Investbank JSC
Annual Financial Statements
As of 31 December 2017
With an Independent Auditor's Report

INDEPENDENT AUDITORS' REPORT

**TO THE SHAREHOLDERS OF
INVESTBANK JSC**

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **INVESTBANK JSC** ("the Bank"), which comprise the statement of financial position as at 31 December 2017 and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How this key audit matter was addressed in our audit
Determination of the impairment of loans and advances granted to customers (Note 18 to the Financial Statements) Impairment of loans and advances granted to customers 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 40% of the Bank's assets. The Bank categorizes its receivables from customers in 2 business segments: corporate clients and retail banking with customers being classified into 4 groups - private enterprises, individuals, budget entities and other financial institutions. The share of receivables from corporate customers is the largest - 79% of the total receivables from customers before provisions. 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, discounted 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.	In this area our audit procedures included: - The internal rules of the Bank have been reviewed, we have gained understanding of the key controls in the essential business processes and have tested the effectiveness of the controls; - A sample of borrowers has been reviewed based on risk analysis 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 loan collateral estimates. We reviewed a sample of loan exposures that continue to be, have become, or have been, exposed to risk of impairment; - For collective impairment provisions we have 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 estimated the management's forecast for the generation of future cash flows, sufficiency of collaterals, and other repayment sources. In addition, we have tested a sample of performing loans for which we have assessed the financial performance indicators for any weaknesses and other risks that could jeopardize the ability to repay the exposures.

Key Audit Matter	How this key audit matter was addressed in our audit
Receivables dependent on future events (Note 25 to the Financial Statements) The assets disclosed by the Bank that are related to certain disputes with customers in the total amount of BGN 4,886 thousand as at 31 December 2017 are presented in the Note *Other Assets* to the financial statements. The presentation and recoverability of these receivables is subject to future events for which, at the date of approval of the Bank's financial statements for issue, there are no indications of adverse events that require adjustment or disclosure in the Bank's financial statements at that date.	In this area our audit procedures included: - The internal rules of the Bank have been reviewed, we have gained understanding of the key controls in key business processes and have tested the effectiveness of the controls; - Essential procedures have been carried out in order to obtain a reasonable assurance about the existence, accuracy and recoverability of these receivables.
Litigation and provisions (Note 2(n) to the Financial Statements) 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 liabilities depending on the relevant facts and circumstances. The level of provisions is subject to management and judgment on the basis of opinions and consultations by legal advisers and lawyers. As at 31 December 2017, the Bank has not recognized any litigation provisions. 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.	In this area our audit procedures included: - The internal rules of the Bank have been reviewed, we have gained understanding of the key controls in key business processes and have tested the effectiveness of the controls; - A letter has been received from the Legal Department of the Bank regarding information about lawsuits brought in foreign jurisdictions and subsequent proceedings in Bulgaria. Listed are pending lawsuits on which there are no final decisions that have entered into force.

Key Audit Matter	How this key audit matter was addressed in our audit
Review of the impairment of non-financial assets (Note 24 Non-current Assets held for sale and Note 22 Investment Properties to the Financial Statements)	In this area our audit procedures included:
As at 31 December 2017, the Bank recognized in its statement of financial position Non-current Assets held for sale with a carrying amount of BGN 198,027 thousand and Investment Properties with a carrying amount of BGN 71,863 thousand, which include mainly real estate - land and buildings, acquired from collaterals on loans granted to customers. Due to the dynamics of the real estate market and the impact it has on their market values, the Bank applies procedures to ensure that those non-financial assets are recognized at a value not exceeding their recoverable amount, performing an annual impairment review by determining their fair value less sales costs. For the fair value measurement, valuation techniques appropriate to this type of asset (market, income, cost) have been applied on the basis of estimates prepared by external independent appraisers, engaged by the Bank. Assumptions that have the most significant impact on the fair value measurement of these non-financial assets include estimated future cash flows, discounted rates, market information about transactions with identical properties, and others. As the review of the impairment of non-	- Review and evaluation of the process of assessing non-financial assets and the rules, policies and procedures applied by the Bank; - Assessment of the competence, independence and objectivity of external independent appraisers engaged by the Bank; - For a sample of non-financial assets subject to review for impairment, we have reviewed the valuation methods used, key assumptions and input data, also including independent professional appraisers engaged by us to assist us in our judgment; - For a sample of real estate, the independent professional appraisers engaged by us reviewed and verified certain estimates of external independent appraisers and did not identify any need for further impairments.

Key Audit Matter	How this key audit matter was addressed in our audit
financial assets requires significant judgment on the part of the Bank's Management, as well as significant uncertainty to the input data used and the assumptions in determining their fair values, the impairment of these assets may have a material effect on the Bank's financial performance as at 31 December 2017, which is why we have identified this issue as a key audit matter.	

Information Other than the Financial Statements and Auditors' Report Thereon

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

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the management report, the corporate governance statement and the non-financial statement, we have also performed the procedures added to those required under ISAs in accordance with "*Guidelines about new and expanded auditor's reports and communications from the auditor's side*" *of the professional organization 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 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.
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.
d) The non-financial statement 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.

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.

Auditors' 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 auditors' 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 auditors' 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 auditors' 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 auditors' 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

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.

- BDO Bulgaria OOD and HLB Bulgaria OOD have been appointed as statutory auditors of the financial statements for the year ended 31 December 2017 of INVESTBANK JSC (the "Bank") at the General Meeting of Shareholders held on 2 June 2017, for a period of one year.
- The audit of the financial statements for the year ending 31 December 2017 of the Bank is a third full continuous engagement to a statutory audit of this entity by BDO Bulgaria OOD and the first full continuous engagement to a statutory audit of this entity by HLB Bulgaria OOD.
- We hereby confirm that our audit opinion expressed by us 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 hereby confirm that we have not provided the information specified in Art. 64 of the Independent Financial Audit Act banned services outside the audit.
- We hereby confirm that we have retained our independence in relation to the Bank in conducting the audit.

Sofia, 21 March 2018

For BDO Bulgaria OOD:
Nedyalko Apostolov
Manager

Stoyanka Apostolova
Registered auditor responsible for the audit
Sofia, Bulgaria Boulevard, 51 b, fl. 4

For HLB Bulgaria OOD:
Milena Hristova
Manager

Vaska Gelina
Registered auditor responsible for the audit
Sofia, Bul. K. Velichkov 149-151, fl. 1

Statement of Profit and Loss

In BGN'000	**Note**	**2017**	**2016**
Interest income		53,558	63,963
Interest expense		(20,414)	(33,699)
Net interest income	6	33,144	30,264
Fee and commission income		26,814	24,826
Fee and commission expense		(2,439)	(2,353)
Net fee and commission income	7	24,375	22,473
Net income from trading operations	8	2,250	2,127
Net result of investment securities	9	7,175	4,882
Other operating income	10	2,186	4,728
Total operating income		69,130	64,474
Administrative costs	11	(39,799)	(41,693)
Financial asset impairment losses	12	(59,364)	(23,886)
Net result of investment property revaluation	13	958	2,751
(Loss) / Profit before tax		(29,075)	1,646
Taxation	14	(258)	(608)
(Loss) / Profit after tax		(29,333)	1,038

The statement of profit and loss is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 6 to 53.

"ИНВЕСТБАНК" АД
ЦЕНТРАЛНО УПРАВЛЕНИЕ - СОФИЯ

Plamen Yordanov Milkov
Executive Director

Zdravka Rumenova Ruseva
Executive Director

In accordance with Auditor's Report dated 21 March 2018:

Nedyalko Apostolov
Manager

Stoyanka Apostolova
Registered Auditor in charge of the engagement

BDO Bulgaria OOD
Auditing Company

Одиторско дружество
София
Рег. № 016
БДО България ООД

Milena Hristova
Manager

Vaska Gelina
Registered Auditor in charge of the engagement

HLB Bulgaria OOD
Auditing Company

Одиторско дружество
София
Рег. № 017
Ейч Ел Би България ООД

Statement of Comprehensive Income

In BGN'000	**Note**	**2017**	**2016**
(Loss) / Profit after tax		(29,333)	1,038
Items that may not be subsequently reclassified in profit or loss:			
Actuarial gains and losses		(4)	17
Items that are or may be subsequently reclassified in profit or loss:			
Revaluation of available-for-sale investments		(18)	4,013
Total other comprehensive income / (loss)		(22)	4,030
Total comprehensive income / (loss)		(29,355)	5,068

The statement of comprehensive income is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 6 to 53.

Plamen Yordanov Milkov
Executive Director

Zdravka Rumenova Ruseva
Executive Director

In accordance with Auditor's Report dated 21 March 2018:

Nedyalko Apostolov
Manager

Milena Hristova
Manager

Stoyanka Apostolova
Registered Auditor in charge of the engagement

Vaska Gelina /
Registered Auditor in charge of the engagement

BDO Bulgaria OOD
Auditing Company

HLB Bulgaria OOD
Auditing Company

Одиторско дружество София Рег. № 016 БДО България ООД

Одиторско дружество София Рег. № 017 Ейч Ел Би България ООД

Statement of Financial Position

In BGN'000	Note	2017	2016
ASSETS			
Cash, cash balances with central banks and other deposits on demand	15	295,277	272,137
Receivables from banks	16	3,022	3,307
Financial assets held for trading	17	7,152	7,058
Loans and advances to customers	18	779,371	805,445
Net investment in finance leases	19	37,485	41,242
Available-for-sale financial assets	20	440,963	380,893
Held-to-maturity financial assets	21	89,059	118,143
Property, plant and equipment	22	19,581	54,646
Investment property	22	71,863	68,242
Intangible assets	23	1,593	1,365
Assets held for sale	24	198,027	152,416
Other assets	25	10,736	11,295
Total assets		1,954,129	1,916,189
LIABILITIES			
Deposits from credit institutions	26	-	10,012
Deposits from customers	27	1,734,462	1,657,473
Bond loans	28	39,450	39,744
Debt-equity hybrid instrument	29	24,837	24,832
Other liabilities	30	3,193	2,586
Total liabilities		1,801,942	1,734,647
Equity			
Share capital		121,667	121,667
Reserves		30,520	59,875
Total capital and reserves	31	152,187	181,542
Total liabilities and equity		1,954,129	1,916,189

The statement of financial position is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 6 to 53.

Plamen Yordanov Milkov
Executive Director

Zdravka Rumenova Ruseva
Executive Director

In accordance with Auditor's Report dated 21 March 2018:

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BDO Bulgaria OOD
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Registered Auditor in charge of the engagement
HLB Bulgaria OOD
Auditing Company

"ИНВЕСТБАНК" АД * ЦЕНТРАЛНО УПРАВЛЕНИЕ СОФИЯ

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 016 БДО България ООД

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 017 Ейч Ел Би България ООД

Statement of Cash Flows

In BGN'000	**Note**	**2017**	**2016**
Net cash flow from operating activities			
(Loss) / Profit after tax		(29,333)	1,038
Impairment losses	12	59,364	23,886
Depreciation and amortization	11	1,922	1,864
Tax expense		258	608
		32,211	27,396
Changes in assets involved in operating activities			
(Increase) / decrease in financial assets held for trading		(94)	11,819
Decrease in deposits provided to credit institutions		285	2,804
(Increase) / decrease in loans and advances to customers		(27,170)	113,498
(Increase) / decrease in net investment in finance leases		3,757	(7,779)
(Increase) in non-current assets held for sale		(45,611)	(58,117)
Decrease in other assets		559	4,079
Changes in liabilities involved in operating activities			
(Decrease) in deposits from credit institutions		(10,016)	-
(Increase) / decrease in customer deposits		76,989	(42,807)
Increase in other liabilities		611	608
Paid taxes		(258)	(608)
Net cash flows from operating activities		31,263	50,893
Cash flows from investment activities			
(Purchase) / sale of property, plant and equipment and investment property		29,294	(83,930)
(Purchase) / sale of investments in investment portfolio		(37,128)	13,446
Net cash flows from investment activities		(7,834)	(70,484)
Cash flows from financing activities			
Increase / (decrease) in debt-equity hybrid instrument		5	(2,951)
Increase / (decrease) in bond loans		(294)	307
Net cash flows from financing activities		(289)	(2,644)
Net increase / (decrease) in cash and cash equivalents		23,140	(22,235)
Cash and cash equivalents at the beginning of the year	32	272,137	294,372
Cash and cash equivalents at the end of the year	32	295,277	272,137

The statement of cash flows is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 6 to 53.

Plamen Yordanov Milkov
Executive Director

Zdravka Rumenova Ruseva
Executive Director

In accordance with Auditor's Report dated 21 March 2018:

Nedyalko Apostolov
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Auditing Company

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HLB Bulgaria OOD
Auditing Company

Одиторско дружество София Рег. № 016 БДО България ООД

Одиторско дружество София Рег. № 017 Ейч Ел Би България ООД

Statement of Changes in Equity

In BGN'000	Note	Fixed capital	Legal reserves	Retained earnings	Revaluation reserve of available-for-sale investments	Revaluation reserve on defined benefit plans	Total
Balance as of 1 January 2016	31	121,667	63,011	(2,027)	(6,128)	(49)	176,474
Total comprehensive income for the year							
Net profit for the year		-	-	1,038	-	-	1,038
Actuarial gains and losses		-	-	-	-	17	17
Other comprehensive income							
Revaluation of available-for-sale investments					4,013		4,013
Total other comprehensive income		-	-	1,038	4,013	17	5,068
Total comprehensive income for the year		-	-	1,038	4,013	17	5,068
Balance as of 31 December 2016		121,667	63,011	(989)	(2,115)	(32)	181,542
Total comprehensive income for the year							
Net loss for the year		-	-	(29,333)	-	-	(29,333)
Actuarial gains and losses		-	-	-	-	(4)	(4)
Other comprehensive income							
Revaluation of available-for-sale investments					(18)		(18)
Total other comprehensive income / (loss)		-	-	(29,333)	(18)	(4)	(29,355)
Total comprehensive income / (loss) for the year		-	-	(29,333)	(18)	(4)	(29,355)
Balance as of 31 December 2017	31	121,667	63,011	(30,322)	(2,133)	(36)	152,187

The statement of changes in equity is to be read in conjunction with the notes forming an integral part of the financial statements presented on pages 6 to 53.

