management Board of First Investment Bank AD
Prepared by:	Plamen DIMITROV, Director Internal Audit
Date:	31.03.2019

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1. Introduction

1.1 Objective

The objective of the current report is to present the activities of the Internal Audit Department (the Department) of First Investment Bank AD (Fibank, the Bank) for the period from 01.01.2018 to 31.12.2018. It is prepared in accordance with Art. 24 of Ordinance No 10 of the Bulgarian National Bank on the Internal Control in Banks.[1]

1.2 Scope

The current report on the Department's activities covers:

- Review of the control activities of the Department and execution of the Annual Audit Plan for 2018;
- Analysis and evaluation of the established weaknesses in the activities of the structural units of the Bank during the period under review;
- Definition of the objectives and tasks for the development of the Internal Audit Department in 2019.

[1] Issued by the Bulgarian National Bank on 26 November 2003, published in the State Gazette, issue 108 of 12 December 2003, amended with issue 102 of 2006.

2. Review of the execution of the Audit Plan for 2018

The Annual Audit Plan of the Department was approved by the Supervisory Board at its meeting on 27.02.2018 and it includes 21 audit assignments in branches of the Bank, 27 audit assignments in structural units at Head Office (incl. 3 audits of specialized units), 3 audit assignments in units of the Operations Department, 2 audit assignments of subsidiary companies and 6 specialized joint (IT and operational) audits of business processes.

Planned audit assignments, Internal Audit Department for 2018

Structural unit	Number
Department	24
Operations Department	3
Branch	21
Specialized unit	3
Audit of subsidiary company	2
Specialized audit of business process	6
Total:	59

The Department performed the audit assignments apart from the audit of the Specialized Unit Information Security. The planned audit will be performed in 2019 due to the involvement of IT auditors and employees of the Specialized Audit Unit from 1 March 2018 to 31 December 2018 in the Unit's operations and observance of the principle of independence and objectivity in the performance of audit obligations.

5 unplanned audit assignments were performed in 2018. These are as follows:

Unplanned audit assignments in 2018

No	Assignment
1	Review and Evaluation of Rental Contracts of Bank Offices, Sofia
2	Review of the Process of Update of the Recovery Plan of First Investment Bank AD
3	Omissions Related to the Security of Data Bases and Systems of the IT Infrastructure of First Investment Bank AD
4	Review of the Collaterals Related to Credit 000OD-L-000012 of Friesian Consultants Limited
5	Review of the Credits of the Related Parties Mega El EOOD, Elprom Trafo SN AD and Elprom Trafo EAD

A risk based planning model is implemented in the course of the annual planning. In accordance with that model the risks and the necessary frequency of the of the audits are defined in general, whereby the audited objects are considered – units, processes, products and systems.

The focus of the branch audits concerns adherence to internal regulations and guidelines for Fibank branches activities, quality assessment of assets and liabilities, maturity and currency structure of assets and liabilities, activities income and expenses structure, as well as control environment within the branches.

During the branch audits performed in 2018 were reviewed 433 company loan exposures with total amount of 180 738 079 BGN and 2 118 individuals loan exposures with total amount 88 495 063 BGN.

Reviewed loan exposures in the branch network of the Bank

	2018			2017		
Branch network	Number of loans	Balance sheet value of the reviewed loans	% of loans total	Number of loans	Balance sheet value of the reviewed loans	% of loans total
Individuals	2 118	88 495 063	9.85%	1 833	59 768 176	8.30%
Legal persons	433	180 738 079	32.40%	650	184 738 748	32.75%

During the review of the loan exposures at the branch network of the Bank in 2018 a total of 390 findings were established. These were by 363 (39,44%) less than the findings in 2017, which totaled 644.

The decrease of the number of the established omissions is due to a reduction of the findings related to loans to individuals.

The total number of the established omissions during audit assignments in the branch network of the Bank decreases, too. Their number diminishes by 40.07% from 906 in 2017 to 543. The reduction is mainly due to the findings related to the loans to legal persons and individuals, as well as the front office activities.

Review of the types of the findings in the branch network – 2018 and 2017

Type	2018		2017	
	Number	Share	Number	Share
Loans to legal persons	249	45.86%	338	37.31%
Loans to individuals	141	25.97%	306	33.77%
Front office	82	15.10%	188	20.75%
Work environment	23	4.24%	20	2.21%
Vaults	22	4.05%	8	0.88%
Cash desk activities	14	2.58%	18	1.99%
Information systems	8	1.47%	1	0.11%
ATM	4	0.74%	5	0.55%
Internal rules	0	0.00%	15	1.66%
Other	0	0.00%	5	0.55%
Accounting	0	0.00%	2	0.22%
Total:	543	100.00%	906	100.00%

In 2018 audits were performed of the activities of the departments Corporate Banking, Loans to SME and Troubled Assets at Head Office of the Bank. 131 loan exposures were reviewed with a total balance sheet value of 628 585 136 BGN.

Reviewed loan exposures at Head Office of the Bank

	2018			2017		
Audited object	Number of loans	Balance sheet value of the reviewed loans	% of loans total	Number of loans	Balance sheet value of the reviewed loans	% of loans total
Corporate Banking Department	34	452 502 697	14.78%	26	467 729 701	13.34%
thereof bank warranties	8	68 801 821	19.34%	5	18 107 902	6.92%
Loans to SME Department	41	69 493 598	30.35%	51	20 029 000	9.76%
thereof bank warranties	11	2 632 364	10.64%	3	469 000	2.41%
Retail Banking Department (incl. Loans to Micro-enterprises)		see the note		185	25 299 294	4.39%
Troubled Assets Department	56	106 588 841	17.05%	107	59 481 287	5.47%
Total:	131	628 585 136		369	572 539 282	

Note: The audit of the Retail Banking Department in 2018 covered the processes of providing and monitoring of loans to individuals and the activities related to product management development.

During the review of the loan exposures at Head Office of the Bank a total of 142 findings were established. These were by 15 (9.55%) less than the findings in 2017. There are no findings with very high risk level.

The following table presents detailed information about the omissions with medium and high risk level that have the highest share of all findings.

Findings from audits of the credit activities at Head Office with medium and high risk level

	2018		2017	
	Risk		Risk	
Type of the findings	2	2,5	2	2,5
Lack of up-to-date financial analysis	15		9	
Lack of up-to-date market evaluation of the collateral	5		8	
Lack of collateral insurance		12		38

In addition to the assignments for providing assurance, the Department also participated in consulting assignments that aim at improving the internal organization of the activities of the Bank on the basis of the observations and the expertise of the auditors.

As of the date of the report there are 23 auditors in the Department (incl. head and deputy head of the Department), who belong to the following structural units: Operational Internal Audit, Specialized Audits and Information Systems Audit. The available audit teams provide the opportunity to perform audit assignments in accordance with the growth of the Bank, the risk of the audited units and the business processes.

In accordance with the requirements for continuous professional development of skills and knowledge of auditors in 2018 continued their participation in seminars and activities of the Institute of Internal Auditors in Bulgaria and the International Bank Institute.

2.1 Findings regarding loans to legal persons

In 2017 the Department carried out the following audits of units responsible for management of the loan portfolio of the Bank – Loans to SME, Retail Banking and Troubled Assets. The audits of the lending process aimed at:

- Review and assessment of the Rules on lending in domestic and foreign currency in First Investment Bank AD regulating the activities of the lending departments in relation to the scope of the business processes in the audited units, available inconsistencies, discrepancies, and/or omissions regarding the applicable legislation and the regulatory framework provided by the Bulgarian National Bank;
- Review of loan exposures in order to confirm adherence to requirements of valid legal framework regulating lending activities of the Bank; analysis of borrowers solvency (legal entities and individuals) i.e. the ability to repay the debts when applying for loan and further on; acceptance of sufficiently liquid assets to secure loans in line with internal regulations; observation of concentration of credit risk by branches and clients; observation and control of the credit risk by borrowers groups in accordance with Credit Institutions Act;
- Process of implementation, approval, disbursement and administration of loan transactions;
- Identification of possibilities of optimization and/or improvement of control environment within the lending process.

Internal Audit confirmed that the company lending was performed in accordance with the Rules on lending in domestic and foreign currency in First Investment Bank AD, the regulations about credit risk analysis and assessment, as well as these about impairment and provisioning of risk exposures. With regard to loan transactions administration there were no findings with very high risk level. For some exposures there were delays in the renewal of collateral insurances, lack of quarterly financial analyses of the companies' solvency and non-compliance with requirements for minimum turnover on accounts at the Bank.

2.2 Findings regarding loans to individuals

The review of consumer and mortgage loan portfolios of the branches is based on review and assessment of the controls, defined for the different loan products. The Department found that the defined requirements, parameters and criteria are fulfilled by the credit specialists. The established weaknesses are with low risk level and are related to unfulfilled additional requirements set out in the loan contracts (salary transfer to an account at the Bank, issuing of a credit card, contract for periodic payments etc.), lack of scanned loan files in the archiving system Archimed and missing/incorrect related parties declarations.

2.3 Findings from the audits of other structural units and processes of the Bank

In 2018 the Department performed audits of the following processes and structural units of Head Office, as well as subsidiaries of the Bank:

Type	Structural unit
Department	Administrative, Building Activities Unit
Department	Retail Banking
Department	Investor Relations
Department	Main Cash Desk
Department	Digital Banking
Department	Intensive Loan Management
Department	Card Payments
Department	Branch Network
Department	Corporate Banking
Department	Lending to SME
Department	Credit Administration
Department	Organization and Control of Customer Service
Department	Troubled Assets – Legal Persons
Department	Sales
Department	Secretariat
Department	Security
Department	Strategic Planning and Development
Department	Accounting
Department	Compliance – Specialized Monitoring and Control
Department	Asset Management
Department	Credit Risk Management, Monitoring and Provisioning
Department	Finance
Department	Financial Institutions and Correspondent Relationships
Department	Private Banking
Subsidiary company	Diners Club Bulgaria AD
Subsidiary company	FiHealth Insurance AD
Process	Internal Analysis of Liquidity Adequacy
Process	Internal Analysis of Capital Adequacy
Process	International Payment Systems
Process	Organization of the Process of Customer Payments and Payment Systems Interface
Process	Process of Collateral Registration and Administration in Relation to Loan Transactions
Process	Process of Development of New and Changing of Current Products and Services
Specialized unit	Control of Investment Services and Activities 1
Specialized unit	Control of Investment Services and Activities 2

The purpose of each of the audits was to make review and analysis of the process effectiveness, assessment of risks involved, observance of the regulatory framework, evaluation of the implemented controls and identification of opportunities for optimization of the accepted risks, as well as improvement of the control environment.

In accordance with the best practices for audits of IT systems and those for IT services management, in 2018 the Department planned to perform detailed review and analysis of the activities of the Operations Department. To this end the following audits were planned: 2 specialized IT audit assignments and an IT audit of First Investments Bank Sh.a., Albania.

The table below presents information on the performed specialized IT audit assignments in 2018:

IT audit assignments in 2018

Topic	Status
Business Continuity/ Disaster Recovery	Finalized/ reported audit
End-of-day System Batches and Procedures	Finalized/ reported audit
First Investment Bank Sh.a., Albania – IT	Finalized/ reported audit

In 2018, the „Audit of Information Systems team" of the Directorate participated in 2 audit engagements of the following processes: "International Payment Systems" and "Organization of the Customer Payments Process and Interfaces to Payment Systems".