Plamen Yordanov Milkov
Executive Director

Zdravka Rumenova Ruseva
Executive Director

In accordance with Auditor's Report dated 21 March 2018:

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Одиторско дружество София Рег. № 016 БДО България ООД

Одиторско дружество София Рег. № 017 Ейч Ел Би България ООД

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1. BASIS FOR PREPARATION

(a) Legal status

Investbank JSC (the Bank) was registered in the Republic of Bulgaria, with business address – Sofia City, No. 85 "Bulgaria" Blvd.

The Bank has been issued a license for the conduct of banking activities in accordance with the legislation applicable in the country. Its main activity includes all types of banking operations on the local and foreign financial markets.

(b) Applicable standards

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

These financial statements have been approved by the Management Board of Investbank JSC on 13 March 2018.

(c) Basis for preparation

These financial statements have been prepared on the basis of the going concern principle, implying that the Bank will continue to operate for the foreseeable future.

These financial statements have been prepared on the basis of historical cost or amortized cost, except for:

• derivative financial instruments that have been measured at fair value;

• instruments held for trading and all other instruments measured at fair value in profit or loss, insofar as it can be reliably determined; available-for-sale financial instruments measured at fair value, insofar as it can be reliably determined.

(d) Functional and reporting currency

These financial statements are presented in BGN (Bulgarian Leva), rounded to the nearest thousands. The Bulgarian Lev is the functional and reporting currency of Investbank JSC.

(e) Use of estimates and judgments

The preparation of financial statements in compliance with the IFRS requires the Bank's Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. Estimates and key assumptions are reviewed on an ongoing basis. Adjustments to accounting estimates are recognized in the period in which the estimates have been adjusted and in all future periods affected.

(f) New standards, interpretations and amendments effective from 1 January 2017

These standards and interpretations include:

• Amendments to IAS 12 *Income Taxes* - Recognition of Deferred Tax Assets for Unrealized Losses - adopted by the EU on 6 November 2017;

This amendment interprets the accounting for deferred tax assets on unrealized losses of debt instruments measured at fair value.

• Amendments to IAS 7 *Statement of Cash Flows* - Disclosure Initiative - adopted by the EU on 6 November 2017;

This amendment is related to the information provided to users of financial statements that can improve their understanding of the liquidity and financial operations of the Bank. The amendment requires additional disclosures and interpretations to be made regarding changes in the Bank's liabilities in relation to:

(a) changes in financing activities resulting from operations that lead to changes in cash flows; or

(b) changes resulting from non-cash transactions such as acquisitions and disposals, interest accruals, exchange rate effects, changes in fair values, and the like.

Standards and interpretations issued by the IASB and adopted by the EU which have not yet entered into force

As of the date of issue for approval of these financial statements, the following standards and amendments to existing standards and interpretations have been issued by the International Accounting Standards Board (IASB) and have been adopted by the EU but have not yet entered in force:

• IFRS 15 *Revenue from Contracts with Customers* – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018);

IFRS 15 was published in May 2014 and amended in April 2016, introducing a new, five-step model to apply to revenues stemming from contracts with customers. Pursuant to IFRS 15, revenue shall be recognized at an amount that reflects the remuneration the company expects to be entitled to in exchange for the goods or services transferred to the customer. The new revenue standard will replace all current IFRS revenue recognition requirements.

The timing of recognition and measurement of the Bank's revenue is not expected to change under IFRS 15 due to the nature of its operations and the types of revenue it has.
• Interpretation of IFRS 15 *Revenue from Contracts with Customers* – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
• IFRS 9 *Financial Instruments* - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018);
In July 2014, the IASB published a final version of IFRS 9 *Financial Instruments* replacing IAS 39 *Financial Instruments: Recognition and Measurement,* as well as all previous versions of IFRS 9. IFRS 9 combines all three aspects of the financial instruments accounting: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, its earlier application also being permissible. With the exception of hedge accounting, retrospective application is required, but the provision of comparative information is not obligatory. With regard to hedge accounting, the requirements are generally applied for future periods, with some limited exceptions.

<u>Major amendments:</u>
1. Classification (categorization) and measurement of financial assets and liabilities using the business model of removal financial instrument categories under IAS 39, cash flow test and new categories of financial assets according to the reporting method:
• measurement at amortized cost;
• at fair value through other comprehensive income;
• fair value through profit or loss.

2. Measurement and balance sheet accounting of expected credit losses and credit impairment – the *incurred credit loss* model under IAS 39 is replaced by *expected credit losses* under IFRS 9, that is, the measurement of provisions for impairment losses future losses and includes estimates. A need arises to develop models for the measurement of expected credit losses that include:
• rating and scoring of debtors and issuers;
• credit risk factors: PD, LGD, EAD, collaterals;
• predicting expected losses: up to 1 year, to maturity, default.

3. Hedging and accounting - there is no material change as compared to IAS 39
• hedging instruments and hedged items;
• fair value, cash flow and investment hedges in foreign activities.
In 2017, Investbank JSC started to deploy specialized software for assessing the credit quality of borrowers (scoring and rating models) and a module for measurement and balance sheet accounting of expected credit losses. At the same time, a review was performed of the internal regulatory framework (identifying the differences between current policies, methodologies, models, processes and systems of the Bank against the requirements of IFRS 9), as well as an assessment of the impact of the introduction of IFRS 9 on the regulatory capital, the statement of profit or loss and the balance sheet. The Bank does not expect any material effect on the statement of financial position and equity as a result of the initial application of IFRS 9.

<u>Classification of financial assets and effect of the transition to IFRS 9</u>

Balance sheet provisions for impairment loss under IAS 39 as of 31.12.2017

			In BGN'000
Classification as of 31.12.2017	Individually calculated provisions	Collective provisions	Total provisions
Regular	-	1,243	1,243
Monitored	-	28	28
Non-performing	4,108	-	4,108
Loss	56,116	-	56,116
Total amount of accrued provisions	60,224	1,271	61,495

Expected credit losses upon the introduction of IFRS 9 on 01.01.2018

Classification IFRS 9	Individually calculated provisions	Collective provisions	*In BGN'000* Total provisions
Stage 1	-	1,275	1,275
Stage 2	-	15	15
Stage 3	61,144	-	61,144
Total amount of expected credit losses	61,144	1,290	62,434

A comprehensive review of the portfolio and loan agreements has been performed in order to ensure the fulfilment of the conditions under Art. 4.2.1 of Regulation (EU) 2016/2067 (classification of financial assets). A reclassification of credit exposures is not required as a result of the classification correctness test (SPPI testing – occurrence of cash flows representing payments on principal and interest only). They will be measured at amortized cost within a business model that aims to hold the assets to maturity in order to collect the agreed cash flows. The effect of applying the new standard arises from the approach to calculating expected credit loss - in three categories (Stage 1, Stage 2 and Stage 3) depending on the credit quality of the borrower:

• Stage 1 - financial assets with very good credit quality. Here are classified all assets at the time of their initial occurrence/recognition and they remain at this stage until there is a problems in servicing of loan or there is a significant increase in credit risk (actual or expected decrease in the borrower's internal credit rating). The amount of the impairment provision is calculated in accordance with the expected loss formula for 12 months.

• Stage 2 - upon a significant deterioration in credit quality, the asset transfers to Stage 2 (delay of between 30 and 90 days, actual decrease in credit rating, significant negative change in the borrower's operating performance, and other risk indicators indicating increase in credit risk). As a result, the amount of the provision for impairment is calculated in accordance with the expected loss lifetime formula.

• Stage 3 - defaulted assets, all credit exposures in delayed more than 90 days. They are measured individually and the amount of the provision for impairment is calculated in accordance with the expected loss lifetime formula.

An additional effect in the amount of BGN 408 thousand arises from the measurement of credit losses that may appear from non-disbursed loans. Investbank JSC will also assess the expected credit losses from letters of guaranting issued by the Bank.

The Bank will have a change in the classification of its financial assets - debt and equity instruments as a result of the application of IFRS 9. According to the business model adopted by the board of Investbank JSC for the management of financial assets to generate cash flows, they will be measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

• Financial assets classified as held for trading under IAS 39 will be classified under IFRS 9 as measured at fair value through profit or loss;

• Financial assets classified as held to maturity under IAS 39 will be classified under IFRS 9 as measured at amortized cost;

• Financial assets classified as held for sale under IAS 39 will be classified under IFRS 9 as assets measured at fair value through other comprehensive income, as well as assets measured at amortized cost;

The expected effect of the new reporting under IFRS 9 on the securities portfolio will be in the amount of BGN 267 thousand.

Securities portfolio	Volume BGN'000	Provisions
Amortized cost	173,204	267
Fair value in the profit or loss	6,163	-
Fair value in other comprehensive income	309,391	-
Total	488,758	267

• IFRS 16 *Leases* - adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2019);

IFRS 16 was published in January 2016 and replaces IAS 17 *Leases*, IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases - Incentives* and SIC-27 *Evaluating the Nature of Transactions Conraining Legal Form of a Lease*. IFRS 16 establishes the principles for the recognition, evaluation, presentation and disclosure of leases and requires lessees to book for all lease agreements under a

single balance sheet model similar to the accounting for finance leases under IAS 17. The Standard includes two exemptions from the recognition of lessees - low-value asset lease (e.g., personal computers) and short-term lease (i.e. leases with a lease period of 12 months or less). At the commencement date of the lease, the lessee will recognize an obligation to make lease payments (i.e. a lease liability) and an asset representing the right to use the principal asset over the lease period (i.e. the right to use the asset). Lessees will have to recognize separately the interest costs on the lease liability and the depreciation costs of the right to use the asset.
Moreover, lessees will be required to determine the value of the lease liability upon the occurrence of certain events (e.g., a change in the lease period, a change in the future lease payments as a result of a change in the index or the percentage used to determine such payments). In principle, the lessee will recognize the amount of the revaluation of the lease liability as an adjustment to the right to use the asset.
Essentially, accounting under IFRS 16 for lessors will not materially change as compared to current accounting under IAS 17. Lessors will continue to classify all lease agreements by applying the same classification principle as the one under IAS 17 and to distinguish between two types of lease: operating and financial.
In addition, IFRS 16 requires that lessees and lessors make more detailed disclosures as compared to those under IAS 17.
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Its earlier application is permitted but not before the entity begins to apply IFRS 15. The lessee may choose to apply the Standard using either a complete retrospective application method, or a modified retrospective application method. The previous provisions of the Standard allow for certain reliefs.
In 2018, the Bank will continue to evaluate the potential effects of IFRS 16 on its financial statements.

• Amendments to IFRS 4 Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* - adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018);
The amendments cover the concerns arising from the introduction of the new Standard for Financial Instruments, IFRS 9, before the introduction of IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments offer two options to entities issuing insurance contracts: a temporary exemption from the application of IFRS 9 and an overlay approach. The temporary exemption applies initially for accounting periods beginning on or after 1 January 2018. An entity may choose the overlap approach when first applying IFRS 9 and apply it retrospectively to the financial assets designated as such when switching to IFRS 9. An entity recalculates the comparative information that reflects the overlay approach if and only if it recalculates the comparative information when applying IFRS 9. These amendments are not applicable to the Bank.

• Amendments to different standards *Improvements to IFRSs (2014-2016 Cycle) - Improvements to IFRS 12* - adopted by the EU on 7 February 2018 (effective for annual periods from 1 January 2017), *IFRS 1 and IAS 28* – (effective for annual periods from 1 January 2018);

• Amendments to IFRS 2 *Share Based Payment* - adopted by the EU on 26 February 2018 (effective for annual periods from 1 January 2018);

Standards and interpretations issued by the IASB, which have not yet been adopted by the EU

The Management considers it appropriate to disclose that the following new or revised standards, new interpretations and amendments to existing standards have already been issued by the International Accounting Standards Board (IASB) as of the reporting date but not yet approved for application by the European Commission and accordingly not taken into account in the preparation of these financial statements. The effective dates will depend on the decisions approving the implementation by the European Commission. The Bank does not expect these standards and interpretations to have a material impact on the Bank's financial position, performance and/or disclosures.

• IFRS 17 *Insurance Contracts* - (effective for annual periods beginning on or after 1 January 2021);
• IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* - (effective for annual periods from 1 January 2018);
• IFRIC 23 *Uncertainty over Income Tax Treatments* - (effective for annual periods from 1 January 2019);
• Amendments to IAS 40 *Investment Property - Transfers of Investment Property* - (effective for annual periods from 1 January 2018);
• Amendment to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* - (effective for annual periods from 1 January 2019);
• Amendment to IAS 28 *Investments in Associates and Joint Ventures* – Long-term Investments in Associates or Joint Ventures - (effective for annual periods from 1 January 2019);

• Amendments to different standards *Improvements to IFRSs (2015-2017 Cycle)* - (effective for annual periods from 1 January 2019).

2. BASIC ELEMENTS OF THE ACCOUNTING POLICY

(a) Recognition of interest income and expense

Interest income and expense is recognized in profit or loss for all interest-bearing assets and liabilities on an accrual basis using the effective interest rate method.

The effective interest rate is the one that accurately discounts forecasted future cash payments and receivables over the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is determined at the initial recognition of the financial asset or liability and is not subsequently revised.

The calculation of the effective interest rate includes all fees and charges paid or received, transaction costs, and rebates or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs directly attributable to the acquisition, issue or sale of a financial asset or liability. In order to ensure optimal growth rates and market presence, the Bank plans to accumulate the profits to the Reserve Fund, thus ensuring recapitalization effects in the coming years. The Bank does not distribute dividends from profits for 2017, with the forecast capital plan up to 2019 providing for the financial result to be capitalized and transferred to the Reserve Fund without any dividend distribution.