In 2018, the IT auditors also carried out a supernumerary IT audit on "Gaps in ensuring the security of databases and systems in the Bank's IT infrastructure". The audit covered key activities in providing a reliable IT environment in order to identify and present the main gaps and risks, associated with the Bank's information and system security.

In 2018, the Audit of Information Systems team at the Directorate also participated in the following audit engagements:

- Diners Club Bulgaria AD
- FiHealth Insurance AD
- Asset Management Directorate
- Strategic Planning and Development Directorate
- Accounting Directorate
- Internal Analysis of the Capital Adequacy
- The Process of Creating New and Changing of the Existing Products and Services.

As a result of the completed audits, no findings with a high risk priority were available for the Bank. The procedures adopted and implemented by the units are assessed as adequate to the volume and nature of their activities. These procedures create and maintain an adequate control environment to limit the existing risks and are applied in the course of the business.

2.4 Follow up control over the implementation of audit engagement recommendations

The Directorate conducts regular follow up control over the implementation of the audit recommendations and the commitments of the audited entities.

The process of finalizing of each audit engagement ends with submission of a Report to the competent authority and preparation of an individual action plan to eliminate the identified deficiencies. Thus the prepared action plans are input in a follow-up system for the implementation of recommendations and are subject to ongoing monitoring by auditors. The table below presents information on the status of the recommendations as at the date of the report for structural units in the Bank, where there are findings without measures taken within the given deadlines.

Current status of measures not taken in due time in relation to audits as of 31.03.2019, audit plan 2018

Type	Subject	As of date	Total number of findings	On time	Delayed	Expired up to 180 days	Expired more than 180 days	Settled
IT	System processing and end-of-day procedures	30.09.2018	36	22	7	0	0	7
IT	Business continuity/ Disaster recovery	30.06.2018	31	5	7	0	0	19
Department	Digital banking	31.10.2018	7	1	5	0	0	1
Department	Card payments	16.11.2018	20	7	5	0	0	8
Department	Credit administration	30.09.2018	3	0	1	0	0	2
Department	Strategic planning and development	30.09.2018	21	1	9	0	0	11
Department	Accounting	31.08.2018	13	0	6	0	0	7
Department	Finance	16.11.2018	8	1	7	0	0	0
Department	Retail banking	31.03.2018	10	0	1	0	0	9
Department	Branch network	28.02.2018	5	2	2	0	0	1
Department	Compliance – specialized monitoring and control	30.06.2018	8	0	5	0	0	3
Branch	Burgas	31.08.2018	17	0	2	0	0	15
Branch	Varna	30.09.2018	26	4	2	0	0	20
Branch	Plovdiv	31.08.2018	31	1	2	0	0	28
Branch	Haskovo	30.05.2018	44	0	4	0	0	40
Subsidiary	Diners Club Bulgaria AD	31.12.2017	26	3	4	0	0	19
Process	Process of collateral registration and administration in relation to loan transactions	30.09.2018	5	0	4	0	0	1
Process	Process of development of new and changing of current products and services	31.10.2018	16	6	3	0	0	7
Process	International payment systems	31.01.2018	29	2	2	0	0	25
Process	Organization of the process of customer payments and interfaces to payment systems	28.02.2018	27	2	8	0	7	17
					86		7	

2.5 Detailed analysis - findings

The detailed analysis of the recommendations is based on an internal monitoring system in which each finding is rated (assessed) at the appropriate level of risk from 1 - very low to 3 - very high.

The distribution of the recommendations for 2018 and 2017 according to their significance and the level of risk is presented in the following table.

Classification of risk-based recommendations

Classification	2018		2017		Increase (Decrease)
	Number	Percent	Number	Percent	
1 - Very low risk	84	8.42%	143	8.71%	(41.26%)
1.5 - Low risk	205	20.54%	253	15.42%	(18.97%)
2 - Medium risk	533	53.41%	573	34.80%	(6.98%)
2.5 - High risk	176	17.64%	674	41.07%	(73.89%)
Total:	998	100.00%	1 643	100.00%	(39.26%)

From the data review in Table 9 it was found that the total number of recommendations in 2018 and their share in high-risk groups (2.5 High risk) as a whole decreased, compared to those in 2017.

The reduction in absolute numbers (a total of 998 for 2018 and 1 643 for 2017) as well as the share of overall recommendations is the result of employees' responsibility for complying with the legal framework as well as the improving the control environment.

The following two Tables present information on the type of findings (on the basis of which the recommendations were made) classified in Group 2.5 High Risk for 2018 and 2017 respectively.

As of the date of the report, the process of updating the risk-based approach to planning audit engagements and the risk levels of the findings and recommendations to minimize risk continues.

Findings classified in Group 2.5 High Risk -2018

Subject	Type of finding	Total number for 2018	2.5 high-risk for 2018	Share %
Corporate lending	Without collateral insurance	325	27	8.31%
Working environment	Lack of updating and / or supplementing of internal rules	190	17	8.95%
Civil safety room	Uncollected / partially collected charges	22	10	45.45%
Front office	Non-compliance with internal rules / order / instruction	84	10	11.90%

Findings classified in Group 2.5 High Risk -2017

Subject	Type of finding	Number for 2017	2.5 high-risk for 2017	Share %
Corporate lending	Without collateral insurance	482	95	19.71%
	No collateral check protocol	482	75	15.56%
Individual lending	Non-fulfillment of contract terms regarding transfer of salary, communal payments, etc.	329	85	25.84%
	No signature of borrower of contract / annex, repayment plan	329	17	5.17%
Internal regulations	In violation of internal rules / order / instruction	113	77	68.14%
	Lack of updating and / or supplementing of internal rules	113	17	15.04%

2.6 Specialized Audits

The main directions of the activity of the Specialized Audit Department are as follows: analysis and evaluation of received signals, thematic audits (checks), development of new models as well as support activities.

Analysis and evaluation of received signals

During the reporting period, 37 cases were reported based on received signals. The checks are classified according to their type as external frauds, internal frauds, procedural violations, leaks, and False positive (reported data or circumstances of unrealistic or unreasonable situations and claims by bank customers).

Thematic inspections

During the reporting period 1 specialized audit was carried out - "Analysis of accounts of deceased persons, accounts of elderly persons and accounts with no movements". The check was launched at the end of the reporting period - 2018 and is under analysis of the results.

Developing new models

For the reporting year 2018, the Specialized Audit Department employees performed 14 activities related to the development and implementation of new models for work and optimization of existing processes. By the end of the year the initiated activities are under development and implementation.

3. Guidelines for the Internal Audit Directorate of 2019

In 2019, the Directorate will continue to assist the management of First Investment Bank AD in realizing the priorities by exercising enhanced control over the processes in the Bank. The main priorities for the Directorate are the following:

- In order to effectively allocate and implement the annual audit plan, the Directorate will launch an employee selection procedure within the established plan that will allow the resources allocated to the audit engagements to be adequate to the Bank's registered growth and the risk in the audited entities in the context of the financial and economic situation in the country and the challenges of the competitive environment.
- Updating the procedure for risk-based annual planning of the internal audit activity in relation to the changes in the Bank's operating activities and systems, as well as the changes in the Bank's legal framework, strategy and objectives.
- Improvement and updating of the audit methodologies and tests applied by the Directorate, including supplementing and modifying the audit files in line with changes in the regulatory framework, the Bank's internal rules and good practices in the field.
- Continuous training and development of the professional competence of the auditors in the constantly changing control and business environment through participation in specialized seminars and certification programs in order to improve existing and acquire new knowledge and skills.

Plamen DIMITROV
Director Internal Audit

On item 9 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

Report of the Audit Committee of First Investment Bank for 2018

ANNUAL REPORT OF THE AUDIT COMMITTEE

OF FIRST INVESTMENT BANK AD

FOR 2018

This Report presents the activities of the Audit Committee of First Investment Bank AD (the Bank) in 2018 in compliance with Article 108(1), item 8 of the Independent Financial Audit Act (IFAA).

The Audit Committee of First Investment Bank AD was established with a resolution of the General Meeting of Shareholders on 29.05.2009. At the annual general meeting of shareholders held on 21 June 2018 Ms Radina Boyanova Beneva was released as member of the Audit Committee upon her request due to other work commitments, and as a new independent member of the Audit Committee Mr Georgi Stoyanov Trenchev was elected for a three-year term in office. Currently the Audit Committee of First Investment Bank AD is in the composition Mr Georgi Trenchev (Chair), Mr Jordan Velichkov Skortchev (member) and Ms Rositsa Asova (member).

The Audit Committee of First Investment Bank AD operates in accordance with written competencies, rights and responsibilities, as provided for in the regulatory framework.

In 2018 the Audit Committee held regular meetings, including meetings with the Chief Financial Officer, Chief Risk officer. the head of the specialized unit for internal audit, as well as representatives of the independent external auditor, and performed its functions related to:

- monitoring of the processes of financial reporting at the Bank;
- monitoring of the efficiency of the Bank's internal audit function;
- monitoring of the efficiency of risk control and management systems at the Bank;
- monitoring of the independent financial audit;
- monitoring of the provision of additional services by the Bank's registered auditor;
- review of the independence of the Bank's registered auditor with a view to ensuring compliance with the regulatory requirements.

Risk Management and Internal Audit

The risk management system of First Investment Bank includes policies, rules and procedures, which provides reliable and efficient evaluation of internal capital, creates an adequate control environment, separation of the functions of supply and approval of risk exposures, as well as comprehensive system for managing the assets, liabilities and liquidity, based on the Risk strategy, approved from the Supervisory Board.

First Investment Bank implement a written 'Policy on risk management and capital adequacy' which, together with policies for managing the credit risk, market risk, operational and other risks, with 'Policy for managing the assets, liabilities and liquidity', as well as related rules, guidelines and instructions, are building the comprehensive internal regulatory system of Fibank for manage risks associated with the Bank's activities and the adequacy of its capital.

First Investment Bank review current systems and processes in order to be guaranteed their inclusiveness and proportionality of the nature, scale and complexity of the activities performed by the Bank as well as to maintain risk adequate capital.

Risk management is based on an information system which ensures the maintenance of data bases and their subsequent processing for the purposes of risk management, including the preparation of regular reports needed for monitoring the Bank's risk profile. Within First Investment Bank there are specialized organizational units for risk management - the "Risk Analysis and Control" Department and the "Credit Risk Management, Monitoring and Provisioning", where the former performs functions for identification, measurement and management of the various types of risks inherent in the Bank's activity, while the latter performs 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 risk-related collective bodies within the Bank are the Credit Council, the Restructuring Council, the Liquidity Council, the Operational Risk Committee. As an auxiliary body to the Supervisory Board the Risk Committee is responsible for supervision over the Managing Board's risk management activities, as well as the broad strategic and tactical supervision of the risk management function in the Bank, including the forming of risk exposures. All risk management activities are subject to documenting and reporting in accordance with the currently established rules within the Bank.

The activities earned out by First Investment Bank, as well as the auxiliary systems and processes, are subject to regular internal control which is earned out by the Specialized Internal Audit Unit which operates independently from the structural units it audits. Internal control is implemented as preventive, current and follow-up control on all activities and transactions carried out at the Bank and includes managerial control, risk control, reporting and information, as well as internal audit.

Based on the reviews carried out, the Audit Committee finds that during the reporting period the Bank's systems for risk management and internal control were efficient and adequate to the Bank's activities and the applicable regulatory requirements. No weaknesses or errors which may impact negatively the operation of the Bank with a view to its development goals were found in the processes and systems for risk management and internal control.

Financial Reporting

First Investment Bank applies a system for independent on-going reporting in accordance with the regulatory requirements - the International Accounting Standards (IAS), the International Financial Reporting Standards (IFRS), the Credit Institutions Act, the Public Offering of Securities Act, Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012. The financial reports prepared by First Investment Bank are submitted to relevant supervisory bodies (the Bulgarian National Bank, the Financial Supervision Commission), and some of them - the quarterly and annual reports - are submitted to the Bulgarian Stock Exchanged and made publicly available. The Bank maintains an accounting system which ensures systematic, chronological and true reflection of the financial information (transactions), following a preliminary check of the validity and reporting of transactions in accordance with IFRS the Bank's accounting policy.

Based on its observations and the information provided, the Audit Committee concludes that in 2018 First Investment Bank complied with the financial reporting requirements by submitting reports on a regular basis and publishing financial information in the legally stipulated deadlines and methods. The Bank's financial reports were prepared in accordance with the applicable law and accounting standards. The information contained therein reflects objectively the Bank's activities and financial position. The process of financial reporting is efficient and adequate to the activities and in compliance with good banking practices in this field.

Independent financial audit

At the recommendation of the Audit Committee BDO Bulgaria OOD and Mazars OOD were appointed as specialized audit entities to carry out the independent financial audit of the Bank for 2018 and the verify and certify the annual financial statement. In 2018 the Audit Committee observed the process of independent financial audit carried out at the Bank by BDO Bulgaria OOD and Mazars OOD as the registered auditors of First Investment Bank, including on the basis of data information provided by the auditors.

The opinion of the Audit Committee is that the audit for 2018 carried out by the registered auditors is in compliance with the legal requirements for independence, objectivity, confidentiality, including as per IFAA and the Code of Ethics of Professional Accountants. No errors or discrepancies were found in the process of monitoring of the independent audit.

This report was approved at a meeting of the Audit Committee of First Investment Bank AD.

Members of the Audit Committee of
First Investment Bank AD:

Georgi Trenchev

(Chair)

Jordan Skortchev

May 2019

Rositsa Asova

On item 12 of the Agenda
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

Proposed amendments to the By-Laws of First Investment Bank

Translation from Bulgarian

BY-LAWS
OF FIRST INVESTMENT BANK AD

SECTION I
GENERAL PROVISIONS

ARTICLE 1
INCORPORATION AND STATUS

(1) (amended by the General Meeting of Shareholders on 09.03.2007) First Investment Bank (“the Bank”) is a company limited by shares, incorporated in accordance with its Articles of Association signed on 22nd June 1993 in the City of Sofia (Bulgaria), and is a legal entity. The Bank transacts its business in accordance with the banking and commercial legislation of the Republic of Bulgaria (the Law on Credit Institutions and the Commercial Code), the other special laws and subordinate legislation governing the activities of such companies, and in accordance with the provisions of these By-Laws.

(2) (new paragraph, approved by the General Meeting of Shareholders on 09.03.2007) The Bank is a public company within the meaning of Article 110 of the Law on Public Offering of Securities (LPOS) effective as from the resolution of the Financial Supervision Commission (FSC) to list the shares of the Bank for trading on Bulgarian Stock Exchange – Sofia AD (“the Stock Exchange”). After obtaining the status of a public company, the Bank shall also carry on its business in accordance with LPOS and the implementing provisions thereto.

ARTICLE 2
NAME

The Bank shall transact its business under the name FIRST INVESTMENT BANK AD.

ARTICLE 3
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

The registered office of the Bank is in the City of Sofia, Municipality of Iztok, 37 Dragan Tsankov Str., where its principal place of business is located.

ARTICLE 4
SCOPE OF BUSINESS

(1) (amended by the General Meeting of Shareholders on 09.03.2007) The Bank is engaged in the business of publicly accepting deposits or other repayable funds and extending loans and other financing for its own account and at its own risk.
(2) (amended by the General Meeting of Shareholders on 09.03.2007; amended by the General Meeting of Shareholders on 09.03.2007; amended by the General Meeting of Shareholders on 29.05.2009; supplemented by the General Meeting of Shareholders on 21.05.2013, amended and supplemented by resolution of the General Meeting of Shareholders as of 21.05.2014) The Bank may also conduct the following activities if they are covered by its license:

1. providing money transfer services as defined in the Law on Payment Services and Payment Systems;

2. issuance and administration of other means of payment (payment cards, traveler's cheques and bills of credit) in so far as these activities do not fall within the scope of item 1;

3. acceptance of valuables on deposit;

4. depository and custodian services;

5. financial leasing;

6. guarantee transactions;

7. (amended by resolution of the General Meeting of Shareholders as of 21.05.2014) trading for its own account or for customers' account with foreign currency and precious metals except for derivative financial instruments over foreign currency and precious metals;

8. (amended by resolution of the General Meeting of Shareholders as of 21.05.2014, amended by resolution of the General Meeting of Shareholders as of 21.06.2018) provision of services and/or performance of activities under Art. 6, para. 2 and 3 of the Markets in Financial Instruments Act;

9. financial brokerage;

10. (repealed by resolution of the General Meeting of Shareholders as of 21.05.2014);

11. (amended by resolution of the General Meeting of Shareholders as of 21.05.2014) acquisition of receivables arising out of loans and other forms of financing (factoring, forfeiting and other)

12. equity acquisition and management;

13. safe deposit box rental;

14. collection and distribution of information and references on customers' creditworthiness;

15. (new item added by resolution of the General Meeting of Shareholders as of 21.05.2013) issue of electronic money;

16. (former item 15 amended by resolution of the General Meeting of Shareholders as of 21.05.2013) other such activities defined in an ordinance of the Bulgarian National Bank (BNB).

(3) (new, adopted by the General Meeting of Shareholders on 09.03.2007) The acquisition, payment and trade in government securities shall be effected pursuant to the procedure and terms of the Law on the Government Debt.

(4) (formerly Para 3, amended by the General Meeting of Shareholders on 09.03.2007) The Bank may not conduct in the line of business transactions other than those specified in Paragraphs 1 and 2 above, except where necessary for conducting its business or in the process of collecting debts on granted loans. The Bank may set up or acquire companies to provide ancillary services.

ARTICLE 5
BUSINESS AND CREDITING ACTIVITIES

(1) In connection with the granting of loans and guarantees in foreign currency, in compliance with the applicable regulatory acts and the requirements for the transaction of bank activities, the Bank may:

1. Take in resources in foreign currency from Bulgarian and foreign banks and other legal persons and individuals;
2. Sign loan and correspondence agreements with local and foreign banks;
3. Collect payments against commodity and freight documents, checks and other payment documents and valuables of Bulgarian merchants and companies, foreign banks, and/or other legal persons and individuals, and effect payments in relation thereto.

(2) The Bank may:

1. Participate in consortia;
2. Organize the conducting of economic, market, currency-financial and other research in Bulgaria and abroad against payment; consult its clients on the loan and market situation; on the economic status and the scientific and technical possibilities and the strategy of their potential partners;
3. Associate with foreign legal and persons and individuals in Bulgaria and abroad, including for incorporation of and shareholding participation in banks;
4. Operate with its free funds on the international markets.

(3) The Bank shall transact its business in line with its scope of business specified in Article 4 of these By-Laws. It may also conduct any other business except for such business activities which are prohibited by law.

(4) The Bank shall transact its foreign economic activity alone or through specialized commercial companies.

SECTION II
CAPITAL, SHARES AND FUNDS

ARTICLE 6
CAPITAL

(1) (amended by the General Meeting of Shareholders on 09.03.2007; subsequently amended by the General Meeting of Shareholders on 14.07.2008) The capital of the Bank is BGN 110,000,000 /one hundred and ten million Bulgarian levs/, divided into 110 000 000 /one hundred and ten million/ book-entry ordinary voting shares with a par value of BGN 1.00 /one lev/ each.

2. The capital of the Bank is formed of cash and non-cash (in-kind) contributions.

ARTICLE 6A
NON-CASH CONTRIBUTION TO THE CAPITAL

The shareholders, Ivaylo Dimitrov Moutaftchiev, PIN 6204307143, passport series 'B' No.0118346, issued on 3rd December 1981 by the Leninsko Regional Police Department - Sofia, residing in Sofia, 19 Latinka St., in order to cover the shares he subscribed - 24,775 /twenty-four thousand seven hundred seventy-five/ personal shares with a voting right in the increased capital of First Investment Bank AD, from BGL 2,200,000,000 to BGL 5,000,000,000 according to Resolution of the General Meeting of Shareholders /Minutes No.7 dd. 11th April 1997/, and Tzeko Todorov Minev, PIN 6010306982, passport series 'B' No.1534513, issued on 10th May 1996 by 4th Regional Police Department - Sofia, residing in Sofia, 20 Dospat St, et.2, apt.5 for covering the shares he subscribed – 24 775 /twenty-four thousand seven hundred seventy-five/ personal shares with a voting right in the increased capital of First Investment Bank AD, from BGL 2,200,000,000 to BGL 5,000,000,000 according to Resolution of the General Meeting of Shareholders /Minutes No.7 dd. 11th April 1997/ make a non-cash contribution to First Investment Bank AD - 1/2 share each of the title of ownership to a real estate and movable property, as follows:

a) REAL ESTATE - A BANK OFFICE, located on the plot of a residential building and beyond the limits of residential building bl.1519 /one thousand five hundred and nineteen/, Skopje St., Plot II /second/, complex building, Quadrant 88 /eighty-eight/, old, as per the city plan of residential district "Vastanitcheski-sever" - City of Plovdiv, with a total built-up area of 346.72 sq.m /three hundred forty-six point seventy-two/ together with the premises pertaining to this real estate with borders: to the West - P.Toshev St.; to the South - Skopje St.; to the North - a yard; to the East - shops and common facilities of the residential building; together with 2.479% /two point four hundred seventy-nine percent/ in the common shares of the building and the right to build on 346.72 sq.m /three hundred forty-six point seventy-two/.

The market value of the real estate amounts to BGL 450,807,000 /four hundred and fifty million eight hundred and seven thousand Bulgarian levs/.

b) MOVABLE PROPERTY:

1. Diesel aggregate Model P 22
- motor Perkins
- 22 kW, 380/220V, 50 Hz
- automatic system for emergency switch on
- automatic heater for immediate hot start
- dilatation recipient, main switchboard, tank for daily ration

The market value amounts to BGL 9,750,000 /nine million seven hundred and fifty thousand Bulgarian levs/.

2. Monitoring system
- outside installed cameras
- CCTV cameras
- VCR - 3 pcs
- monitoring displays - 17” and 14” - 2 pcs

The market value amounts to BGL 14,250,000 /fourteen million two hundred and fifty thousand Bulgarian levs/.

3. Telephone exchange Panasonik
- external lines - 6 pcs
- internal lines - 16 pcs

The market value amounts to BGL 1,118,000 /one million one hundred eighteen thousand Bulgarian levs/.