(b) Foreign currency transactions

The financial statements are presented in BGN (Bulgarian Leva), which is the functional currency of the Bank's presentation.

Foreign currency transactions are translated at the official rate on the transaction date. Monetary assets and liabilities denominated in foreign currencies which are stated at historical cost are translated at the official exchange rate of the day. Foreign exchange differences arising as a result of the revaluation are recognized in the statement of profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies which are stated at historical cost are translated at the official exchange rate of the day. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the reporting currency at the rate valid on the acquisition date.

(c) Net income from trading operations

Net income from trading operations represents gains or losses arising from financial assets and liabilities held for trading and includes interest, all realized and unrealized changes in fair value, dividends and foreign exchange differences.

(d) Fee and commission income and expense

Fee and commission income consists mainly of charges on money transfers in BGN and foreign currencies, cash operations, electronic payment services and credit facilities, and are generally recognized on an accrual basis or on the transaction date.

Fee and commission income and expenses that are an element of the effective interest rate of financial assets or liabilities are included in the calculation of the effective interest rate.

(e) Financial assets

(i) Classification

Financial assets held for trading are those that the Bank holds primarily for the purpose of short-term profit. These include investments, acquired loans and derivative instruments that are not intended for a particular purpose and effective hedging instruments, and liabilities on short-term sales of financial instruments. Net receivables on trading derivatives (positive changes in fair value) and the options purchased, if any, are reported as trading assets. All net liabilities on trading derivatives (negative changes in fair value) and options issued, if any, are reported as liabilities held for trading.

Loans and receivables originated with the Bank are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides cash as a creditor without the intention of trading its receivable. These include loans and advances to other banks and customers, different than purchased loans, as well as for bonds purchased upon their issue.

Held-to-maturity financial assets are assets with fixed or determinable yield and fixed maturities that the Bank has the intent and ability to hold to maturity. These include certain repurchased loans and advances to other banks and customers and certain debt investments.
The sale or reclassification of more than an "insignificant portion" of held-to-maturity investments would result in the reclassification of the entire investment category to maturity investment available-for-sale category and a prohibition in the current and subsequent two financial periods for the Bank to recognize instruments as held-to-maturity investments.

This restrictive condition does not apply to sales or reclassifications where:
• the time of sale or reclassification is so close to the maturity of the financial instrument that the change in market interest rates would have no significant impact on its fair value;
• the sale or reclassification has taken place after virtually all significant payments have been made on the principal of the instrument;
• the sale or reclassification was dictated by an isolated, unrepeatable event beyond the control of the Bank that could not be reasonably originally envisaged (e.g. a significant deterioration in the financial position of the issuers).
Held-to-maturity investments are carried at amortized cost calculated using the effective interest rate method.
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as:
a) loans and receivables;
b) held-to-maturity investments; or
c) financial assets accounted for at fair value in the profit or loss.
(ii) Recognition
The Bank recognizes financial assets held for trading and available for sale on the date of the commitment to purchase them. From that point on, the Bank reports all changes in the fair value of the assets. Financial assets held to maturity, loans and receivables are recognized on the transaction date.
(iii) Derecognition
The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows from the financial asset through a transaction in which all the risks and benefits of the ownership of the financial asset are transferred to a significant extent. All rights on transferred financial assets that have occurred or are maintained by the Bank are recognized as a separate asset or liability.

(iv) Measurement
Upon initial recognition of a financial asset or financial liability, the Bank recognizes it at fair value, plus, in the case of financial assets or financial liabilities that are not recognized at fair value in the profit or loss, the transaction costs that are directly attributable to the acquisition or the issue of the financial asset or financial liability.
Financial assets held for trading and available-for-sale financial assets recognized at fair value in the profit or loss, after their initial recognition, are measured at fair value, except for those instruments for which there are no market quotes in an active market and whose fair value cannot be reliably determined. They are then recognized at cost, including transaction costs less impairment losses, if any. Subsequent measurements (revaluations) of financial assets held for trading are reported in profit or loss and are recognized in the statement of profit or loss. Subsequent measurements (revaluations) of available-for-sale financial assets are reported in the other comprehensive income (equity) as a revaluation reserve.

Accumulated profits and losses in the other comprehensive income are reclassified (derecognized) from equity and are carried to profit or loss (the statement of profit or loss) when the asset is derecognised.
All financial liabilities, loans and receivables other than financial instruments recognized at fair value through profit or loss and available-for-sale financial assets are measured at amortized cost less impairment losses. The amortized cost is calculated using the effective interest rate method. All premiums and discounts, including initial transaction costs, are included in the carrying amount of the relevant instrument and are amortized on the basis of the effective interest rate of the instrument.

(v) Principles of fair value measurement
The fair value of financial instruments is determined on the basis of quoted market prices at the date of the financial statements, without including transaction costs. The fair value of financial instruments gives information

about the price that would have been obtained by selling an asset or paid on a transfer of a liability in an ordinary market transaction. The fair value of a liability reflects the effect of the risk of default. If such quoted market prices do not exist, the fair value of the financial instruments is estimated using either mathematical methods or cash flow discounted techniques.

Where discounted cash flow models are used, the estimated future cash flows are determined on the basis of the most accurate judgment of the management, and as the discount rate is applied the market rate at the date of the financial statements applicable to an investment with similar terms and conditions and characteristics. Where mathematical methods are used to determine the price, the data are based on market-related measures that are current at the date of the financial statements.
The fair value of derivatives that are not tradable on the market is determined as the amount the Bank would have received or paid for the termination of the contract at the date of the financial statements, taking into account the existing market conditions and the solvency of its counterparties.
(vi) Gains and losses on subsequent measurement
All gains and losses arising from changes in the fair value of financial assets held for trading are recognized in the statement of profit or loss, and of the financial assets available for sale in revaluation reserves in the statement of comprehensive income and are recognized in the statement of profit or loss upon their sale.

(f) Cash and cash equivalents
Cash and cash equivalents include cash on hand, cash deposited with the Central Bank and receivables from banks with original maturities of up to three months.
(g) Finance lease receivables
The leasing activity of the Bank represents lending of industrial equipment and others under finance lease contracts. A finance lease contract is an agreement whereby the lessor provides the lessee with the right to use a particular asset for an agreed period of time against remuneration. A lease contract is accounted for as finance lease when by the contract the lessor transfers to the lessee all essential risks and rewards incidental to ownership of the asset. The typical indicators that the Bank examines to determine whether all essential risks and rewards have been transferred include: the present value of the minimum lease payments in relation to the fair value of the leased asset at the commencement of the lease contract; the duration of the lease contract in relation to the economic life of the leased asset; and whether the lessee will acquire title of ownership of the leased asset at the end of the lease period.
All other lease contracts that do not transfer substantially all the risks and rewards of the ownership of the asset are classified as operating leases.

Minimum lease payments
Minimum lease payments are those payments that the lessee will make or may be required to make during the term of the lease contract. From the point of view of the Bank, the minimum lease payments also include the residual value of the asset guaranteed by a third party unrelated to the Bank, provided that such party is financially capable of fulfilling its commitment under the guarantee or the repurchase agreement. In the minimum lease payments, the Bank also includes the cost of exercising of a possible option that the lessee holds to purchase the asset, and at the beginning of the lease contract it is highly certain that the option will be exercised. Minimum lease payments do not include contingent lease amounts, as well as service and tax charges that are paid by the Bank and subsequently re-invoiced to the lessee.

Inception and commencement date of the lease contract
A distinction is made between the inception and commencement of the lease contract. The inception of the lease contract is the date of the lease agreement or the date of the commitment by the parties to the main terms and conditions of the lease contract, whichever is earlier.
The commencement of the lease term is the date from which the lessee can exercise its right to use the leased asset. This is the date on which the Bank initially recognizes the lease receivable.
Initial and subsequent measurement
Initially, the Bank recognizes a finance lease receivable at the amount of its net investment that comprises the present value of the minimum lease payments and any unguaranteed residual value to the Bank. The present value is calculated by discounting the minimum lease payments due with the interest rate inherent in the lease contract. The initial direct costs are included in the calculation of the finance lease receivable. Over the lease term, the Bank accrues financial income (interest income on finance leases) on the net investment. The lease payments obtained are treated as a reduction in the net investment (repayment of principal) and recognition of

finance income so as to produce a constant rate of return on the net investment.
Subsequently, the net investment in finance lease contracts is presented net after deduction of impairment. Upon termination of finance lease contracts, the assets are brought back into the Bank's balance sheet at fair value.

(h) Securities borrowing and lending agreements, repo transactions
(i) Securities borrowing and lending
Investments lent under securities lending agreements are accounted for in the statement of financial position and are measured in accordance with the accounting policy applicable to assets held for trading or available-for-sale assets, respectively. The cash received as collateral in the lending of securities is recognized as liabilities to banks or other customers. The investments borrowed under securities borrowing agreements are not recognized as an asset of the Bank. The cash under securities borrowing agreements are recognized as loans and advances to banks or other customers. Income and expense arising from securities borrowing or lending transactions are recognized on an accrual basis for the period in which the transactions are carried out as interest income or expense. The retained amount paid by the customer, exclusive of VAT, is recognized as income from rent in the profit.

(ii) Repo transaction agreements
The Bank enters into contracts for the purchase (sale) of investments under resale/repurchase agreements for identical investments on a predetermined future date at a fixed price. The purchased investments subject to resale on a certain future date are not recognized in the statement of financial position.
The amounts paid are reported as loans to banks or other customers. Receivables are reported as collateralised by the relevant securities. Investments sold under repurchase agreements continue to be reported in the statement of financial position and are measured in accordance with the accounting policy as assets held for trading or available-for-sale assets. The proceeds from the sale are reported as liabilities to banks and other customers.
The differences between the amount of the purchase (sale) and resale (repurchase) are reported for the period of the transaction and are presented as interest income (gain or expense).

Attracted funds
Deposits from banks, customers and subordinated liabilities are financial instruments that represent cash attracted by the Bank, payable on demand or after a certain period of time and bearing agreed interest and are reported in the statement of financial position at amortized cost after applying the effective interest rate method.
(i) Offsetting
Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Bank has the legal right to offset the amounts recognized and intends either to settle the transactions on a net basis or to realize the asset and settle the liability simultaneously.

(j) Impairment of assets
The Bank periodically reviews the existence of objective indicators for impairment of the carrying amounts of the assets held by it as follows:
• For financial assets - at the end of each month for the purposes of preparing interim financial statements to the Central Bank and the Management;
• For non-monetary assets - at the end of each year for the purposes of preparing annual financial statements.
If there is evidence of impairment, the recoverable amount of the asset is calculated. The recoverable amount of assets includes cash flows from collaterals that are mortgaged, pledged and blocked with the Bank. An impairment loss is recognized only when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of profit or loss.

Loans and receivables
Periodic review for indications of impairment of the carrying amount of loans and receivables is performed by the Bank's Risk Management Board, which is the internal specialized body for the review, measurement and classification of risk exposures. Impairment losses are calculated separately for each exposure identified as being impaired as a result of the periodic impairment reviews.
The Bank evaluates and classifies its risk exposures where there is objective evidence (proof) of deterioration. The Bank reports the amount of the provisions necessary to cover the risk of impairment in case of non-repayment of financial assets at least as of the date of preparation of each monthly balance sheet. Where the Bank has more than one exposure to persons that may be considered to bear a common risk, such exposures are classified in the group of the person of the highest degree of risk. The policy is primarily based on risk factors

analysis and credit risk assessment in general for the loan portfolio and for any specific exposure in particular. Appearance of the credit risk is considered the potential impairment loss of a receivable as a consequence of a long-term non-fulfilment of pre-established contractual obligations of a debtor to the Bank. The Bank analyzes and determines the specific risk factors for each risk exposure that is likely to be classified in a group other than the regular exposures. The Bank accepts as objective the evidence that an exposure is impaired or uncollectible if it has established:

• significant financial difficulties of the counterparty;
• an actual breach of contract consisting of non-fulfilment of obligations, default of interest or principal payments;
• information about the likelihood of bankruptcy or other financial reorganization with the counterparty that would significantly hinder or impede the further performance of the contract;
• recognition of a loss due to impairment of the exposure during a previous reporting period;
• difficulties the trading of securities issued by the counterparty or exclusion from trading on the regulated market of its securities;
• debt restructuring;
• other indicators determined by the Bank on the basis of experience gained in receivable collection problems.

If the Bank is likely to be unable to collect all its due amounts (principal and interest) under the contractual terms for loans, receivables or held-to-maturity investments recognized at amortized cost, there is an exposure impairment or a loss due to an uncollectible debt.

The Bank discontinues the balance sheet reporting of its risk exposures classified as a loss fully covered by provisions for impairment losses with a motivated decision of its Management Board upon a proposal of the Risk Management Board. Derecognition from the balance sheet is effected at the expense of accrued provisions for impairment losses. The Bank reports off-balance sheet exposures derecognized as well as exposures.

Termination of the off-balance sheet reporting of derecognized and of legal prescription nexposures is made following a decision of the Management Board where the debtor:

• is a legal person removed from the Trade or other public register and has no successor;
• is a physical person deceased without leaving heirs or the heirs have renounced the inheritance;
• has made an claim lost by limitation.

Any difference between the carrying amount and the recoverable amount of the financial asset (i.e., impairment loss and uncollectibility) is recognized in the statement of profit or loss for the period in which it arises. The decrease in the impairment loss and uncollectibility is carried to the income for the relevant period. Recovered amounts previously derecognized are recognized as income at the time they are received.

Financial assets measured at fair value with differences reported in the statement of comprehensive income

The recoverable amount of equity instruments is their fair value. The recoverable amount of debt instruments is calculated by discounting the present value of the expected future cash flows with the current market interest rate.

Where an asset is remeasured at fair value and the impairment is reflected in the statement of comprehensive income, and its derecognition has been previously recognized in the statement of comprehensive income, the decrease is transferred to the statement of profit or loss and is recognized as part of the impairment loss.

Where an asset is remeasured at fair value and the impairment is reflected in the statement of comprehensive income, and in the statement of comprehensive income the increase in the fair value of the asset has also been reflected in a previous period, the increase in the fair value of the asset is reduced to the amount to which the asset has been impaired. Any additional impairment loss is recognized in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively attributable to an event after the date of reporting the impairment, then the impairment losses are reintegrated (reversed) in the statement of profit or loss.

(k) Investment property

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

(l) Property, plant and equipment

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

depreciation.
Depreciation is accrued on a straight-line basis using prescribed norms to fully depreciate the cost of assets over their useful life. The annual depreciation rates used are presented further below:

Assets	**%**
• Buildings	4
• Plant and equipment	30
• Computers, related peripheral and mobiles	15
• Business inventory and all others	15
• Vehicles	25

Assets are not depreciated until they are commissioned and transferred from assets under construction to the relevant asset class.

(m) Intangible assets
Intangible assets acquired by the Bank are recorded at cost less accumulated depreciation and any impairment losses. Depreciation is accrued on a straight-line basis over the useful life of the asset. The annual depreciation rates used are presented further below:

Asset	**%**
• Software and software licencies	50
• Other intangible assets - repairs of leased buildings	30
• All others	15

(n) Provisions
Provisions are recognized when the Bank has a present legal or constructive obligation arising from past events, the settlement of which is expected to give rise to a necessity of an outflow of resources containing economic benefits and the amount of the obligation can be reliably measured. If the effect is material, provisions are calculated by discounting the expected future cash flows using a discount factor before tax that reflects the current market valuation of the time value of money and, where applicable, the risks specific to the liability. As of 31 December 2017, the Bank's Management has reviewed the legal and constructive obligations and, to the extent to which they are considered material, has accrued a provision.

(o) Assets held for sale
Assets held for sale are accounted for at their cost or their net realizable value, whichever is lower. The cost includes asset acquisition costs, fees and taxes, and other acquisition-related costs.
Net realizable value is the estimated selling price, less the estimated costs necessary to realize the sale.
The Bank classifies the assets acquired as collaterals for loans in the following manner (depending on their purpose):
• Assets that are ready for sale as they were seized, and management actively markets them at a price that suggests a transaction within 12 months, are classified as non-current assets held for sale. They are measured at the lower of:

- their carrying amount and
- their fair value less costs necessary to sell the asset.

Assets classified as held for sale are not depreciated.
• Assets which the Bank expects to be leased or will hold for capital gains are classified as investment property. The applied subsequent measurement model is the fair value model.
• Assets that the Bank believes will be used in its regular business are classified at cost in property, plant and equipment. The applied subsequent measurement model is the cost model less accumulated depreciation and impairment losses.

(p) Off-balance sheet commitments
In its Credit Policy, Investbank JSC has determined four types of credit limits to a customer/customer group:
• Cash Limit - for all credits or products - credit substitutes (covers the debtor and creditor risks reflected in the trading, investment or bank portfolio);
• Bank Guarantee Limit - for guarantees in the narrower sense, letters of credit, availing promissory notes and

similar transactions where the Bank assumes responsibility for the borrower's obligation;
• Derivatives Limit - for trade of products such as FOREX transactions, forward transactions, repo transactions, securities lending, etc.;
• Settlement Risk Limit - for risks arising from the settlement of trading and clearing products.
Cash limits may be reallocated as guarantee limits, for derivatives and settlement risk limits, and then further reallocated as cash limits provided that maturity limits are met.
For the purposes of reporting and credit risk management, the amount of cash limits, guarantee limits and derivatives limits and their utilization are reported and monitored together. Settlement risk limits are shown separately.

(q) Taxation
The profit tax for the period includes current and deferred tax. The current tax includes the amount of tax payable on the expected taxable income for the period based on the effective tax rate or the tax rate applicable on the date of preparation of the statement of financial position and any adjustments to the tax payable for previous periods.

Deferred tax assets
Deferred tax is calculated by applying the balance sheet liability method to all time differences between the carrying amount according to the financial statements and the amounts calculated for tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply when the asset is realized or the liability is settled. The effect on deferred tax from any change in tax rates is recognized in the statement of profit or loss except where it relates to amounts previously charged or accounted for directly in equity.

A deferred tax asset is recognized only to the extent to which it is probable that future taxable profits will be obtained against which unused tax losses or tax credit can be utilized. Deferred tax assets are reduced in line with the decrease in probability of realizing tax benefits.
A deferred tax asset is recognized for all deductible temporary differences, for unused tax losses and for unused tax credits to the extent to which it is probable that there will be taxable profits against which they can be used (deducted) unless the deferred tax asset arises from the initial recognition of an asset or liability in an operation that:
• is not a business combination; and
• does not affect either the accounting or the tax profit/loss at the time of the transaction.
The carrying amount of deferred tax assets is reviewed at each subsequent reporting/balance sheet date and should be reduced to the extent to which it is no longer probable that sufficient taxable profit will be realized. Any such reduction is restored to the extent to which it is again probable that there will be sufficient taxable profits.

If a reliable estimate of taxable income implies that the probable use of a deferred tax asset, especially in cases where the asset can be used without a time limit, then the deferred tax asset is recognized as a whole. Recognition of deferred tax assets that are subject to certain legal or economic constraints or uncertainties is judged by the management on a case-by-case basis based on the specific facts and circumstances.
For determining the amount of deferred tax as of 31 December 2017, the tax rate applicable to 2018 was used - 10% (2017 - 10%).

(r) Employee benefits
(i) Defined benefit plans
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net liability of the Bank in respect of defined benefit plans is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; and such benefits are discounted to determine their present value.
The Bank has the obligation to pay benefits upon leaving to its employees who retire in accordance with the requirements of Art. 222, Para. 3 of the Labour Code (LC) in Bulgaria. Pursuant to these provisions of the LC, when terminating the employment contract of an employee who is entitled to a pension, the employer shall pay him a compensation amounting to two gross monthly salaries. If the employee's length of service equals to 10 or more years as of the date of retirement, then the compensation shall amount to six gross monthly salaries. As of the reporting date, the management estimates the approximate amount of potential expenditure for all employees using the projected credit unit method.

(ii) Termination benefits

Termination benefits are recognized as an expense when the Bank has clearly committed, with no real possibility of withdrawal, to a formal detailed plan to either terminate business relationships prior to the normal retirement date or provide termination benefits as a result of a proposal made to encourage voluntary redundancy. Termination benefits for voluntary redundancy are recognized as an expense if the Bank has made a formal proposal for voluntary redundancy, and it is probable that the proposal will be accepted and the number of acceptances can be reliably estimated. If benefits are payable for more than 12 months after the end of the reporting period, they are discounted to their present value.

(iii) Short-term employee benefits

Liabilities for short-term employee benefits are measured on an undiscounted basis and are accounted for as expense when the related services are provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a legal or constructive obligation to pay such amount as a result of past services provided by an employee and the obligation may be reliably estimated. The Bank recognizes as a liability the undiscounted amount of estimated costs on paid annual leave expected to be paid out to employees in exchange for their work for the past reporting period.

(s) Dividends

Dividend income from interests in the capital of other companies is recognized when the Bank's right to receive the relevant dividend has been established.

3. DISCLOSURE OF THE RISK MANAGEMENT POLICY

Introduction and overview

Risk management is based on a Risk Management Strategy that defines the Bank's target risk profile and risk appetite. The aim is to limit the risk assumed, so that the short and long-term future of the Bank is not endangered. This is achieved by maintaining sustainable levels of regulatory and economic risk coverage means and ensuring that the Bank ballanced risk at all times. In addition, the Strategy clearly defines the risk structure that is relevant to the business model, including by determining a risk profile and defining rules to deal with significant risks of concentration. Thus, the aim is to achieve a balanced portfolio mix by focusing on retail customers, on the one hand, and on corporate customers, on the other hand, so that risk concentration is maintained within the established limits as described in detail in the Concentration Risk Rules (Limit Framework).

The Bank manages its risk exposures in accordance with the regulatory capital adequacy requirements. Capital and capital components, respectively, shall be maintained in accordance with the Minimum Required Ratios under Regulation (EU) No. 575/2013 and the Additional Capital Requirements Calculated within Internal Capital Adequacy Analysis (ICAA) so as to:

• meet the regulatory requirements for adequacy in the normal course of business;
• ensure sufficient capital buffer to overcome stress conditions without jeopardizing business continuity;
• limit the development of extremely high concentrations of credit or other types of risk.

In all spheres of occurrence and manifestation of risks, the Bank uses effective means of managing them. The methods used, the organizational rules and the information systems enable the Bank to identify risks in a timely manner and to take appropriate measures to limit them. This is particularly relevant for the early identification and detection of risks.

In its operations, the Bank is exposed to the following types of risk:

• *credit risk - likelihood of suffering losses as a result of a counterparty's failure to fulfil its contractual obligations in due time and in full volume. It is controlled by setting limits that determine the permissible borderline (degree of risk to be assumed) to an individual debtor or group;*
• *liquidity risk – potential risk of loss due to inability to meet current and future obligations on time and at a reasonable price, without threatening the interests of depositors, shareholders and creditors, and is a consequence of a gap mismatch of assets and liabilities. It is minimized by maintaining an adequate asset structure that provides for a relatively quick, easy and involving-insignificant-loss transformation of assets into available funds;*
• *market risk - likelihood for the Bank to suffer losses as a result of adverse changes in interest rates, foreign exchange rates, market prices of financial instruments and commodities, leading to unfavourable market revaluation of assets and liabilities. It is controlled by establishing a system of limits by types of activities and positions, issuers, currency positions, interest-sensitive exposures and exposures influenced by market risk*

components;

• *operational risk - risk of loss caused by inadequate or ineffective internal processes, people or systems or by external events, including legal risk.*

• *strategic risk - the risk arising from a change in the business environment and inadequate management decisions, improper implementation of decisions taken, or lack of flexibility to changes in the business environment. This risk arises from the possibility that under the influence of various external factors - macroeconomic, political, regulatory - inappropriate management decisions may be taken causing negative consequences for the institution's activities. To mitigate this risk, the Bank's Management periodically reviews the business strategy in the context of changed external conditions, taking into account the development trends of the sector, competition, business climate and other key factors, and takes measures to align its policy with the major changes in the business environment.*

• *reputational risk - risk of loss due to decline in public confidence, unfavourable perception of the Bank's image by customers, counterparties, shareholders, investors and regulatory bodies as a result of unfavourable information damaging its reputation. The Bank's Management limits this risk by maintaining correct relationships with all counterparties, partners, state and public institutions and paying special attention to the quality of service and the problems of its customers.*

Risk Management Policy

The Bank's Risk Management Policy aims to identify, analyse, measure and control the risks which the Bank is exposed to. It is based on the Fundamental Principles for Efficient Banking Supervision of the Basel Committee on Banking Supervision, BNB Regulatory Requirements, and the Internal Banking Regulation. The activities of identifying, monitoring, managing the credit risk and limiting its negative manifestation are regulated in the adopted internal regulations - policies, rules and procedures, which are adopted by the Management Board and approved by the Supervisory Board of Investbank JSC and are subject to regular review to reflect any changes in the regulatory framework, the market conditions, the products and services offered, and so on. They specify the procedures for the general risk management process:

• Risk identification (establishment) (by type of risk and/or business units);

• Risk measurement - quantified against required capital or set thresholds;

• Risk management (risk tolerance) - a system of limits, pre-limit thresholds and adequacy of capital position management processes;

• Risk monitoring and control - a centralized approach to monitoring set limits and/or selected key indicators and ratios;

• Risk reporting - a framework for the form and periodicity of accountability related to the occurrence of risks.

Principles in managing the risks assumed by the Bank

• application of clearly defined decision-making rules and processes in assuming risk and strict application of the "four eyes" principle;

• risk management is completely independent of the Bank's business activities, both in functional and in organizational terms;

• the basis of credit risk management is the analysis of the customers' risk profile, which enables the Bank to select its customers in advance;

• limiting the probability for the occurrence of large, unexpected, hardly predictable losses, as well as the concentration of the risk assumed by the Bank through the use of certain risk tolerance values (limits);

• periodic review of the principles and the existing processes in the Bank for their implementation in order to adapt to the constantly changing market and competitive environment.

Credit risk management is based on the adopted credit policy, competence rules and organization of business processes related to credit transactions, concentration risk management rules, credit risk monitoring system and limit framework, collateral policy, as well as rules for the management of problematic exposures and conduct of ongoing monitoring.

Investbank JSC has adopted and is guided in its operations by its credit policy which stipulates:

• establishing and implementing rigorous credit procedures;

• maintaining an adequate credit administration;

• continuous process of monitoring, measurement and control of credit risk.

Due to the risky nature of the Bank's credit activity, procedures for ongoing analysis and monitoring of both the quality of credit exposures and the overall business development of customers have been developed. To maintain the credit risk within acceptable limits as well as to ensure a balanced manifestation of risk, profitability, impairment and liquidity losses, a System of Limits has been developed and implemented that defines thresholds by products in a retail segment, by industries in a corporate or selected risk indicator, collateral, size in both segments. To minimize credit risk, a credit assessment methodology for physical persons (scoring system for determining the internal rating) is applied.

Risk organization and management
The Supervisory Board of Investbank JSC approves and periodically reviews the strategies and policies adopted to assume, manage, monitor and mitigate the risks to which the Bank is exposed or may be exposed, including risks arising from the macroeconomic environment.
The Risk Committee continuously monitors, analyses and assesses the risk factors accompanying banking activities in line with the Fundamental Principles for Efficient Banking Supervision of the Basel Committee on Banking Supervision. It advises the Supervisory Board and the Management Board on the overall current and future risk strategy and the Bank's risk appetite and assists the control of its implementation by the senior management.
The Management Board actively participates in and ensures the allocation of sufficient resources to manage all material risks under Regulation (EU) No. 575/2013, including asset valuation processes and the use of external credit ratings and internal models related to those risks.