4. Office equipment
- director's desk, corner, container on wheels
- section cabinet 180/46/72 H
- closets - single, double
- shop-windows
- accountancy desks
- working tables
- accountancy closets
- chairs 'President', 'Officer', 'Visitor'
- security desks

The market value amounts to BGL 12,400,000 /twelve million four hundred thousand Bulgarian levs/.

5. Johnson wall air-conditioners - 6 pcs

The market value amounts to BGL 7,200,000 /seven million two hundred thousand Bulgarian levs/.

The total market value of the movable property comes to BGL 44,718,000 /forty-four million seven hundred eighteen thousand Bulgarian levs/.

ARTICLE 6B
EVALUATION OF THE NON-CASH CONTRIBUTION AND GROUNDS FOR THE TITLE OF THE CONTRIBUTORS

1. The value of the non-cash contribution under Article 6a of these By-Laws is BGL 495 525 /four hundred ninety-five thousand five hundred and twenty-five Bulgarian levs/ according to valuation examination made by three experts under civil case No.5233/1997 on the roll of the Sofia City Court which is an integral part of these By-Laws.

2. The title to the non-cash contribution described in Article 6a of these By-Laws has been acquired by the contributors on the grounds of a donation – Title Deed No.135, vol.17, Notarial case No.4264/1997 of the Notary Public of the Plovdiv Regional Court, and of an agreement between First Financial Brokerage House OOD, Sofia, and the contributors, which is an integral part of the Title Deed.

ARTICLE 6C
INCREASE OF CAPITAL
(repealed by the General Meeting of Shareholders on 09.03.2007)

ARTICLE 7
SHARES

(1) The shares of the Bank are securities which certify that their holders participate in the capital of the Bank with the par value specified therein.

2. The Bank may not issue shares with different par value.

ARTICLE 8
ISSUE PRICE

(1) (amended by the General Meeting of Shareholders on 02.11.2005) Issue price shall be the price at which the new shares are acquired by the founders, respectively, by the persons subscribing for new shares upon increase of the share capital.

(2) (amended by the General Meeting of Shareholders on 09.03.2007) The issue price may not be less than the par value. The minimum issue price shall be determined by the General Meeting of Shareholders entitled to vote by the resolution for increase of the capital, or by the Management Board, within the scope of its authority under Article 17, Para 5.

(3) The difference between the par value and the issue price of the shares shall go to the Reserve Fund of the Bank.

ARTICLE 9
INDIVISIBILITY

The shares are indivisible. Where a share is owned by several persons, they shall exercise their rights to the share jointly, by appointing a proxy.

ARTICLE 10
TYPES OF SHARES

1. (amended by the General Meeting of Shareholders on 02.11.2005) All shares issued by the Bank shall be ordinary, paperless personal shares, and each share entitles its holder to one vote in the General Meeting of Shareholders.
2. (repealed by the General Meeting of Shareholders on 02.11.2005)

ARTICLE 11
REGISTER OF SHAREHOLDERS
(amended by the General Meeting of Shareholders on 02.11.2005)

The Register of Shareholders of the Bank shall be kept by the Central Depository AD.

ARTICLE 12
RIGHTS OF THE SHAREHOLDERS

(1) Each share gives one voting right at the General Meeting of Shareholders, a right to a dividend and to a liquidation quota, pro rata the share's par value.

(2) (new, adopted by the General Meeting of Shareholders on 09.03.2007) The right to vote at the General Meeting of Shareholders may be exercised by the shareholders, who are registered in the registers of the Central Depository at least 14 days prior to the date of the General Meeting.

(3) (new, adopted by the General Meeting of Shareholders on 09.03.2007) The persons registered as shareholders in the registers of the Central Depository on the 14^{th} day following the day of convocation of the General Meeting under Article 51(1) shall be entitled to receive dividend.

(4) (new, adopted by the General Meeting of Shareholders on 09.03.2007) The shareholders shall also have other rights as provided for by these By-laws and the operative legislation.

ARTICLE 13
PROOF OF OWNERSHIP OF SHARES

(the heading of this article was amended by the General Meeting of Shareholders on 02.11.2005)

(1) (amended by the General Meeting on 02.11.2005 and on 09.03.2007) The Central Depository issues to the shareholders a document of verification (depository receipt) for all ordinary personal paperless shares in the Bank held by them.

(2) (repealed by the General Meeting of Shareholders on 02.11.2005) .

ARTICLE 14
COUPONS

(repealed by the General Meeting of Shareholders on 02.11.2005)

ARTICLE 15
DISPOSAL OF SHARES

(1) (amended by the General Meeting on 09.03.2007) The shares of the Bank are freely transferable, subject to compliance with the requirements of the operative legislation.

(2) (repealed by the General Meeting on 09.03.2007)

(3) (supplemented by the General Meeting of Shareholders on 02.11.2005) The transfer of the paperless personal shares shall become legally effective upon the registration of the transaction in the registers of the Central Depository.

(4) (amended by the General Meeting of Shareholders on 02.11.2005, 09.03.2007 and 21.05.2014) Natural or legal persons, or persons acting in coordination, may not acquire directly or indirectly any shares in the Bank's capital or voting rights without the prior permission of BNB, if following the share acquisition such persons will have qualified shareholding or the shareholding will reach or exceed the thresholds of 20, 33, or 50 per cent of the shares or the voting rights; or if the Bank is becoming an affiliate company. Where the shares under the previous sentence are acquired without prior permission by BNB on public offering of shares on the stock exchange or any other regulated securities market, the transferees may not exercise the voting rights on these shares until receipt of BNB's written permission, for the issuance of which they shall submit an application within one month of the occurrence of the relevant fact requiring obtaining of such permission.

(5) (repealed by the General Meeting of Shareholders on 02.11.2005; new – adopted by the General Meeting of Shareholders on 09.03.2007) The shareholders in the Bank shall disclose their shareholdings in the events and according to the procedure as provided in Articles 145-148 of the Law on Public Offering of Securities.

ARTICLE 16
FUNDS

(1) The Bank shall establish funds with a resolution of the General Meeting of Shareholders, which shall determine their amount and the way of raising and managing these funds.

(2) (amended by the General Meeting on 09.03.2007) The Bank shall establish a Reserve Fund which shall take at least 1/10 of the profit after taxation and before distribution of dividends, in accordance with the provisions of the Law on Credit Institutions, until the Reserve Fund amount comes to 1/10 of the capital.

ARTICLE 17
INCREASE OF CAPITAL
(the heading is amended by the General Meeting on 09.03.2007)

(1) (amended by the General Meeting on 09.03.2007) The capital of the Bank may be increased by authority of a resolution of the General Meeting of Shareholders:

1. by issuance of new shares (in order to borrow funds or to capitalize a part of the profit); or
2. by conversion of bonds into shares.

(2) (amended by the General Meeting on 02.11.2005 and on 09.03.2007) The capital of the Bank may not be increased by increase of the nominal value of any existing shares or through conversion of bonds, issued as non-convertible bonds, into shares.

(3) (new, adopted by the General Meeting on 09.03.2007) The capital of the Bank may not be increased by non-cash contributions (Article 193 of the Commercial Code), under condition (Article 195 of the Commercial Code), or placing limitations on the preemptive rights of the shareholders under Article 194(4) and Article 196(3) of the Commercial Code, except in the special cases expressly provided for by law, including under the provisions of Article 113(2) of the Public Offering of Securities Act (in the context of a rehabilitation plan or under authority of BNB's order, if necessary for the purposes of a merger or tender for exchange of shares, or for the purpose of securing the rights of holders of convertible bonds or share warrants, in which cases the Bank's capital may be increased according to the procedure set forth in Article 193, 195 and Article 196(3) of the Commercial Code).

(4) (new, adopted by the General Meeting on 09.03.2007) In the case of increase of the capital through borrowings, the issue price of the new shares should be paid up in full.

(5) (amended by the General Meeting on 20.12.2012, amended by the General Meeting on 29.05.2017) Within a period of five (5) years as from the entry of the amendment to these By-Laws pursuant to the resolution of the General Meeting of Shareholders as of 29 May 2017, the Management Board, with the prior approval of the Supervisory Board, may take resolutions to increase, through issuance of new shares, the Bank's capital until it reaches an aggregate nominal amount of BGN 210,000,000.00 (two hundred and ten million Bulgarian levs). The Management Board, with the prior approval of the Supervisory Board, shall have authority to determine and resolve on all terms and conditions of the capital increase and to take all and any legal and factual actions as needed for its coming into effect, inclusive but not limited to determine the issue price of the shares, to select an investment intermediary, and to record the change in the amount of the capital and the number of shares in the By-Laws, in accordance with the provisions of the applicable legislation.

(6) (new, adopted by the General Meeting on 09.03.2007, and amended by the General Meeting on 22.05.2012) The persons who have acquired shares within 14 days after the date of the resolution of the General Meeting on the capital increase shall be entitled to take part in the increase, and in the case where the resolution on the capital increase is taken by the Management Board, the persons who have

acquired shares within 7 days after the date of publication of the public offering notice under Article 92a(1) of the Public Offering of Securities Act shall be entitled to take part in the increase.

ARTICLE 17a
REDUCTION OF CAPITAL
(new, adopted by the General Meeting on 09.03.2007)

(1) The Bank's capital may be reduced only subject to a written permission of the Bulgarian National Bank, by way of:

1. decrease of the nominal value of the shares;
2. canceling of shares following their re-acquisition by the Bank.

(2) The Bank's capital may not be reduced by way of compulsory canceling of shares.

ARTICLE 18
BONDS

(1) (amended by the General Meeting on 09.03.2007, amended by the General Meeting of Shareholders on 21.05.2013) The Bank may issue bonds and convert them into shares under the terms and conditions of the Commercial Act and the Public Offering of Securities Act.

(2) (amended by the General Meeting on 16.06.2004, amended by the General Meeting of Shareholders on 21.05.2013, amended by the General Meeting of Shareholders on 19.06.2019) For a five-year term as of the date of registration of the amendments hereto, in pursuance of resolution of the General Meeting of Shareholders of 19 June 2019, the Management Board may adopt a resolution subject to approval by the Supervisory Board to issue mortgage-backed bonds in compliance with the Law on Mortgage-Backed Bonds, with a total nominal value of up to 400,000,000 (four hundred million) Bulgarian levs and with a maturity date of up to 10 years as from the date of issue and under other terms and conditions as determined by the Management Board

(3) (new, adopted by the General Meeting on 09.03.2007; amended by the General Meeting of Shareholders on 14.07.2008, amended by the General Meeting of Shareholders on 24.10.2011; amended by the General Meeting of Shareholders on 16.05.2016) Within 5 (five) years as from registration of the amendments to these By-Laws, in accordance with the resolution of the General Meeting of Shareholders as of May 16th, 2016, the Management Board, subject to approval by the Supervisory Board, may resolve to issue other types of bonds, as well as other debt securities, including subordinated fixed-term loan and debt/equity (hybrid) instruments, up to the aggregate amount of 2,000,000,000 (two billion Bulgarian levs) or its equivalence in another currency. The terms and conditions of issue of the bonds and the other debt securities and instruments are to be defined in the resolution of the Management Board, in compliance with the provisions of the applicable legislation and these By-Laws.

SECTION III
EQUITY AND LIABILITY

ARTICLE 19
EQUITY

The equity of the Bank shall consist of titles of ownership, usufruct and other real rights, intellectual property rights, securities, share interests in commercial companies and other rights and liabilities.

ARTICLE 20
LIABILITY

(1) The Bank shall be liable with its property for its liabilities.

(2) The Bulgarian state shall not be liable for the liabilities of the Bank and the Bank shall not be liable for the liabilities of the Bulgarian state or of other commercial companies.

(3) The Bank shall be liable to its creditors with its property.

ARTICLE 21
BANK CONFIDENTIALITY

(1) The Bank shall keep confidential all information concerning its customers, including their deposits, loans, accounts and movement thereof, property, interests etc., which information has come to its knowledge in the process of work.

(2) The Bank shall provide information as per the above paragraph to third persons, including to the authorities, only with the written consent of the customer, or if it is so ordered in the legally required form. In such case the Bank shall provide the information only after it makes sure that all legal provisions have been respected and shall promptly notify its customer unless this is prohibited by law.

(3) After their appointment, all members of the governing bodies of the Bank and the employees shall sign a declaration for confidentiality according to the aforementioned paragraphs.

SECTION IV
GOVERNING BODIES OF THE BANK

ARTICLE 22
TYPES OF GOVERNING BODIES

The governing bodies of the Bank are:

1. General Meeting of Shareholders;
2. Supervisory Board;
3. Management Board

SUBSECTION 1
GENERAL MEETING OF SHAREHOLDERS

ARTICLE 23
COMPOSITION

(1) The General Meeting consists of the shareholders who have voting rights. They may participate in the General Meeting personally or by proxy.
(2) (new, adopted by the General Meeting on 09.03.2007) The persons under Article 12(2) of these By-Laws are entitled to participate in the General Meeting of Shareholders.

(3) (formerly Para 2, amended by the General Meeting on 09.03.2007) The members of the Supervisory Board, the Management Board and the Management Team of the Internal Audit Department shall participate in the work of the General Meeting without a right to vote, unless they are shareholders.

(4) (formerly Para 3, amended by the General Meeting on 09.03.2007) Auditors and experts may be invited to participate in the work of the General Meeting, whenever the agenda of the meeting requires that.

ARTICLE 24
COMPETENCY

The General Meeting of Shareholders may:

1. amend and supplement the By-Laws of the Bank;
2. increase and/or reduce the capital;
3. transform or terminate the Bank;
4. (amended by the General Meeting on 09.03.2007) transfer the whole business undertaking;
5. take resolutions on disposal of assets the total value of which during the current year has exceeded one half of the value of the company’s assets according to the latest audited financial statements;
6. **(amended by the General Meeting on 22.05.2012)** take resolutions to assume obligations or provide security to a company and/or a group of companies to an amount exceeding during the current year one half of the value of the company’s assets according to the latest certified annual financial statements;
7. elect or dismiss the members of the Supervisory Board;
8. determine the remuneration of the members of the Supervisory Board;
9. (amended by the General Meeting on 16.05.2016) elect or dismiss the Management Team of the Specialized Internal Audit Department;
10. (**amended by the General Meeting on 29.05.2009; amended by the General Meeting on 24.10.2011, amended by the General Meeting on 29.05.2017**) appoint and dismiss a registered auditor/s, in compliance with the requirements of the applicable legislation on the recommendation of the auditing committee;
11. (amended by the General Meeting on 09.03.2007) approve the annual financial statements after audit by a specialized auditing company, resolve on distribution of profits, allocation of money to the Reserve Fund, and payment of dividends;
12. resolve on the issue of bonds and debentures;
13. (amended by the General Meeting on 09.03.2007) appoint liquidators upon termination of the Bank except for in the case of compulsory liquidation or bankruptcy;
14. release from responsibility the members of the Supervisory Board and the Management Board;
15. (new, adopted by the General Meeting on 29.05.2009) elect and dismiss the members of the Bank’s auditing committee, and determine their terms of office;
16. (new, adopted by the General Meeting on 29.05.2009; formerly Para 15 amended on 09.03.2007) take resolutions on entering into transactions which according to the Public Offering of Securities Act may not be executed by the persons, who are authorized to represent and manage the Bank without the express consent of the General Meeting.
17. (formerly Para 15, amended on 09.03.2007; formerly Para 16, amended on 29.05.2009) solve any other issues within its competency as provided for by law.

ARTICLE 25
GENERAL MEETING OF SHAREHOLDERS

(1) The General Meeting of Shareholders shall be held at least once a year, but no later than 6 months after the end of the financial year.

(2) The General Meeting shall elect a Chairman and a Secretary of the meeting.

ARTICLE 26
CONVOCATION

(1) The General Meeting shall be convened by the Management Board. It can also be convened by the Supervisory Board or at the request of shareholders, who have held at least 5% of the capital for more than three months.

(2) If within a month the request of the shareholders as per the previous paragraph has not been satisfied, the Sofia City Court shall convene a General Meeting or shall authorize the shareholders who have requested the meeting or their proxies to convene the meeting.

(3) (amended by the General Meeting on 09.03.2007; subsequently amended by the General Meeting on 29.05.2009) The General Meeting is convened by a notice which is to be announced in the Commercial Register at least 30 days prior to the date of the general meeting.

(4) The notice shall contain the following information:

1. Name and registered office of the Bank;
2. The place, date and hour of the meeting;
3. The type of the meeting;
4. Notice of the formalities which have to be completed in order to participate in the meeting and to exercise a voting right;
5. The agenda of the meeting, as well as the proposed resolutions;
6. (new, adopted by the General Meeting on 29.05.2009) any other statutory required details.

(5) (new, adopted by the General Meeting on 09.03.2007; amended by the General Meeting on 29.05.2009) Within the statutory required period the notice, together with the written materials concerning the agenda of the meeting, shall be sent to the Financial Supervision Commission, the Central Depositary, and the Stock Exchange. The Financial Supervision Commission and the Stock Exchange shall make these materials public.

(6) (new, adopted by the General Meeting on 09.03.2007) Shareholders, who have been holding at least 5% of the capital for a period of over 3 (three) months, may request new items to be added to the agenda as provided for by Article 223a of the Commercial Code.
(7) (repealed by the General Meeting on 29.05.2009)

ARTICLE 27
RIGHT TO INFORMATION
(amended by the General Meeting on 09.03.2007; amended by the General Meeting on 29.05.2009)

The written materials regarding the agenda of the General Meeting must be made available to the shareholders no later than the date of announcement of the notice convening the General Meeting in the Commercial Register. On request, they must be given by the Bank to every shareholder free of charge.

ARTICLE 28
LIST OF ATTENDING SHAREHOLDERS

For the meetings of the General Meeting a list shall be drawn up of the attending shareholders or of their proxies together with the number of owned or represented shares. The list shall be signed by the shareholders and proxies attending the General Meeting. It has to be verified by the Chairman and by the Secretary of the General Meeting.

ARTICLE 29
PROXIES

(1) (amended by the General Meeting on 09.03.2007 and on 30.03.2007; amended by the General Meeting on 29.05.2009) The power of attorney for participation in the General Meeting of Shareholders ("Proxy") shall be express, made in writing, notarized, and signed by the authorizing shareholder in his/her own hand, and shall meet the other requirements of Article 116 of the Public Offering of Securities Act. Any delegation of the rights conferred in the previous sentence, as well as any power of attorney issued in contravention to the provisions of the previous sentence, shall be null and void.
(2) (repealed by the General Meeting on 29.05.2009)

ARTICLE 30
QUORUM

1. The General Meeting shall be considered duly convened and able to take valid decisions if at least one-half of the share capital is present at the meeting.

2. If no quorum is present, another General Meeting shall be convened after no less than 14 days, and such General Meeting shall be deemed quorate irrespective of the present capital.

ARTICLE 31
VOTING

The voting can be done also with preliminary received ballots, which state the number of votes owned by the shareholder according to the shares presented for verification.

ARTICLE 32
CONFLICT OF INTERESTS

A shareholder or his/her proxy cannot participate in the voting on:

1. claims against him/her;
2. taking measures to enforce their responsibility to the Bank.

ARTICLE 33
MAJORITY
(amended by resolutions of the General Meeting of Shareholders as of 02.11.2005, 09.03.2007, and 30.03.2007)

The resolutions of the General Meeting shall be taken by a majority of the present shares; the resolutions under Article 24, sub-paragraphs 1,2,5,6 and 7 shall be taken by a majority of 2/3, and the resolutions under Article 24, Paragraphs 3 and 4 – by a majority of ¾ of the present shares.

ARTICLE 34
RESOLUTIONS

(1) The General Meeting may not pass resolutions on issues which are not specified in the written notice to the shareholders under Article 26, Para 3.

(2) The resolutions of the General Meeting shall immediately enter into force, unless their coming into force is postponed.

(3) (amended by the General Meeting of Shareholders on 02.11.2005) Resolutions regarding amendments and/or supplements to these By-Laws and/or dissolution of the Bank shall come into force and effect after their registration in the Trade Register. Increase or reduction of capital, reorganization of the Bank, election or dismissal of members of the Management Board and the Supervisory Board, as well as appointment of liquidators, shall be effective as from their registration in the Commercial Register.

ARTICLE 35
MINUTES

(1) The General Meeting shall keep minutes which shall include:

1. the place and date of holding the meeting;
2. the names of the Chairman and the Secretary, as well as the names of the tellers;
3. the presence of the members of the Supervisory Board and of the Management Board, as well as of persons who are not shareholders;
4. the proposed draft-resolutions;
5. the voting and the respective results;
6. the objections made, if any.

(2) The minutes of the General Meeting shall be signed by the Chairman and the Secretary of the meeting, as well as by the Tellers.

(3) Enclosed to the minutes shall be:

1. List of the persons attending the meeting;
2. The documents regarding the convention of the General Meeting.

4. The minutes and the proposed draft-resolutions shall be kept for at least 5 years. They shall be presented to any shareholder at request.

ARTICLE 36
PROVING THE RIGHT TO PARTICIPATE
(repealed by the General Meeting of Shareholders on 02.11.2005)

SUBSECTION 2
MANAGEMENT BOARD

ARTICLE 37
COMPOSITION

(1) (amended by the General Meeting on 16.05.2016) The Management Board shall consist of three to nine legally capable physical persons, elected by the Supervisory Board to hold office for up to 5 years. No legal person may be elected member of the Management Board.

(2) The members of the Management Board may be re-elected for future terms of office without limitations.

(3) The Management Board shall elect a Chairman and a Deputy-Chairman among its members.

(4) No member of the Supervisory Board of the Bank can be elected member of the Management Board.