(a) Credit risk
The nature of credit risk - represents a potential risk to revenue and capital arising from the inability of a counterparty in a financial transaction to fulfil its contractual obligations in a timely manner and in full volume. The more significant risk sub-types are:
√ Counterparty risk - failure by or unwillingness of the customer/counterparty to repay its obligations in full volume to the Bank on the agreed date;
√ Risk of concentration – resulting from poor diversification of portfolios by sectors, industries, sizes or other risk indicators. Consequence of large exposures to related parties or a group of counterparties with similar characteristics whose probability of default is a consequence of common factors - sector, market, suppliers, customers, etc.;
√ Settlement risk - this is the risk that a third party may not be able to fulfil its obligations on the agreed date or makes a payment on a later date due to reasons other than bankruptcy;
√ Collateral risk - derives from the type of collateral received, the degree of liquidity, the volatility of its value and the control exercised over it.

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

The table below provides information on the maximum exposure to credit risk:

	Loans and receivables from other customers, incl. net investment in finance lease		**Loans and advances from banks, incl. from the Central Bank**		**Investments in securities and financial assets held for trading**		**Off-balance sheet commitments**	
	31 Dec. 2017	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2017**	**31 Dec. 2016**
In BGN'000								
Book value	816,856	846,687	251,410	231,629	448,115	387,951	63,232	62,337
Contingent commitments	147,480	183,609	-	-	-	-	-	-
Total:	964,336	1,030,296	251,410	231,629	448,115	387,951	63,232	62,337

Credit risk is the major risk which the Bank is exposed to. The main volume of counterparty credit risk arises with business customers of the Bank, while the volume of counterparty risk from operations with banking and non-banking financial institutions is relatively limited.

Credit risk measurement

Credit risk is measured by determining the creditworthiness of counterparties by credit risk analysts having the necessary professional qualifications and experience in assessing and measuring credit risk.

The Overall Rating awarded is a combination of two letters: a capital letter identifying the customer's rating, respectively the level of the risk assumed according to the selected rating parameters and their weight presentation in five scales, and a small letter representing the rating of the collateral based on the selected and weighted characteristics of the collateral in three scales. Based on an analysis of the adequacy of the system, its application is a mandatory element of the credit process and the final decision on the credit transaction is bound to the rating awarded.

A customer creditworthiness assessment system is currently being implemented in Investbank JSC (Scoring System for physical persons and Rating System for legal persons) and a IFRS 9 Sub-system (Credit Risk and Expected Credit Loss) Subsystem is currently in place.

The developed and operating internal rules and procedures for the organization of the different types of activities, responsibilities, powers, control and guarantee mechanisms, limits defined in them, ensure the minimization of the risks associated with the banking activity. Business and risk units are jointly responsible for the Bank's credit operations. Their joint responsibility is reflected in the preparation of credit proposals and opinions when approving transactions involving credit risk taking and in generating profit after provisions. Assuming credit risk takes place on a centralized approach.

The Bank's credit exposure as of the reporting date, consisting of financial instruments intended for trading purchased by the Bank as of the date of the statement of financial position, includes the positive fair value of those instruments. The amounts thus stated, reflected in the notes to the financial statements, do not represent the amounts subject to the transactions with derivative instruments between the parties to the transaction and do not provide an assessment of the credit or market risk assumed by the Bank. The amounts of the transactions made are determined by the terms of the derivatives.

The amounts included in the table (loans and advances to customers) represent the maximum accounting loss that will be recognized at the date of the financial statements if the parties to the transaction do not fully fulfil their contractual obligations, without taking into account the value of the collaterals presented. Consequently, the amounts significantly exceed the expected losses that are included in the impairment of uncollectible receivables.

Credit Portfolio Structure

In BGN'000	**Value before impairment**		**Impairment**		**Carrying amount**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Individually impaired						
Monitored	-	5	-	1	-	4
Non-performing	5,774	10,008	1,167	2,838	4,607	7,170
Loss	104,057	44,886	56,116	27,178	47,941	17,708
	109,831	54,899	57,283	30,017	52,548	24,882
Collectively impaired						
Regular	226,934	317,252	1,243	1,226	225,691	316,026
Monitored	5,234	12,480	28	65	5,206	12,415
	232,168	329,732	1,271	1,291	230,897	328,441
Overdue, but not impaired						
Regular	20,570	20,815	-	-	20,570	20,815
Monitored	42,805	6,861	-	-	42,805	6,861
Non-performing	8,007	28,325	-	-	8,007	28,325
Loss	99,521	149,608	-	-	99,521	149,608
	170,903	205,519	-	-	170,903	205,519
Not impaired individually						
/Regular/	325,023	246,603	-	-	325,023	246,603
Total	837,925	836,753	58,554	31,308	779,371	805,445

The gross value of the renegotiated loans for 2017 is BGN 238,030 thousand and the total volume of the renegotiated exposures as of 31.12.2017 is BGN 360,022 thousand compared to 263,043 thousand for 2016. The high relative share of the renegotiated exposures reflects the Bank's purposeful actions to improve the quality of the loan portfolio.

The table below shows the gross amount of loans and advances to customers, including finance leases granted by type of collateral:

Types of loan collateral

Type of collateral	Classified exposures		Regular and not impaired	
	2017	**2016**	**2017**	**2016**
Mortgage	154,983	157,233	270,125	285,759
Cash deposits and government securities	1,468	4,008	71,405	74,891
Other collateral*	117,971	94,758	236,203	239,801
Unsecured	21,166	4,419	5,030	17,125
Total	295,588	260,418	582,763	617,576

*Insurance with the BEIA (Bulgarian Export Insurance Agency), pledge of receivables, pledge of assets and guarantees.
The table below shows the fair value of the collaterals provided to the Bank divided into groups of risk exposures:

	2017	**2016**
Individually impaired		
Qualifying collateral	53,635	19,273
Other collateral	938,077	197,576
Collectively impaired		
Qualifying collateral	110,040	144,811
Other collateral	1,048,632	2,166,136
Individual, not impaired		
Qualifying collateral	209,703	334,848
Other collateral	556,384	930,113
Not impaired individually /Regular/		
Qualifying collateral	462,805	487,430
Other collateral	1,151,303	847,010

Residential mortgage lending

The table below shows credit exposures from residential and mortgage loans to physical persons according to the Loan-to-Value (LTV) ratio. LTV is calculated as the ratio between the gross loan value and the market value of the collateral. The collateral measurement does not include future costs for acquiring and realizing the collateral.

	31 December 2017	**31 December 2016**
In BGN'000		
Loan to Value (LTV) ratio based on market value		
LTV ≤ 50%	19,825	20,128
50% < LTV ≤ 70%	27,723	26,860
70% < LTV ≤ 90%	31,397	29,115
90% < LTV ≤ 100%	2,303	4,605
100% > LTV	14,311	18,002
Total	95,559	98,710

The table below shows the concentration by economic sectors:

Industry Sector	*Total Exposure 2017*	*Relative Share 2017*	*Total Exposure 2016*	*Relative Share 2016*
Extraction of energy raw materials	16,645	2.1%	16,970	2.2%
Other activities serving the public and the person	19,741	2.5%	8,394	1.1%
Government and defence; compulsory social security	11,089	1.4%	5,578	0.7%
Education	262	0.0%	300	0.0%
Manufacturing	97,446	12.4%	66,406	8.4%
Agriculture	66,203	8.4%	30,906	3.9%
Supply of electric and heat energy, gaseous fuels and water	66,268	8.4%	32,433	4.1%
Construction	121,415	15.4%	159,725	20.2%
Transport, storage and messaging	63,511	8.1%	45,624	5.8%
Trade, repair and technical maintenance	163,895	20.8%	254,460	32.2%
Financial intermediation	48,887	6.2%	27,973	3.5%
Hotels and restaurants	28,311	3.6%	38,476	4.9%
Human health and social activities	1,398	0.2%	1,249	0.2%
Real estate operations, consulting and other business services	83,468	10.6%	101,957	12.9%
Total amount	**788,539**	**100%**	**790,451**	**100%**

The Bank introduces limits on industry sectors related to the concentration risk in a specific sector, a single size limit and a deterioration in the quality of exposures in a particular sector. For all sectors that have reached and/or exceeded the specified risk thresholds, approval of new credit limits is suspended. Exceptions are only allowed with the approval of the MB. The latter does not apply to loans against subsidies in agriculture (including standard credit products).

In order to prevent the operating limits being exceeded, the Bank controls the absorption of the limits through the process described below:

The Risk Control Directorate conducts monthly control and monitoring of the industry sector limits and sends to the Business Units information on the free limit. When an exposure/portfolio close to the specified limit or having reached the limit has been identified, the Risk Control Directorate will immediately inform the relevant Business Unit. New transactions may only be concluded if there are enough free limits after coordination with the Risk Control Directorate. Upon a denial of a transaction for which a sectoral/regional limit has been blocked, the Business Unit shall notify the Risk Control Directorate that the limit will not be used, after which the blocked position will be released.

• Attracting structing companies of the Bulgarian economy. In 2017, the credit products offered were primarily aimed at businesses operating in the field of services generating permanent cash flows; farmers, small and medium-sized enterprises benefiting from funding under European programs and, last but not least, enterprises with contracts for the implementation of infrastructure projects.

The Bank continues its efforts towards diversifying the sectors of the economy in which its borrowers operate. This policy has allowed it to continue its work on affirming its position in relation to lending to municipalities and public customers.

The implementation of Art. 44 of the Credit Institutions Act, in conjunction with Art. 392 of Regulation (EU) No. 575/2013, obliges the Bank to comply with the legal constraints and the special decision-making procedure for large exposures formed against one person or economically related persons (risks equal to or exceeding 10% of the Bank's capital base).

The Business and Risk Units involved in proposing and approving exposures are responsible for monitoring compliance with the legal constraints related to large exposures, their formation and accountability.

In recent years, uncertainty has emerged about credit risk related to government debt in eurozone countries. The Bank carefully manages this risk during the year, and as a result, the overall quality of the government debt portfolio is good. The Bank does not hold government debt to eurozone countries with an increased risk.
The table below presents the carrying amount of the government debt portfolio by country as of 31 December 2017 and 31 December 2016. Assets are stated without taking into account any possible impairment.

In BGN'000	Bulgaria	Romania	Germany	France	Hungary	Spain	Italy	USA	Lithuania	Croatia	Total
31 Dec. 2017											
Trading portfolio	7,152	-	-	-	-			-	-	-	7,152
Investment portfolio											
-at fair value	194,104	19,712	19,715	69,238	2,032	50,001	28,845	25,254	921	12,273	422,095
Total	201,256	19,712	19,715	69,238	2,032	50,001	28,845	25,254	921	12,273	429,247

In BGN'000	Bulgaria	Germany	France	Netherlands	Spain	Italy	USA	Lithuania	Croatia	Total
31 Dec. 2016										
Trading portfolio	7,058	-	-	-			-	-	-	7,058
Investment portfolio										
-at fair value	152,886	27,714	34,714	17,718	57,780	28,976	28,812	3,157	4,003	355,760
Total	159,944	27,714	34,714	17,718	57,780	28,976	28,812	3,157	4,003	362,818

The Bank holds assets in its trading portfolio in order to manage the credit risk. Below is a credit quality analysis of the maximum credit exposure based on ratings of Standard & Poor's rating agency:

In BGN'000	**2017**	**2016**
Government securities		
BBB-	7,152	7,058
Total	7,152	7,058

The tables below show the assets in the Bank's trading portfolio and the investments by maturity and country of registration of the issuer.

Maturity structure of the investments by country of the issuer as of 31 December 2017 (by residual maturity):							
	Up to 1 month	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**Over 5 years**	**Without maturity**	**Total**
In BGN'000							
Financial assets held for trading							
Government securities							
Bulgaria	939	-	3,001	1,795	1,417	-	7,152
Total	939	-	3,001	1,795	1,417	-	7,152
Available-for-sale financial assets							
Government securities							
Bulgaria	17,656	-	-	56,691	119,757	-	194,104
Spain	-	-	-	50,001	-	-	50,001
Italy	-	-	28,845	-	-	-	28,845
Germany	-	-	-	19,715	-	-	19,715
Lithuania	-	-	-	921	-	-	921
USA	-	-	-	25,254	-	-	25,254
France	-	27,417	-	41,821	-	-	69,238
Hungary	-	-	-	-	2,032	-	2,032
Romania	-	-	-	2,035	17,677	-	19,712
Croatia	-	-	-	3,639	8,634	-	12,273
Corporate equity instruments							
Bulgaria	-	-	-	-	-	8,426	8,426
Corporate debt instruments							
Bulgaria	-	-	-	10,442	-	-	10,442
Total	17,656	27,417	28,845	210,519	148,100	8,426	440,963
Total financial assets	18,595	27,417	31,846	212,314	149,517	8,426	448,115

Maturity structure of the investments by country of the issuer as of 31 December 2016 (by residual maturity):							
	Up to 1 month	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**Over 5 years**	**Without maturity**	**Total**
In BGN'000							
Financial assets held for trading							
Government securities							
Bulgaria	-	2,044	-	5,014	-	-	7,058
Total	-	2,044	-	5,014	-	-	7,058
Available-for-sale financial assets							
Government securities							
Bulgaria	-	2,989	-	58,460	91,437	-	152,886
Spain	-	-	-	57,780	-	-	57,780
Italy	-	-	-	28,976	-	-	28,976
Germany	-	-	7,867	19,847	-	-	27,714
Netherlands	-	-	17,718	-	-	-	17,718
France	-	-	-	34,714	-	-	34,714
USA	-	-	28,812	-	-	-	28,812
Lithuania	-	-	-	3,157	-	-	3,157
Croatia	-	-	-	-	4,003	-	4,003
Corporate equity instruments							
Bulgaria	-	-	-	-	-	14,648	14,648
Corporate debt instruments							
Bulgaria	-	-	-	151	10,334	-	10,485
Total	-	2,989	54,397	203,085	105,774	14,648	380,893
Total financial assets	-	5,033	54,397	208,099	105,774	14,648	387,951

Instruments for limiting credit risk

Investbank's credit risk management policy requires the assumption of credit risk arising from operations with counterparties whose cash flow is sufficient to provide timely and complete performance of the assumed monetary liabilities. In order to limit the risk of a possible limited or incomplete solvency of the counterparty, the Bank requires from it to provide of appropriate collateral. The Bank uses the following credit risk mitigation tools: collaterals, risk transfer, netting, and collateral arrangements in connection with transactions with derivative financial instruments, etc. In loan agreements with its counterparties, the Bank settles the issue of accepting various collaterals. Such collaterals may take the form of tangible assets or payment obligations undertaken by third parties that limit the risk of non-fulfilment of payment obligations by business partners. In practice, collaterals are an alternative source of funds to cover payment obligations in the event of their non-performance.