(5) Members of the Management Board may be only persons, who:

1. hold Master's or higher degree;
2. have a qualification and professional experience in banking;
3. (amended by the General Meeting on 09.03.2007, supplemented by the General Meeting on 15.06.2015) have not been convicted of a premeditated crime of general nature unless they have been exonerated or for any crime under Article 116a of the Public Offering of Securities Act;
4. (amended by the General Meeting on 09.03.2007, supplemented by the General Meeting on 15.06.2015) have not been members within the two years last preceding the date of the adjudication in bankruptcy of governing or controlling bodies or general partners in a company terminated for bankruptcy which has unsatisfied creditors, regardless of whether they have later been reinstated or not;
5. (amended by the General Meeting on 15.06.2015) have not been, during the last 2 years preceding the date of a court decree for declaring a bank bankrupt, members of its governing or control bodies;
6. (supplemented by the General Meeting on 15.06.2015) have not been deprived of and are not under effective disqualification from the right to occupy a financially responsible position;
7. (supplemented by the General Meeting on 15.06.2015) are not spouses or relatives up to the third degree, including by direct or collateral line of descent, or similarly related to another member of a governing or controlling body of the Bank and do not actually live with such a member.
8. (new, adopted by the General Meeting on 09.03.2007) are not bankrupt debtors whose rights shave not been reinstated.
9. (new, adopted by the General Meeting on 15.06.2015) on the basis of the collected data from them does not hold grounds for any uncertainty regarding their reliability and suitability and possibility of raising of any conflict of interests in compliance with the requirements of Bulgarian National Bank and with the Bank's policy for recruitment of senior management personnel

(6) (amended by the General Meeting on 09.03.2007) The required qualification and professional experience shall be verified by a certificate issued by the Bulgarian National Bank; the circumstances as per sub-paragraph 3 of Para 5 shall be verified by a police clearance record check /Conviction Status Certificate/ and the circumstances under sub-paragraphs 4, 5, 6, 7 and 8 of Para 5 - by affidavit.

ARTICLE 38
FUNCTIONS

(1) The Management Board shall manage and represent the Bank by resolving any matters which concern the Bank and are within its scope of business, with the exception of those which are in the exclusive competency of the General Meeting or of the Supervisory Board, which shall be resolved in compliance with the law and these By-Laws.

(2) (amended by the General Meeting of Shareholders on 14.07.2008) In particular, the Management Board shall:

a) organize the execution of the resolutions of the General Meeting and of the Supervisory Board;

b) (amended by the General Meeting of Shareholders on 24.10.2011) adopt programs and a budget in relation to the activity of the Bank;

c) open and close branches and representation offices of the Bank;

d) take decisions regarding shareholding participation of the Bank in other companies in Bulgaria or abroad;

e) solve any matters regarding the acquisition and disposal of real properties and real rights thereto;

f) (repealed by the General Meeting of Shareholders on 16.05.2016)

g) prepare the annual financial statements of the Bank and put them forward for approval by the General Meeting;

h) (amended by the General Meeting of Shareholders on 14.07.2008, repealed by the General Meeting of Shareholders on 16.05.2016)

i) (amended by the General Meeting on 09.03.2007) carries out any other functions assigned to it by the General Meeting or the Supervisory Board or by law.

(3) (amended by the General Meeting on 09.03.2007, amended and supplemented by the General Meeting on 15.06.2015, amended by the General Meeting of Shareholders on 16.05.2016) The resolutions under letter “e” where the transaction is for the amount equal or above 5 000 000 (five million) levs or its equivalence in another currency, shall require approval of the Supervisory Board, unless the transaction relates to the acquisition of real properties and real rights thereto for repaying obligations due on credit deal or to the disposal of such real properties or real rights thereto, and/or unless for the entering into the transaction an express authorization by the General Meeting of Shareholders is also required under the Law on Public Offering of Securities.

(4) The Management Board shall adopt regulations for its work subject to approval by the Supervisory Board.

(5) The Management Board shall report to the Supervisory Board on the work done by them at least once in three months. The Management Board shall immediately notify the Chairman of the Supervisory Board or his deputy of any circumstances which are of material importance to the Bank.

ARTICLE 39
RIGHTS AND OBLIGATIONS

(1) The members of the Management Board shall have equal rights and obligations regardless of the internal distribution of the functions amongst them and the regulations granting rights of management to the executive directors.

(2) The members of the Management Board shall discharge their duties in the best interests of the Bank and shall keep the Bank’s secrets confidential even after they cease to be members of the Management Board.

ARTICLE 40
REPRESENTATIVE POWERS

(1) (amended by the General Meeting on 09.03.2007, supplemented by the General Meeting on 15.06.2015) The Management Board shall, upon the approval of the Supervisory Board, entrust the management and representation of the Bank to at least two of its members - Executive Directors, of whom at least one is fluent in Bulgarian, and who must have at least five years of experience in the banking or financial sector, having taken management positions in a bank or in an entity in the banking sector or a similar company or institution in case who have higher legal or economic education and for those without higher legal or economic education – having at least ten years of experience in an entity in the banking sector or in a similar to a bank entity or institution, of which having taken management positions at least five years, according to the criteria set by BNB.

(2) The Executive Directors cannot entrust the entire management and representation to one of them, but can authorize third persons to perform certain specific actions.

(3) The Executive Directors can be replaced and their powers revoked at any time.

(4) The empowerment of the Executive Directors, the revocation of their powers respectively, shall have legal force with respect to third parties acting in good faith after the registration in the Commercial Register.

ARTICLE 40a
(new, adopted by the General Meeting on 09.03.2007)

The Management Board shall employ an Investor Relations Manager under a full-time, permanent employment contract, who should have the required qualifications or experience to discharge his/her duties. The Investor Relations Manager may not be member of the Management or the Supervisory Board of the Bank or procurator of the Bank.

ARTICLE 41
QUORUM, MAJORITY AND MINUTES

(1) The Management Board can take resolutions only if at least a half of its members are present in person or are represented by written proxy by another member of the Board. None of the attending persons may represent more than one absent member.

(2) The resolutions of the Management Board shall be taken by a majority of 2/3 of the attending shareholders.

(3) The Management Board may also take resolutions without a meeting, provided that all members have agreed to the resolution in writing.

(4) Minutes shall be kept at all meetings of the Management Board. The minutes shall be signed by all attending members.

SUBSECTION 3
SUPERVISORY BOARD

ARTICLE 42
COMPOSITION

(1) (amended by the General Meeting on 15.06.2015, amended by the General Meeting on 16.05.2016) The Supervisory Board shall consist of three to seven persons elected by the General Meeting to hold office for up to 5 years.

(2) Legal persons as well as individuals may be elected members of the Supervisory Board. In the former case the legal person shall appoint a representative to perform his duties in the Supervisory Board. The legal persons shall be jointly and unlimitedly liable together with the other members of the Supervisory Board for any obligations which may arise out of the actions of their representatives.

(3) The Supervisory Board shall elect a Chairman and a Deputy-Chairman among its members.

(4) The members of the Supervisory Board may be re-elected for future terms of office without limitations.

(5) (amended by the General Meeting on 09.03.2007 and 21.05.2014) The members of the Supervisory Board, as well as the representatives of the legal persons, who are members of the Supervisory Board, should meet the requirements laid down in Article 37, Para 5, clause 3, 4, 5, 6, 7 and 8 of these By-Laws and having the required skills, knowledge, experience, trustworthiness and aptitude in compliance with criteria set forth by ordinance of BNB.

(6) (new, adopted by the General Meeting on 09.03.2007) At least one-third of the members of the Supervisory Board should be independent persons. The following persons may not be independent members of the Supervisory Board:

1. employees of the Bank;
2. shareholders, who hold directly or indirectly at least 25% (twenty-five percent) of the votes in the General Meeting of Shareholders, or who are related parties to the Bank;
3. persons, who maintain long-standing business relations with the Bank;
4. members of management or controlling bodies, procurators or officers of companies or of other legal entities under sub-paragraphs 2 and 3;
5. related parties to another member of the Supervisory Board or the Management Board of the Bank.

(7) (new, adopted by the General Meeting on 24.10.2011; supplemented by resolution of the General Meeting of Shareholders as of 21.05.2014) The Supervisory Board shall elect a committee among its members for the selection of candidate members of the Managing Board. In order to support its activity the Supervisory Board may set up other committees as well composed of members of the Supervisory Board. The composition and the authority of these committees shall be determined in the rules for the activity of the Supervisory Board and the committees shall have rules for their activity adopted by the Supervisory Board.

ARTICLE 42A
FUNCTIONS

(1) The Supervisory Board may not participate in the management of the Bank. It shall represent the Bank only with respect to its relations with the Management Board.

(2) The Supervisory Board shall:

a) elect and dismiss the members of the Management Board and determine their remuneration;

b) approve the operative regulations of the Management Board;

c) (amended by the General Meeting on 24.10.2011, amended and supplemented by the General Meeting on 15.06.2015, amended by the General Meeting on 16.05.2016) for the resolutions under Article 38, Para 2, letter “e” the Supervisory Board shall approve the decisions of the Managing Board where the transaction is for the amount equal or above 5 000 000 (five million) levs or its equivalence in another currency, unless the transaction relates to the acquisition of real properties and real rights thereto for repaying obligations due on credit deal or to the disposal of such real properties or real rights thereto, and/or unless for the entering into the transaction an express authorization by the General Meeting of Shareholders is also required under the Law on Public Offering of Securities;

d) adopt rules for its activity;

e) (new, adopted by the General Meeting on 24.10.2011) adopt the Bank’s remuneration policy;

f) (new, adopted by the General Meeting on 24.10.2011) set the main business objectives of the Bank and the attainment strategy;

g) decide on other matters as provided for by law or by these By-Laws.

(3) (new, adopted by the General Meeting on 24.10.2011) The Supervisory Board may provide for certain transactions to be carried out only subject to their prior consent.

(4) (former Paragraph 3, resolution of the General Meeting as of 24.10.2011) The Supervisory Board shall have the right, at all times, to require of the Management Board to provide information or a report on any matter concerning the Bank.

(5) (former Paragraph 4, resolution of the General Meeting as of 24.10.2011) The Supervisory Board may conduct the necessary research while performing its duties. For this purpose, it may use the services of experts.

ARTICLE 42B
MEETINGS, QUORUM AND MAJORITY

(1) The Supervisory Board shall hold it meetings at least once in three months. The meetings may also be attended by members of the Management Board with a deliberative vote.

(2) The meetings shall be convened by the Chairman of the Supervisory Board, at the request of any of its members, or at the request of the Management Board.

(3) The Supervisory Board may take decisions only if the meeting is attended by at least a half of its members – in person or represented by written proxy by another member of the Supervisory Board. No attending member may represent more than one absent member.

(4) (amended by the General Meeting on 09.03.2007, amended and supplemented by the General Meeting on 15.06.2015) The resolutions of the Supervisory Board shall be taken by ordinary majority of the attending members of the Board.

(5) The Supervisory Board may also take resolutions without a meeting, provided that all members have agreed to the resolution in writing.

(6) Minutes shall be kept at all meetings of the Supervisory Board. The minutes shall be signed by all attending members.

SUBSECTION 4
GENERAL REQUIREMENTS TO THE MEMBERS OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

ARTICLE 42c
LIABILITY

(1) The members of the Management Board and the Supervisory Board shall be obliged to provide a guarantee (performance bond) amounting to 50 /fifty/ minimum monthly salaries.

(2) (repealed by the General Meeting on 09.03.2007)

(3) The members of the Management Board and the Supervisory Board shall be jointly liable for any damages the Bank has suffered through their fault.

(4) Each of the members of the Management Board and the Supervisory Board may be released from responsibility provided that it is established that s/he is not guilty of the incurred damages.

(5) (new, adopted by the General Meeting on 09.03.2007) The performance bond and the release of the members of the Management Board and of the Supervisory Board from responsibility shall be subject to the provisions of the Law on Public Offering of Securities.

ARTICLE 42d
DISMISSAL OF MEMBERS OF MANAGEMENT AND CONTROLLING BODIES

(1) (amended by the General Meeting on 09.03.2007, amended by the General Meeting on 15.06.2015) Notwithstanding any other grounds for dismissal as provided for by law or by the Bank's By-Laws, a member of a management or controlling body, as well as a representative of a legal person - member of the Supervisory Board, shall be dismissed in the case where such person does not meet any of the requirements of Article 37, Para 5, sub-paragraphs 3, 4, 5, 6, 7, 8 and 9 of these By-Laws.

(2) (new, adopted by the General Meeting on 09.03.2007) Should the circumstances under Article 42, Para 6, sub-paragraphs 1-5 of these By-Laws arise with respect to any person, who is elected independent member of the Supervisory Board pursuant to Article 42, Para 6, after the date of his/her election, this person shall immediately notify the management body of the Bank thereof, and shall cease to perform his/her functions and to receive remuneration.

SUBSECTION 5
CONTROL OF THE SHAREHOLDERS OVER THE
RESOLUTIONS OF THE BANK'S GOVERNING BODIES

ARTICLE 43
CANCELLATION OF RESOLUTIONS OF THE GENERAL MEETING OF SHAREHOLDERS
(heading amended by the General Meeting on 09.03.2007)

(1) Any shareholder can bring a legal action before Sofia City Court for cancellation of a resolution of the General Meeting of Shareholders when such resolution is in contravention to any mandatory statutory provisions or the provisions of these By-Laws. The action must be brought against the Bank.

(2) The action should be brought within 14 days of the date of the General Meeting which the petitioner attended or to which s/he has been duly invited; and in all other cases - within 14 days as from the notification but not later than 3 months after the date of the General Meeting.

(3) Any shareholder may join the legal action in accordance with the provisions of the Civil Procedure Code. S/he can maintain the claim even if the petitioner subsequently denies or withdraws the claim.

ARTICLE 43a
CONTROL OVER THE ACTIVITY
OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD
(new, adopted by the General Meeting on 09.03.2007)

Shareholders in the Bank, who together or individually hold 5 per cent or more of the Bank's share capital, may:

1. file with the court any claims the Bank may have to third parties, if the Bank's governing bodies neglect to act thus putting the Bank's interests at risk. The Bank shall also be summoned as a party to the legal action.

2. file claims with Sofia City Court for damages caused to the Bank by actions or omissions of the members of the Management Board and/or the Supervisory Board and/or the procurators;

3. request of the General Meeting of Shareholders or Sofia City Court to appoint auditors to audit all financial and accounting books and records and to issue a report on their findings;

4. request of Sofia City Court to convene a General Meeting of Shareholders or to authorize their representative to convene the General Meeting according to agenda determined by them.

ARTICLE 44
NULLITY IN CASE OF REPETITION
OF CANCELED RESOLUTION

(1) (amended by the General Meeting on 09.03.2007) The instructions of the court shall be binding upon the governing bodies of the Bank when they reconsider a resolution cancelled by the court.

(2) Resolutions or actions of the Bank taken in violation of a final and effective court order shall be null and void. Any shareholder may at any time make reference to such nullity or request of the court to proclaim it.

SUBSECTION 6
INTERNAL AUDIT
(amended by the General Meeting on 16.05.2016)

ARTICLE 44a
INTERNAL AUDIT BODIES
(amended by the General Meeting on 09.03.2007, amended by the General Meeting on 16.05.2016)

The Bank shall set up a specialized Internal Audit Department, whose management team is elected and dismissed by the General Meeting of Shareholders.

ARTICLE 44b
FUNCTIONS OF THE INTERNAL AUDIT BODIES
(amended by the General Meeting on 16.05.2016)

(1) (amended by the General Meeting on 09.03.2007) The management of the Internal Audit Department shall immediately inform the Bulgarian National Bank of all and any irregularities in the Bank's management this department has identified, which have led or may lead to material damages to the Bank.

(2) (amended by the General Meeting on 09.03.2007) The organization and operations of the Internal Audit Department are regulated by rules adopted by the Bank, which must conform to the regulation issued by the Bulgarian National Bank.

SECTION V
TRANSACTING THE BANKING BUSINESS

ARTICLE 45
LIQUIDITY AND OTHER REQUIREMENTS

(1) In order to guarantee the cash and other valuables entrusted to it by its creditors, the Bank must at all times maintain its own capital of a minimum amount, structure, and ratio with its balance assets and liabilities in compliance with the requirements of the Bulgarian National Bank.

(2) (amended by the General Meeting on 09.03.2007) With regard to the amounts allocated to its funds and the other requirements for carrying out the banking business, the Bank shall comply with

the Law on Credit Institutions, the other applicable legislations, and the instructions of the Bulgarian National Bank.

(3) (new, adopted by the General Meeting on 09.03.2007) The structure of the Bank's capital and the ratio with the balance assets and liabilities shall be determined in accordance with the regulations set by the Bulgarian National Bank. The Bank shall maintain minimum liquid funds in a proportion and under terms as may be determined by the Bulgarian National Bank from time to time.

(4) (new, adopted by the General Meeting on 09.03.2007) The Bank shall maintain the difference between its assets and liabilities in foreign currency to an amount which may not exceed the limits set by the Bulgarian National Bank as a percentage of the Bank's own capital.

ARTICLE 46
RELATIONS WITH OTHER BANKS AND WITH CUSTOMERS

(1) The Bank shall carry out its operations, maintaining close and professional relations with the other banks in Bulgaria and abroad, and may grant or use credit facilities through granting cash deposits, purchase of securities or otherwise, as determined by the Bulgarian National Bank.

(2) Keeping the Bank's secrets confidential, the Bank may exchange information with the other banks in relation with the banking services rendered to its customers.

(3) In its entire activity, the Bank shall provide high-quality services to its customers by giving them full information about the interest rates, the terms and conditions of taking deposits, granting loans and the other bank transactions, in line with the international standards.

ARTICLE 47
LOAN RESTRICTIONS
(amended by the General Meeting on 09.03.2007)

Upon granting loans the Bank shall comply with the provisions of the Law on Credit Institutions, the other applicable legislation, and the instructions of the Bulgarian National Bank.

ARTICLE 48
NOTICES

(1) (**amended by the General Meeting on 29.05.2017)** The Bank shall provide the Bulgarian National Bank with reports in the form, content and terms, defined by the latter.

(2) Within the period set ny the Bulgarian National Bank, the Bank shall prepare and submit to the Bulgarian National Bank a report with sufficient information about its operations, liquidity, solvency and its overall financial position.

(3) (amended by the General Meeting on 09.03.2007) The Bank shall submit to the Bulgarian National Bank a copy of its By-Laws, as well as copies of its regulations, instructions and other deeds regulating the scope of and the procedures pertaining to the transactions, the capital and the internal organization of the Bank within 10 days after their adoption or amendment, as the case may be, in accordance with the provisions of the Law on Credit Institutions.

(4) (amended by the General Meeting on 09.03.2007) The Bank shall submit to the Bulgarian National Bank copies of all minutes kept at the General Meetings of Shareholders and shall also notify the Bulgarian National Bank of any other circumstances as set forth in the Law on Credit Institutions.

(5) The Bank shall submit to the Bulgarian National Bank a regularly updated list of its employees, verified by the Executive Directors, including the employees at the branches and representation offices, who are authorized to manage and represent it, accompanied by a description of their powers and specimens of their signatures.

(6) (new, adopted by the General Meeting on 09.03.2007) The Bank shall submit to the Financial Supervision Commission and the Stock Exchange such notifications and reports and within such time limits as provided for by the Law on Public Offering of Securities. The Bank shall also submit to the Financial Supervision Commission any other information as may be required pursuant to the operative legislation.

ARTICLE 49
SUPERVISION BY THE BULGARIAN NATIONAL BANK

The entire activity of the Bank is subject to the supervision and control of the Bulgarian National Bank /The Central Bank of the Republic of Bulgaria/ in accordance with the Bulgarian laws.

SECTION VI
END-OF YEAR CLOSING AND DISTRIBUTION OF PROFIT

ARTICLE 50
END-OF-YEAR FINANCIAL STATEMENTS AND REPORTS

(1) (amended by the General Meeting of Shareholders on 02.11.2005 and on 09.03.2007, amended by the General Meeting on 29.05.2017) Before the end of March each year, the Management Board shall prepare the annual financial statements for the past calendar year and the report on the Bank’s operations and shall submit them to a registered auditor/s elected by the General Meeting of Shareholders for financial audit, respectively for expressing audit opinion.

(2) (amended by the General Meeting of Shareholders on 02.11.2005, amended by the General Meeting on 29.05.2017) The annual financial statements and the report on the Bank’s operations shall be of such form and with such content as required for credit institutions.

(3) (amended by the General Meeting of Shareholders on 02.11.2005, amended by the General Meeting on 29.05.2017) The audit of the annual financial statements aims to establish whether the requirements of these By-Laws, the Accountancy Act and the other applicable legislation pertaining to the end-of-year closing have been observed, while of the annual activity report with the aim to express an opinion on whether the annual activity report corresponds to the financial statements for the same financial year and whether it was prepared in compliance with the applicable regulatory requirements.

(4) (repealed by the General Meeting of Shareholders on 09.03.2007)

(5) (new, adopted by the General Meeting of Shareholders on 09.03.2007; repealed by the General Meeting of Shareholders on 22.05.2012)

(6) (new, adopted by the General Meeting of Shareholders on 09.03.2007) The appointment of the Bank’s auditor shall be subject to the prior approval of the Bulgarian National Bank.

(7) (formerly Para 5, amended by the General Meeting of Shareholders on 09.03.2007, amended by the General Meeting on 29.05.2017) After submission of the registered auditor/s report, the Management Board shall make a proposal for distribution of the profit and, together with the Supervisory Board, shall submit it for approval to the General Meeting of Shareholders.

(8) (formerly Para 6, amended by the General Meeting of Shareholders on 09.03.2007) The proposal for distribution of the profit contains also proposals concerning withholdings from the profit and their allocation to the Bank's funds, distribution of dividends, and remuneration of the members of the Supervisory Board.

(9) (formerly Para 7 – resolution of the General Meeting of Shareholders on 09.03.2007; amended by the General Meeting of Shareholders on 22.05.2012, amended by the General Meeting on 29.05.2017) The annual financial statements may not be approved by the General Meeting of Shareholders if they are not audited and certified by a registered auditor/s.

(10) (formerly Para 8 - resolution of the General Meeting of Shareholders on 09.03.2007; amended by the General Meeting of Shareholders on 22.05.2012) The annual financial statements as certified by the auditor and as approved by the General Meeting of Shareholders shall be filed with the Commercial Register pursuant to the provisions of the law.

ARTICLE 51
DIVIDENDS

(1) The amount of the dividend shall be determined by the General Meeting of Shareholders in conformity with the applicable legislations and the By-Laws of the Bank, after withholding of allocations out of the profit for the Funds.

(2) (new, adopted by the General Meeting of Shareholders on 09.03.2007) The persons under Article 12, Para 3 of these By-Laws are entitled to receive dividend.

(3) (formerly Para 2 - amended by the General Meeting of Shareholders on 02.11.2005 and on 09.03.2007) The Bank shall ensure that the dividend accepted by vote is paid within a period of three months as from the date of the General Meeting.