(b) Liquidity risk

However, the existence of collateral does not mean an exemption from the obligation of a comprehensive analysis and assessment of the solvency of the Bank's counterparties, of their creditworthiness, that is, of their ability to perform their payment obligations by means of generated income.

Accepted collaterals fall within the following two categories:

- financial and other collaterals such as cash deposits, securities (stocks and bonds), tangible assets such as machinery, equipment, vehicles, and real estate, assigned real rights, etc.
- guarantees provided by third parties such as bank guarantees, undertakings, letters of credit, insurance contracts, insurance by export insurance companies, etc.

Liquidity management has as its main objective the provision of optimal liquidity in balancing cash inflows and outflows to ensure the day-to-day performance of the Bank's liabilities. Liquidity management is also performed in accordance with the rules and methodology for identifying and monitoring liquidity buffers.

Planning determines the maximum acceptable exposure and, respectively, the optimal (to be introduced) internal structuring, ratios and growth options of the business structure. The principles and internal rules are based on:
• Proper structuring of the business portfolio;
• Ensuring stable financing, using own funds;
• Balancing short-term cash flow and maintaining a sound financial position.
Liquidity risk management is subdivided into two functional areas: liquidity management and liquidity risk control. Liquidity management is implemented from an operational and strategic point of view by the Liquidity and Investment Services Directorate. Liquidity risk control is implemented by the Risk Control Directorate.
The Bank's liquidity status is displayed on a four-stage scale in different colours and provides a summarized overview of the Bank's liquidity position. With regard to the system of limits and early warning indicators, the status draws attention to the increasing liquidity risks over time.
• Normal situation - green:
All liquid indicators are within the limit and there is no sign of any circumstance threatening the liquidity position of the Bank. Major measures to prevent the deterioration of the liquidity position and to optimize liquidity are taken by the LIS Directorate.
• Risky situation yellow (Early Warning Level):
The solvency of the Bank or its access to the necessary financing are not directly threatened, but certain risk parameters or indicators exceed the acceptable levels. Increasing refinancing costs or liquidity shortages include the risk of financial loss. There is a growing threat of the occurrence of an emergency liquidity situation. Measures are required to strengthen the liquidity position, respectively to eliminate further deterioration.
• Dangerous situation - orange (Liquidity Crisis Level):
There is a significant risk that the Bank will become insolvent or unable to attract the required amount of financing, which may result in significant financial loss through forced liquidation or increased financing costs.
The Liquidity Management Plan for Adverse Circumstances and the Liquidity Crisis scenario is activated. Rapid measures must be taken, effectively and timely, to improve the liquidity position backed by an appropriate communication policy. Ensuring the necessary liquidity and reducing risk take priority over the profitability aspects.
• Emergency situation - red:
Limit status that can only be reached with manual change to the limit level. The Bank's solvency is directly threatened. In order to ensure the survival of the Bank, liquidity temporarily becomes a major factor in decision making. The Liquidity Management Plan in Adverse Circumstances is activated.
The main methodological tool for monitoring and accountability of liquidity risk is the analysis of liquidity discrepancies based on original (agreed maturities), which are supplemented by simulations of possible transactions (model future cash flows) in order to maximize the correct presentation of the expected cash flow.
Liquidity risk is measured by comparing the maximum cumulative outflow and its liquidity coverage potential that can be realized within the short term through the liquidity report. Different economic assumptions are modelled through separate stress scenarios.
These scenarios include a combination of a severe global market and liquidity crisis and a severe individual bank crisis, and the Stress Scenario is modelled on individual currencies (BGN, EUR, USD, and all the others in total) as well as in common for all currencies in the Bank.
Specific product assumptions on the allocation of cash inflows and outflows are detailed in the Liquidity Modelling Manual.
Liquidity ratios under Regulation No. 575 (LCR & NSFR).
□ LCR (Liquidity Coverage Ratio) – The Liquidity Coverage Ratio is a short-term liquidity indicator designed to ensure a sufficiently high level of liquid assets needed for survival in the event of a significant stressful scenario over a period of 1 month. The purpose of this ratio is to ensure that the Bank maintains an adequate level of unblocked (unpledged) high quality liquid assets that can be converted into cash to cover the required liquidity for 30 calendar days under a much more severe liquidity stress scenario.

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

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

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

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

The Bank's assets and liabilities analysed for the remaining period from the reporting date to the date of subsequent negotiation or anticipated maturity are as follows:

31 December 2017							
In BGN'000	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**Over 5 years**	**Without maturity**	**Total**
Assets							
Cash, cash balances with central banks and other deposits on demand	295,277	-	-	-	-	-	295,277
Receivables from banks	-	-	-	-	-	3,022	3,022
Financial assets held for trading	939	-	3,001	1,795	1,417	-	7,152
Loans and advances to customers	16,385	46,404	86,926	223,301	406,355	-	779,371
Net investment in finance leases	-	-	-	1,519	35,966	-	37,485
Available-for-sale financial assets	17,656	27,417	28,845	210,519	148,100	8,426	440,963
Investments held to maturity	21,599	-	-	67,460	-	-	89,059
Property, plant and equipment and investment property	-	-	-	-	-	91,444	91,444
Intangible assets	-	-	-	-	-	1,593	1,593
Non-current assets held for sale	-	-	-	-	-	198,027	198,027
Other assets	-	-	-	-	-	10,736	10,736
Total assets	351,856	73,821	118,772	504,594	591,838	313,248	1,954,129
Liabilities							
Deposits from credit institutions	-	-	-	-	-	-	-
Deposits from customers	878,649	196,816	530,346	122,378	6,273	-	1,734,462
Bond loans	214	31	-	-	-	39,205	39,450
Debt-equity hybrid instrument	58	-	15,000	9,779	-	-	24,837
Other liabilities	3,193	-	-	-	-	-	3,193
Total liabilities	882,114	196,847	545,346	132,157	6,273	39,205	1,801,942
Difference in the maturity of assets and liabilities	(530,258)	(123,026)	(426,574)	372,437	585,565	274,043	152,187
Cumulative difference	(530,258)	(653,284)	(1,079,858)	(707,421)	(121,856)	152,187	
Off-balance sheet commitments	(189,470)	(13,031)	(44,356)	(68,820)	(50,603)		
Cumulatively with off-balance sheet commitments	(719,728)	(666,315)	(1,124,214)	(776,241)	(172,459)		

31 December 2016 *In BGN'000*	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 year to 5 years**	**Over 5 years**	**Without maturity**	**Total**
Assets							
Cash, cash balances with central banks and other deposits on demand	272,137	-	-	-	-	-	272,137
Receivables from banks	-	-	-	-	-	3,307	3,307
Financial assets held for trading	-	2,044	-	5,014	-	-	7,058
Loans and advances to customers	18,782	13,411	119,988	269,075	384,179	-	805,445
Net investment in finance leases	-	-	159	2,309	38,774	-	41,242
Available-for-sale financial assets	-	2,989	54,397	203,085	105,774	14,648	380,893
Investments held to maturity	23,011	-	-	89,454	5,678	-	118,143
Property, plant and equipment and investment property	-	-	-	-	-	122,888	122,888
Intangible assets	-	-	-	-	-	1,365	1,365
Non-current assets held for sale	-	-	-	-	-	152,416	152,416
Other assets	-	-	-	-	-	11,295	11,295
Total assets	313,930	18,444	174,554	568,937	534,405	305,919	1,916,189
Liabilities							
Deposits from credit institutions	12	-	-	-	10,000	-	10,012
Deposits from customers	833,619	186,622	516,769	109,926	10,537	-	1,657,473
Bond loans	509	30	-	-	-	39,205	39,744
Debt-equity hybrid instrument	53	-	-	24,779	-	-	24,832
Other liabilities	2,586	-	-	-	-	-	2,586
Total liabilities	836,779	186,652	516,769	134,705	20,537	39,205	1,734,647
Difference in the maturity of assets and liabilities	(522,849)	(168,208)	(342,215)	434,232	513,868	266,714	181,542
Cumulative difference	(522,849)	(691,057)	(1,033,272)	(599,040)	(85,172)	181,542	
Off-balance sheet commitments	(189,250)	(11,183)	(84,487)	(97,987)	(34,273)		
Cumulatively with off-balance sheet commitments	(712,099)	(702,240)	(1,117,759)	(697,027)	(119,445)		

(c) Market risk

In trading with financial instruments, market risk arises, i.e. the risk of their possible impairment as a result of changes in market conditions. Impairment of financial instruments in the Bank's trading portfolio leads to the formation of losses that affect the income from its trading operations.

The Bank manages its financial instruments for trading purposes (its trading portfolio) to limit market risk with the help of limits.

(i) Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations insofar as interest-bearing assets (including investments) and interest-bearing liabilities mature or experience changes in interest rates at different times and to different degrees. In the case of floating rate assets and liabilities, the Bank is exposed to the risk of changes in the basic interest points used to determine the interest rates that are defined as the difference between the characteristics of the variable interest rate indices, such as SOFIBOR, the Base Interest Rate, six-month LIBOR or different interest rates. The risk management policy aims to optimize net interest income and achieve market interest rate levels consistent with the Bank's strategy.

The procedures for managing the interest rate risk in relation to the balance between borrowed and lent resources are applied in terms of the Bank's sensitivity to changes in interest rates. This means to what extent, upon the rise of interest rate levels, the margins achieved will decrease as the amount of debt changes.

As of 31 December 2017, and 31 December 2016, the interest-bearing assets and liabilities are predominantly at fixed interest rates, have a similar maturity structure and interest rate change dates.

The weighted average interest rate on assets as of 31 December 2017 is in the amount of 2.77%, and on liabilities it is 1.15%.

The table below summarizes the Bank's positions with respect to residual maturity of interest-bearing assets and liabilities as of the date of preparation of the financial statements.

31 December 2017				**Fixed interest instruments**				
In BGN'000	**Total**	**Non-interest bearing instruments**	**Floating rate instruments**	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**
Assets								
Cash, cash balances with central banks and other deposits on demand	295,277	269,181	-	26,096	-	-	-	-
Receivables from banks	3,022	3,022	-	-	-	-	-	-
Financial assets held for trading	7,152	-	-	939	-	3,001	1,795	1,417
Loans and advances to customers	779,371	6,983	499,699	4,723	6,771	23,485	86,583	151,127
Net investment in finance leases	37,485	-	148	-	-	-	1,371	35,966
Available-for-sale financial assets	440,963	90,482	10,077	17,656	-	28,845	145,804	148,099
Investments held to maturity	89,059	-	-	21,599	-	-	67,460	-
Property, plant and equipment and investment property	91,444	91,444	-	-	-	-	-	-
Intangible assets	1,593	1,593	-	-	-	-	-	-
Non-current assets held for sale	198,027	198,027	-	-	-	-	-	-
Other assets	10,736	10,736	-	-	-	-	-	-
Total assets	1,954,129	671,468	509,924	71,013	6,771	55,331	303,013	336,609
Liabilities								
Deposits from credit institutions	-	-	-	-	-	-	-	-
Deposits from customers	1,734,462	596,416	-	282,233	196,816	530,346	122,378	6,273
Bond loans	39,450	-	-	214	31	-	-	39,205
Debt-equity hybrid instrument	24,837	-	-	58	-	15,000	9,779	-
Other liabilities	3,193	3,193	-	-	-	-	-	-
Total liabilities	1,801,942	599,609	-	282,505	196,847	545,346	132,157	45,478
Cumulative interest gap	152,187	71,859	509,924	(211,492)	(190,076)	(490,015)	170,856	291,131

The weighted average interest rate on assets as of 31 December 2016 is in the amount of 5.94%, and on liabilities it is 4.54%.

The table below summarizes the Bank's positions with respect to residual maturity of interest-bearing assets and liabilities as of the date of preparation of the financial statements.