(4) (formerly Para 3, amended by the General Meeting of Shareholders on 02.11.2005 and on 09.03.2007) Any dividends unclaimed for five years as from the day on which their payment was due shall be retained by the Bank and shall go to the Reserve Fund.

SECTION VII
TERMINATION AND LIQUIDATION

ARTICLE 52
TERMINATION
(amended by the General Meeting of Shareholders on 09.03.2007)

The Bank may be terminated by authority of a resolution of the General Meeting of Shareholders, as well as in the other cases as provided for by the Law on Credit Institutions and the Commercial Code.

ARTICLE 53
LIQUIDATION
(amended by the General Meeting of Shareholders on 09.03.2007)

Upon termination of the Bank a liquidation procedure shall be completed in accordance with the provisions of the Law on Credit Institutions and the Commercial Code.

TRANSITIONAL AND FINAL PROVISIONS

1. (amended by the General Meeting of Shareholders on 09.03.2007, amended by the General Meeting on 16.05.2016) For any matters not expressly settled by these By-Laws, the provisions of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OG, L176/1 of 27 June 2013), the Commercial Code, the Credit Institutions Act, the Public Offering of Securities Act, as well as the applicable legislation.

2. (amended by the General Meeting of Shareholders on 09.03.2007, amended by the General Meeting on 16.05.2016) Any text in these By-Laws, which contravenes or could be interpreted as contravening the applicable Bulgarian or European legislation shall be automatically replaced by the respective statutory provisions.

3. (new - adopted by the General Meeting of Shareholders on 09.03.2007, amended by the General Meeting of Shareholders on 30.03.2007) The provisions of Article 12, Paragraphs 2 and 3; Article 15, Paragraph 5; Article 17, Paragraphs 3 and 6; Article 23, Paragraph 2; Article 24, sub-paragraph 15; Article 26, Paragraphs 3, 5 and 7; Article 27, first and third proposal; Article 29, Paragraph 1 in that part which refers to the Law on Public Offering of Securities and its implementing regulations; Article 40a; Article 42, Paragraph 6; Article 42c, Paragraph 5; Article 42d, Paragraph 2; Article 43a; and Article 48, Paragraph 6 of these By-Laws shall become effective as from the Bank's obtaining the status of a public company subject to Article 1, Paragraph 2 of these By-Laws.

4. (new, adopted by the General Meeting of Shareholders on 09.03.2007) Until the Bank becomes a public company subject to Article 1, Paragraph 2 of these By-Laws:

a) the restriction under Article 17, Paragraph 3 shall not apply; the Bank's capital may be increased under the terms of Articles 193 and 195 of the Law on Commerce and the preemptive right of the shareholders may be limited under the terms of Article 194, Paragraph 4 and Article 196, Paragraph 3 of the Law on Commerce.

b) the rules concerning the convocation of the General Meeting of Shareholders under Article 26, Paragraph 3 of these By-Laws shall not apply; the General Meeting of Shareholders shall be convoked by a written notice to all shareholders who are registered in the Bank's Register of Shareholders;

c) the provision of Article 26, Paragraph 7 of these By-Laws concerning submission of the materials under Article 223a, Paragraph 4 of the Commercial Code to the Financial Supervision Commission shall not apply.

d) the requirements regarding the authorization under Article 29, Paragraph 1 of these By-Laws shall not apply; every shareholder may authorize another person in writing to represent him/her in the General Meeting of Shareholders, and any such letter of authorization shall be verified by the same bank officer who has checked the validity of the shares.

5. (new, adopted by the General Meeting of Shareholders on 09.03.2007) Until the Law on the Commercial Register comes into effect, the convocation of the General Meeting of Shareholders in the cases under Article 26, Paragraph 3 of these By-Laws shall be done by a notice published in the State Gazette.

6. These By-Laws were adopted by the Constituent Assembly of the Shareholders held on 22nd June 1993 in Sofia and was subsequently amended and supplemented on 27th February 1995, 16th July 1995, 22nd March 1996, 1st November 1996, 11th April 1997, 11th December 1997, 7th September 1998, 1st

December 1999, 20th July 2000, 23rd August 2002, 12th May 2003, 7th July 2003, 16th June 2004, 2nd November 2005, 26th January 2006, 17th March 2006, 9th March 2007, 30th March 2007, 14th July 2008, 29th May 2009, 24th October 2011, 22nd May 2012, December 20th, 2012, May 21st, 2013, May 21st, 2014, June 15th, 2015, May 16th, 2016, 29 May 2017, 21 June 2018. and 19 June 2019

Nedelcho Nedelchev (signed)	Svetozar Popov
Chief Executive Officer	Executive Director

Sample Power of Attorney
for the Regular Annual General Meeting of Shareholders
of First Investment Bank AD

POWER OF ATTORNEY

The undersigned
....
....
....
(name, surname, family name, personal identification number and identity card / personal identity card №................, issued on .... by ...., respectively - name, surname, family name, personal identification number and identity card / personal identity card №................, issued on .... by ...., acting in and for .... (company, number, batch, volume and page of inscription in the Trade Register and BULSTAT or Unified Identification Number (UIN), with seat and registered office), in the capacity of shareholder having...... (..................................) dematerialized registered shares of the capital of First Investment Bank AD, UIN 831094393
pursuant to article 226 of the Commercial Code (CC) in conjunction with Article 116 of the Public Offering of Securities Act (POSA)

DO HEREBY AUTHORISE
....,..
....
(name, surname, family name, personal identification number, place of residence and address, personal identity card № ………………, issued on .... by ...., respectively Company, number, batch, volume and page of inscription in the Trade Register and BULSTAT or Unified Identification Number (UIN), with seat and registered office ....)
to represent me jointly / severally at the Annual Ordinary General Meeting of Shareholders (GMS) of First Investment Bank AD which shall be held on 19 June 2019 at 11:00 AM at the Royal I Hall of Sofia Hotel Balkan, 5, Sveta Nedelya Square, Sofia, or, in case of a lack of quorum - on 04 July 2019 at 11.00 AM, at the same place and under the same agenda, and to vote with …………. (………….) shares of the capital of First Investment Bank AD held by me (by the company) on the items on the agenda as indicated below:

The Agenda shall be as follows:

1. Management Report of First Investment Bank AD for 2018;

   Draft resolution: *The GMS approves the consolidated and non-consolidated Management Report of the Bank for 2018; (consolidated and unconsolidated)*

2. Report of the registered auditors on the joint audit of the annual financial statements of the Bank for 2018;

   Draft resolution: *The GMS approves the Report of the registered auditors on the joint audit of the annual financial statements of the Bank for 2018;*

3. Approval of the Annual Financial Statements of the Bank for 2018 (consolidated and non-consolidated);

   Draft resolution: *The GMS approves the Annual Financial Statement of the Bank for 2018 – consolidated and non-consolidated;*

4. Decision for the distribution of the profit of First Investment Bank AD for 2018;

   Draft resolution: *The GMS resolves that the entire net profit of the Bank for 2018 shall be retained as other general reserves;*

5. Adoption of a resolution not to pay dividends, and not to make any other deductions from the 2019 profit;

   Draft resolution: *The GMS resolves that no dividends shall be paid to the shareholders, and no other deductions from the 2019 profit of the Bank shall be made, with a view to inclusion of the 2019 profit in the Common Equity Tier 1 capital of Fibank;*

6. Relief from responsibility of the members of the Supervisory Board and Management Board of First Investment Bank AD for their activities in 2018;

   Draft resolution: *The GMS relieves from responsibility the members of the Supervisory Board of First Investment Bank AD Evgeni Krastev Lukanov, Maya Lyubenova Georgieva, Yordan Velichkov Skorchev, Georgi Dimitrov Mutafchiev, Radka Veselinova Mineva and Jyrki Koskelo, as well as all members of the Management Board of First Investment Bank AD: Nedelcho Vassilev Nedelchev, Svetozar Aleksandrov Popov, Sevdalina Ivanova Vassileva, Zhivko Ivanov Todorov, Nadia Vassileva Koshinska, Chavdar Georgiev Zlatev – member of the MB from 20.02.2018, Svetoslav Stoyanov Moldovanski – member of the MB until 17.04.2018,, for their activities in 2018;*

7. Report of the Investor Relations Director of Fibank for 2018;

   Draft resolution: *The GMS approves the Report of the Investor Relations Director of Fibank for 2018;*

8. Report of the Internal Audit Director of Fibank for 2018;

   Draft resolution: *The GMS approves the Report of the Internal Audit Director of Fibank for 2018;*

9. Report of the Audit Committee of Fibank for 2018;

   Draft resolution: *The GMS approves the Report of the Audit Committee of Fibank for 2018;*

10. Approval of a new limit of total remuneration of the members of the Supervisory Board and Management Board of the Bank;

    Draft resolution: *The General Meeting of Shareholders confirms the current amount of total remuneration of the members of the Supervisory Board and Management Board of the Bank, and approves a new amount of total remuneration of the members of the Supervisory Board and Management Board of the Bank of up to BGN 14,000,000 (fourteen million) per annum.*

11. Appointment of registered auditors for 2019;

    Draft resolution: *The GMS, after prior consultation with the Bulgarian National Bank under Art. 76 para. 4 and in conjunction with Art. 76, para 6 of the Law on Credit Institutions, appoints BDO Bulgaria OOD, UIC 831255576 and MAZARS OOD, UIC 204638408 as auditing companies to perform an independent financial audit of the financial statements (individual and consolidated) of First Investment Bank AD under the terms of Art. 76, para. 1 of the Law on Credit Institutions for 2019, and to certify the annual financial statements of the Bank for 2019.*

12. Adoption of changes in the By-Laws of First Investment Bank AD.

    Draft resolution: *The GMS adopts the following changes to the By-Laws of the Bank:*

    In Art. 18, paragraph 2 shall be amended to read as follows: „*For a five-year term as of the date of registration of the amendments hereto, in pursuance of resolution of the General Meeting of Shareholders of 19 June 2019, the Management Board may adopt a resolution subject to approval by the Supervisory Board to issue mortgage-backed bonds in compliance with the Law on Mortgage-Backed Bonds, with a total nominal value of up to 400,000,000 (four hundred million) Bulgarian levs and with a maturity date of up to 10 years as from the date of issue and under other terms and conditions as determined by the Management Board.*“

Voting – (express instructions must be given as to how to vote on each of the proposed draft resolutions on items in the agenda. Where voting instructions are not given for the proposed draft resolutions, the proxy shall have the right, at his/her discretion, to decide whether to vote and how).

The authorization includes/ not includes the right of the proxy during the general meeting, to propose resolutions to each item included in the agenda by observing the law. The deadline to exercise this right is until the end of the discussions under the respective item and before the general meeting casts its vote.

The authorization hereunder extends / does not extend to items which are included in the agenda under the terms of Article 231, paragraph 1 of the Commercial Code and which are not announced or promulgated in accordance with Article 223 and Article 223a of the Commercial Code. In the cases under article 231, paragraph 1 of the Commercial Code, the proxy may not / may decide at his/her own discretion whether and how to vote.
Pursuant to article 116, paragraph 4 of the POSA, delegation to another person of any of the above listed powers shall be null and void.

Date: Authorizer(s):
...................2019
City of ....