31 December 2016				**Fixed interest instruments**				
In BGN'000	**Total**	**Non-interest bearing instruments**	**Floating rate instruments**	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**Over 5 years**
Assets								
Cash, cash balances with central banks and other deposits on demand	272,137	261,000	-	11,137	-	-	-	-
Receivables from banks	3,307	3,307	-	-	-	-	-	-
Financial assets held for trading	7,058	-	-	-	2,044	-	5,014	-
Loans and advances to customers	805,445	11,991	498,134	6,970	8,743	45,959	94,366	139,282
Net investment in finance leases	41,242	25,270	280	-	-	159	2,029	13,504
Available-for-sale financial assets	380,893	62,024	10,130	-	2,989	54,397	155,709	95,644
Investments held to maturity	118,143	-	-	23,011	-	-	89,454	5,678
Property, plant and equipment and investment property	122,888	122,888	-	-	-	-	-	-
Intangible assets	1,365	1,365	-	-	-	-	-	-
Non-current assets held for sale	152,416	152,416	-	-	-	-	-	-
Other assets	11,295	11,295	-	-	-	-	-	-
Total assets	1,916,189	651,556	508,544	41,118	13,776	100,515	346,572	254,108
Liabilities								
Deposits from credit institutions	10,012	-	-	12	-	-	-	10,000
Deposits from customers	1,657,473	447,618	-	386,001	186,622	516,769	109,926	10,537
Bond loans	39,744	-	-	509	30	-	-	39,205
Debt-equity hybrid instrument	24,832	-	-	53	-	-	24,779	-
Other liabilities	2,586	2,586	-	-	-	-	-	-
Total liabilities	1,734,647	450,204	-	386,575	186,652	516,769	134,705	59,742
Cumulative interest gap	181,542	201,352	508,544	(345,457)	(172,876)	(416,254)	211,867	194,366

Sensitivity analysis – interest rate risk
To manage interest rate risk and the limits of change in interest rates, monitoring is performed on the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard scenarios for interest rate movements.
Selected parameters and results from the implemented scenarios for IRRBP (interest rate risk in bank portfolio). Based on the defined methodology for determining interest-sensitive assets and liabilities as of 31.12.2017, the Bank has implemented the following scenarios to assess its vulnerability to adverse changes in the levels of interest rates:

- standard shock – measuring the net positions by weighting ratios specified in the Basel Committee's table for all time intervals of 1 month to over 20 years, representing a parallel shock of approximately 200 bps. The calculated result is -1.76% of the Bank's capital base, which is significantly below the specified risk ratio for exposure to interest rate risk of 20%;
- change in the NII (net interest income) due to increase in current interest rates of the Bank by 200 bps. (80% of payments by 50 bps.) + BGN 5,842 thousand.
- 2% of loans are with delayed interest payment (loss of income), deposits of BGN 30 million are withdrawn, the withdrawn deposits are covered by the Interbank market (BGN 10 million) and sale of securities with discount (BGN 20 million) amounting to 3% - BGN 4,863 thousand.

Taking into account the current interest rates and the trends of their development in the banking sector and those of the Bank, we think that in 2018 the Bank will be able to follow a balanced interest rate policy.
Based on the results of the applied stress tests scenarios for determining the Bank's level of exposure to interest rate risk, no additional capital resources are needed.

The Bank calculates the capital requirements for market risk of the instruments included in its trading portfolio by applying the standardized approach, which includes calculation of the capital requirements for position, currency and commodity risk. Position risk is the risk of change in prices of debt and equity instruments in the trading portfolio and includes two components – specific position and overall position risk. The specific position risk is the risk of change in prices of the instruments created by the issuer, while the overall position risk is the risk of change in interest rates. As of 31 December 2017, the Bank's trading portfolio includes Bulgarian government guaranteed securities only and amounts to BGN 7,152 thousand.

Along with the standardized market risk assessment approach in the trading portfolio, the Bank also applies:

- Duration approach – through the modified duration it determines the percentage change in the value of the portfolio as a result of a (small) change in the interest rate and respectively calculates the capital coverage;
- Value at Risk method – VaR (applied through the use of specialized software). The market risk assessment of the portfolio is determined by a figure showing the loss in value which by a certain degree of probability will not be exceeded for a specific time horizon. VaR is calculated based on the variability of different risk parameters, taking into account the correlation between them, and on that base, the change in the portfolio compared to its current market value is determined. The model used to determine the VaR is "Monte Carlo Simulation" based on a standard scenario, a time horizon of one business day, a level of credibility of 99%, and a standard deviation of 2.33.

Capital allocation of the portfolio of securities and corporate securities kept by the Bank

The allocation of the securities portfolio – shares and bonds by their risk weight, exclusive of capital discounts, is as follows:

31.12.2017				
	Weight based on Ordinance 8	Volume in BGN'000	Relative share	Weighted amount on BGN'000
Bonds	0%	327,839	61.03%	0
Bonds	20%	0	0.00%	0
Bonds	50%	921	0.17%	462
Bonds	100%	199,987	37.23%	199,987
Bonds	150%	0	0.00%	0
Shares	100%	8,427	1.57%	8,427
TOTAL risk to counterparty		537,174		**208,876**
TOTAL market (interest rate risk) maturity				1,119
TOTAL market (interest rate risk) Duration				1,125
Minimum capital required to cover securities transactions				**25,199**
Minimum capital required to cover securities transactions Duration				**25,200**

The interest rate risk positions are managed by the Liquidity and Investment Services Directorate which uses securities, receivables from banks, deposits from banks and derivative instruments to manage the overall position of the Bank.

(ii) Currency risk

The Bank is not exposed to currency risk when executing transactions with financial instruments denominated in foreign currencies. Following the introduction of the Currency Board in the Republic of Bulgaria, the Bulgarian Lev is pegged to the Euro. Since the currency used by the Bank to prepare its financial statements in the Bulgarian Lev, the financial statements are affected by fluctuations in the exchange rates of the Bulgarian Lev to currencies other than the Euro.

The Bank monitors its open currency position in summary terms and by type of currency. As regards the currency risk, we consider that it is insignificant due to the maintenance at any time of an open bank currency position below 2% of the capital base. In order to manage currency risk, limits have been defined for open positions (limits for opening of positions per banks and dealers) and an acceptable level of gap between asset and liability operations, maximum "stop loss" at speculative position, maximum amount of single open speculative position, and term of its closing. The amount of open currency positions is being monitored and controlled daily, as well as the compliance with their established limits.

The execution of foreign currency transactions give rise to foreign currency gains and losses that are recognized in the statement of profit or loss. Such exposures are the monetary assets and liabilities of the Bank denominated in a currency other than the currency used to prepare the Bank's financial statements. These exposures are as follows:

31 December 2017	**BGN**	**EUR**	**Other currencies**	**Total**
In BGN'000				
Assets				
Cash, cash balances with central banks and other deposits on demand	155,047	97,528	42,702	295,277
Receivables from banks	488	1,969	565	3,022
Financial assets held for trading	2,734	4,418	-	7,152
Loans and advances to customers	245,289	509,729	24,353	779,371
Net investment in finance leases	4,010	33,475	-	37,485
Available-for-sale financial assets	81,963	329,186	29,814	440,963
Investments held to maturity	21,599	67,460	-	89,059
Property, plant and equipment and investment property	91,444	-	-	91,444
Intangible assets	1,593	-	-	1,593
Non-current assets held for sale	198,027	-	-	198,027
Other assets	10,479	120	137	10,736
Total assets	812,673	1,043,885	97,571	1,954,129
Liabilities				
Deposits from credit institutions	-	-	-	-
Deposits from customers	1,053,854	584,862	95,746	1,734,462
Bond loans	39,450	-	-	39,450
Debt-equity hybrid instrument	15,016	9,821	-	24,837
Other liabilities	2,835	334	24	3,193
Total liabilities	1,111,155	595,017	95,770	1,801,942
Net position	(298,482)	448,868	1,801	152,187

31 December 2016	**BGN**	**EUR**	**Other currencies**	**Total**
In BGN'000				
Assets				
Cash, cash balances with central banks and other deposits on demand	165,835	85,698	20,604	272,137
Receivables from banks	925	819	1,563	3,307
Financial assets held for trading	3,906	3,152	-	7,058
Loans and advances to customers	202,791	569,404	33,250	805,445
Net investment in finance leases	3,976	37,266	-	41,242
Available-for-sale financial assets	87,912	261,011	31,970	380,893
Investments held to maturity	50,932	67,211	-	118,143
Property, plant and equipment and investment property	122,888	-	-	122,888
Intangible assets	1,365	-	-	1,365
Non-current assets held for sale	152,416	-	-	152,416
Other assets	11,147	147	1	11,295
Total assets	804,093	1,024,708	87,388	1,916,189
Liabilities				
Deposits from credit institutions	10,012	-	-	10,012
Deposits from customers	1,001,509	568,416	87,548	1,657,473
Bond loans	39,744	-	-	39,744
Debt-equity hybrid instrument	15,012	9,820	-	24,832
Other liabilities	2,484	79	23	2,586
Total liabilities	1,068,761	578,315	87,571	1,734,647
Net position	(264,668)	446,393	(183)	181,542

As regards monetary assets and liabilities denominated in foreign currencies that are not hedged, the Bank maintains an acceptable net exposure by buying and selling foreign currencies at spot rates when it is considered appropriate.

(d) Operational risk

Operational risk is the risk of loss resulting from inadequate or poor functioning of internal processes, people and systems or from external events, including legal risk. Operational events are those events that could lead to a negative financial result or additional expenses and deviation from the expected outcome due to errors or malfunctioning of systems, people, processes. Loss from an operational event is the financial effect related to the occurrence of operational events and is subject to disclosure in the Bank's financial statements, including lost profits.

The loss resulting from an operational event may take the form of: assets impairment – direct derecognition or decrease in the carrying amount of financial assets as a result of theft, fraud or breach of internal regulations; external expenses – related to litigation, the preparation of experts' appraisals on operational events; regulatory measures taken against the Bank – imposed penalties, fines; benefits paid to employees, customers or third parties; loss of the right to counter-claim/recourse as a result of failed transactions; suffered loss or damage of tangible assets, etc.

Investbank JSC calculates its capital requirements for operational risk using the basic indicator method by multiplying the average gross annual income by 0.15. The average gross annual income is formed by the sum of the positive values of net interest and net non-interest income, averaged over the last three calendar years based on audited figures. The annual gross income for each year is calculated before deduction of provisions for impairment and operating expenses. The calculation of the gross annual income is exclusive of income from sale of securities in the Bank's portfolio, irregular and extraordinary income and insurance benefits received.
At the same time, for the purposes of accurate definition and evaluation of the operational events and subsequent application of advanced models, the Bank uses a two-dimensional model:
The first dimension of the model aims at precise distribution of operational events leading to loss, arranged by risk category and trigger event. The Bank uses seven major categories and twenty sub-categories.
The second dimension of the model complies with Basel 3 requirements and classifies events (leading to losses or concerning potential loss and lost profits only) by selected groups of activities (business lines).
The development and maintenance of the operational event database aims at providing sufficient detail and reliability in order to:

- trace and identify events leading to loss, including where an event leading to loss affects numerous activities;
- prepare reports for internal use regarding operational risk measurement and outcomes from its management, including trends for loss and/or risk assessment established by the database;
- develop new or improve the existing control procedures.

The Bank has defined and monitors the basic key indicators causing operational risk:
- human error – risk of fraud due to understated, non-existent or deficient control procedures, as well as unintentional mistakes due to ignorance in respect of products, insufficient staff training, complexity of applicable procedures and lack of experience, negligence, intent, staff shortages;
- information systems – use of incorrect models, incorrect data processing, use of erroneous data, use of systems unsuitable for new products or introduction of new data sources, levels of access to systems, data storage, breakdown in information and/or communication systems;
- organization of activity – inappropriate structuring and allocation of duties, lack of appropriate procedures, violation of established processes, non-compliance with the instructions and policies.
- external factors – abuse, external fraud, intentional acts, natural disasters, and other with external manifestation.

As regards the amount of losses incurred due to operational events, the Internal Rules define a materiality threshold of BGN 400. It determines the reporting method and format and the documents necessary to create an operational event file.

4. DISCLOSURE OF THE CAPITAL MANAGEMENT POLICY

(a) Capital management

As of 1 January 2015, the regulations of CRD IV package are effective, which through Regulation (EU) No. 575 of 2013 on prudential requirements for credit institutions and investment firms and Directive 2013/36 of the European Parliament and the Council, on access to credit institutions' activities and on prudential supervision of credit institutions and investment firms, transposes into European law the provisions of the new banking capital standards – Basel III.

As a result, the regulatory requirements for the capital of Investbank JSC for 2017 are based on CRD IV.

(i) Regulatory capital

The Bank's equity for regulatory purposes consists of the following elements:

• Common equity consisting of the basic share capital, Reserve Fund and other reserves to a certain amount;
• Tier I capital (the whole sum is classified as a Tier I Common Equity) which consists of common equity and hybrid instruments, less the following deductions – valuation differences on equity instruments available for sale, intangible assets and other regulatory adjustments relating to items that are included in the balance sheet capital or assets of the Bank but treated differently for the purposes of regulation of capital adequacy.
• Tier II capital: subordinated fixed-term debt, net of regulatory adjustments relating to items that are included in the balance sheet capital or assets of the Bank but treated differently for the purposes of regulation of capital adequacy.

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

In accordance with Art. 92 of Regulation No. 575/2013, the minimum required capital adequacy ratios are as follows:

• Common Equity Capital (CEC) Ratio – 4.5%;
• Tier I Common Equity Capital (CETC I) Ratio – 6%;
• Total Capital Adequacy Ratio – 8%.

Ordinance No. 8 on bank capital buffers introduces the types of capital buffers and the terms and conditions for their formation and update. The capital buffers are as follows:

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

From the capital buffers referred to above, the Bank allocated capital for preventive capital buffer (2.5%) and buffer for systemic risk (3%) considering the total amount of the risk weighted assets for credit, market and operational risk.

(ii) Capital indicators

Equity (capital base)		
	2017	**2016**
In BGN'000		
Common Equity Tier I Capital	188,001	215,601
Repaid capital instruments	160,877	158,940
Reserves	63,011	63,011
Deductions from Common Equity Tier I Capital:		
Intangible assets	1,593	1,365
Accumulated other comprehensive income	34,294	4,985
	188,001	**215,601**
Tier II Capital		
Subordinated fixed-term debt	5,608	10,564
Accumulated other comprehensive income	-	-
Deductions from Tier II Capital:		
Equity	**193,609**	**226,165**

The capital plan of the Bank has been developed in accordance with the objectives set for development and the achievement of certain quantitative and qualitative indicators. The development of the plan also takes into account the results of the periodic stress tests and the anticipated changes in the economic environment. The calculations also provide for and include the new regulatory requirements concerning additional capital buffers which came into force as from 2015 along with the CRD IV legislation package. On this basis, the Bank expects that at the end of 2019 its capital adequacy ratio will exceed 17%.

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

- Quality initial assessment of business operations and, accordingly, proper definition and identification of operational risks;
- Implementation of effective control procedures subject to the regulatory framework and internal limits aimed at maintaining the risk within the Bank's acceptable limits;
- Timely assessment of all significant risks by calculating their impact on capital adequacy;
- Development of forecast variants (three-month horizon) taking into account the expected change in active operations and their effect on the capital;
- Conducting of stress test for evaluation of adverse but plausible events on different business areas.

Capital ratios		
	31 December 2017	**31 December 2016**
Total capital adequacy ratio	16.58%	19.14%
Common equity Tier I capital adequacy ratio	16.10%	18.25%

The reported values for the amount of capital and capital adequacy as of 31.12.2017 based on the reports prepared under CRD IV are as follows:

Indicators	BGN'000
Common equity capital (CEC)	151,333
Common equity Tier I capital (CEC + hybrid debt instruments issued)	188,001
Equity	193,609

The capital requirements for credit risk cover credit risk and bank portfolio dilution risk, counterparty risk for overall operations and settlement risk in the trading portfolio.
The capital requirements for market risk include market risk in the trading portfolio, currency risk for overall operations and commodity risk for overall operations.

The operational risk is calculated by applying the Basic Indicator method and represents 15% of the average annual gross income for the last three financial years (2017, 2016 and 2015).

As of 31.12.2017 the capital surplus is estimated at:

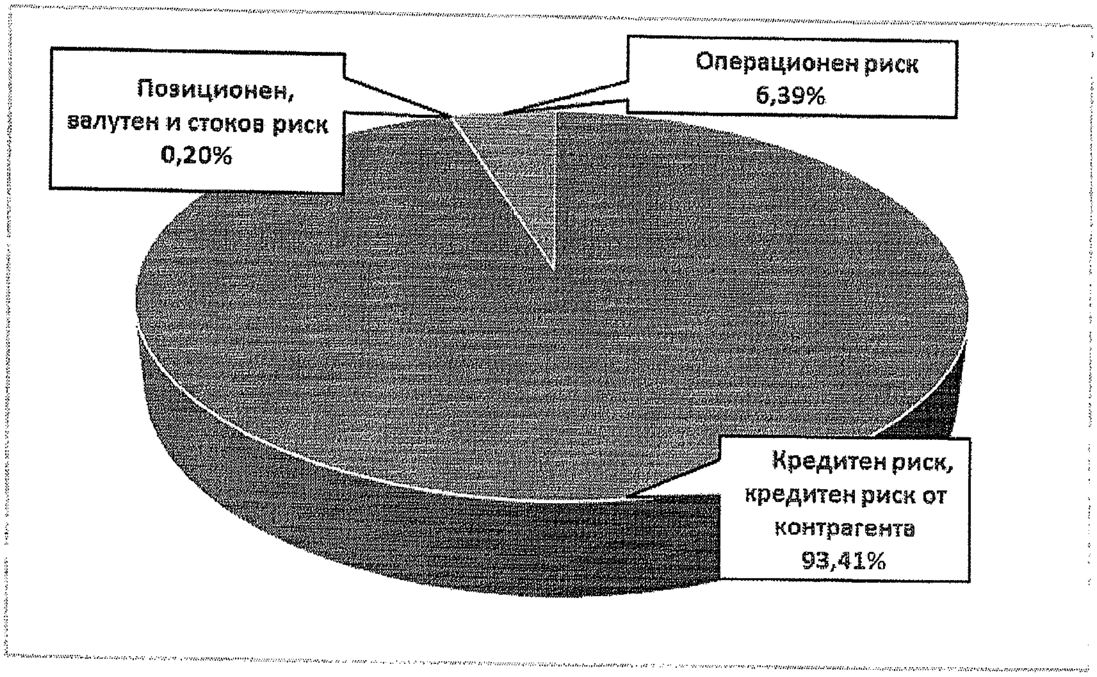
Surplus(+)/Deficiency(-) as of 31.12.2017 in BGN'000	**Capital**	**After deduction of capital buffers**
Surplus(+)/Deficiency(-) of CEC	98,785	43,533
Surplus(+)/Deficiency(-) of Tier I Common Equity Capital	117,937	62,685
Surplus(+)/Deficiency(-) of Capital Base (Equity)	100,191	44,939

The Bank's risk profile as of 31.12.2017 is consistent with the moderately conservative policy for assuming risk as adopted by the management. The largest relative share in the risk matrix as of the reporting date is held by the credit risk.
Operational risk is calculated by the Basic Indicator method and represents 15% of the average annual gross income for the last three financial years.

As of 31.12.2017 the capital coverage of risk exposure of the Bank is:

Capital coverage of the Bank's risk exposure in BGN'000		Total capital adequacy	Capital buffers			Total capital coverage
		Capital coverage – 8%	Safety capital buffer – 2.5%	Buffer for systemic risk – 3.0%	Counter-cyclical buffer – 0.0%	
Total amount of risk-weighted exposures, including:	1,167,726	93,418	29,193	26,060		148,671
Credit risk, credit risk from counterparties	1,090,787	87,263	27,270	23,752		138,284
Position, currency and commodity risk	2,376	190	59	71		321
Operational risk	74,563	5,965	1,864	2,237		10,066

Distribution of risk-weighted exposures of Investbank JSC as of 31.12.2017



Position, currency and commodity risk 0.20%
Operational risk 6.39%
Credit risk, credit risk from counterparties 93.41%

Total amount of risk-weighted exposures, including:	1,167,726	100.00%
Credit risk, credit risk from counterparties	1,090,787	93.41%
Position, currency and commodity risk	2,376	0.20%
Operational risk	74,563	6.39%

5. SIGNIFICANT ACCOUNTING ASSUMPTIONS AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes assumptions, judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities in the following financial year. The estimates and assumptions made are regularly reviewed on an ongoing basis and are based on historical experience and other factors, including expected future events considered highly probable under certain circumstances.

(i) Losses from impairment of loans and receivables

The Bank reviews its credit portfolio on a monthly basis to determine the amount of impairment. In determining whether an impairment loss should be recognized in the statement of profit or loss, the Bank assesses whether there is any evidence indicating the presence of a measurable reduction in estimated future cash flows from a loan portfolio before such a reduction has been identified for a particular loan from the portfolio. Circumstances may include available data showing that there has been a negative change in the solvency of borrowers in a given group or national or local economic conditions associated with group assets defaults. The Management uses estimates based on historical experience from impairment of assets with characteristics of credit risk and objective evidence of impairment similar to those in the portfolio, when planning future cash flows of the portfolio. The recoverable amount of assets includes cash flows from collaterals that are mortgaged, pledged and blocked with the Bank. The methodology and estimates used to evaluate both the amount and the maturities of future cash flows are reviewed on a regular basis in order to reduce the difference between the expected and the actual loss incurred.

The classification criteria for credit exposures related to overdue days are alike in 2016 and 2017.

(ii) Provisions

When estimating provisions, the Management broadly applies valuations by experts in the respective areas as legal or regulatory consultants, and in general, the more conservative valuations will be accepted with the purpose of protecting the Bank from unfavourable development of one or several probable events.

(iii) Fair value measurement

Fair value is defined as the price that would have been obtained by selling an asset or paid on a transfer of a liability in an ordinary transaction between market participants at the measurement date. The Bank discloses information about the fair value of those financial assets and liabilities for which there is available market information and whose fair value is significantly different from the reported balance sheet amount.

If the market for a financial instrument is not active, the Bank will establish its fair value using a valuation technique. Valuation techniques include the use of recent direct transactions between knowledgeable, willing parties (if any), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

The valuation technique selected makes maximum use of market inputs, relies to the smallest possible degree on estimates specific to the Bank, incorporates all factors that market participants would consider when setting a price, and is consistent with the adopted economic methodologies for pricing of financial instruments. Inputs of valuation techniques reasonably represent market expectations and measurements of the risk-return factors inherent to a financial instrument. The Bank verifies the valuation techniques and tests their validity using prices from observable current market transactions with the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions with the same instrument or based on a valuation technique whose variables include data from observable markets only. Where the transaction price provides the best evidence of the fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between that price and the value initially obtained using a valuation model, is subsequently recognized in profit or loss depending on the individual facts and circumstances of the transaction, but not later than the time when the valuation is fully supported by observable market data or the transaction has been finalized.

Assets and long items are measured at the bid price; liabilities and short items are measured at the ask price. Fair values reflect the credit risk of an instrument and include adjustments to account for the credit risk of the Bank and the counterparty, where appropriate. Fair value estimates obtained using models are adjusted for any other

factors, such as liquidity risk or model uncertainty, to the extent that the Bank believes a third-party market participant would take them into account in pricing a transaction.
The Bank measures the fair value of financial instruments using the following hierarchy of methods that reflects the significance of the factors used to determine the fair value:
• Level 1: - The input data at Level 1 are the quoted (unadjusted) prices of instruments in active markets for identical financial instruments;
• Level 2: The input data at Level 2 are inputs for an asset or a liability other than quoted prices included in Level 1 that, directly or indirectly, are available for observation. This category includes instruments valued using: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; other valuation techniques where all significant inputs are directly or indirectly observable using market data.
• Level 3: The input data at Level 3 are unobservable inputs for an asset or liability. This category includes all instruments where the valuation technique does not include observable inputs and the unobservable inputs have a significant effect on the valuation of the instrument. This category includes instruments valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect the differences between the instruments.

The fair value of receivables from banks is their carrying amount since they represent short-term liquid resources on the money market.
The valuation model used to determine the fair value of loans and advances to customers that are not in default is based on discounted expected cash flows. The discount rate applied is the average interest rate as per Bulgarian National Bank Statistics. For exposures in default, and for short-term receivables and overdrafts, their fair value is deemed to equal their carrying amount.
To determine the fair value of liabilities recognized at amortized cost, a valuation technique based on discounted expected cash flows is used as well. The discount rate for liabilities with fixed interest rate is the yield on a risk-free investment.

(iv) Assets acquired from collaterals **on non-performing loans**
In terms of the assets acquired as collateral on non-performing loans, the Bank should decide on the standard to be used to classify them, depending on their purpose.
If the Bank considers that the assets acquired as collateral will be used in its regular activities, it should recognize them under IAS 16 *Property, Plant and Equipment*, at cost, and subsequently evaluate them at cost less the accumulated depreciation and impairment losses.
If the Bank expects that the assets acquired as collateral will be rented or held for capital gains, it should recognize them under IAS 40 *Investment Property*, at cost, and subsequently evaluate them at fair value.
If the assets acquired as collateral are ready for sale in the condition in which they were seized, and the management actively markets them at a price that suggests a transaction within 12 months, the Bank shall classify such assets under IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* at the lower of their carrying amount and fair value less the costs for selling the asset. Assets classified under IFRS 5 and stated in the balance sheet as Assets held for sale are not depreciated.

6. NET INTEREST INCOME

In BGN'000	2017	2016
Net interest income		
Interest income		
- Deposits provided to credit institutions	182	23
- Loans and advances to customers	47,207	56,513
- Net investment in finance leases	1,100	1,252
- Financial instruments for sale	4,177	4,853
- Financial instruments for trading	285	557
- Held-to-maturity investments	607	765
	53,558	63,963
Interest expense		
- Deposits from credit institutions	(25)	(157)
- Deposits from customers	(16,868)	(29,467)
- Debt-equity hybrid instrument	(1,946)	(2,500)
- Bond loans	(1,575)	(1,575)
	(20,414)	(33,699)
Net interest income	33,144	30,264

7. NET FEE AND COMMISSION INCOME

In BGN'000	2017	2016
Fee and commission income		
- Credit-related income	6,773	7,444
- Income from fees for off-balance sheet commitments	1,361	1,890
- Fees related to payment services	18,555	15,350
- Other fees and commissions	125	142
	26,814	24,826
Fee and commission expense		
- Clearing and settlement fees	(2,023)	(2,107)
- Other fees and commissions	(416)	(246)
	(2,439)	(2,353)
Net fee and commission income	24,375	22,473

8. NET INCOME FROM TRADING OPERATIONS

In BGN'000	2017	2016
Net income from operations with financial assets held for trading	17	(12)
Income from change in the fair value of financial assets held for trading	(224)	(448)
Net income from foreign currency transactions	2,457	2,587
Net income from trading operations	2,250	2,127

9. NET RESULT FROM INVESTMENT SECURITIES

In BGN'000	2017	2016
Net profit from operations with investment securities	1,680	1,573
Net change in the fair value of investment securities	5,495	3,309
Net result from investment securities	7,175	4,882

10. OTHER OPERATING INCOME

In BGN'000	2017	2016
Dividend income	380	292
Gain on other non-financial services	34	305
Gain on sale of fixed assets	143	109
Gain on sale of non-current assets held for sale	52	1,901
Other income	1,577	2,121
Other operating income	2,186	4,728

11. ADMINISTRATIVE COSTS

In BGN'000	**2017**	**2016**
Personnel costs	(14,719)	(15,194)
Depreciation and amortization	(1,922)	(1,864)
Administrative, marketing and other costs	(23,158)	(24,635)
Administrative costs	(39,799)	(41,693)

Administrative costs decreased by BGN 1,894 thousand as a result of the measures and actions taken by the Bank to optimize them.

Personnel costs include costs for salaries, social security and health insurance contributions, contributions to the Professional Qualification and Unemployment Fund, contributions to Employee Wage Guarantee Fund, accrued in accordance with the provisions of the local legislation. As of 31 December 2017, the Bank's personnel consists of 742 employees (31.12.2016: 756). The equated number of full-time employees for 2017 is 748 (2016: 750).

12. FINANCIAL ASSET IMPAIRMENT LOSSES

In BGN'000	**2017**	**2016**
Provisions for impairment losses	(72,812)	(33,819)
	(72,812)	(33,819)
Reintegrated provisions for impairment losses	13,448	9,933
	13,448	9,933
Impairment losses	(59,364)	(23,886)

The amount of increase in impairment losses in 2017 compared to the previous reporting period is the result of the Action Plan adopted by the Bank in relation to the results of the completed asset valuation review in 2016. The remainder of the calculated additional accounting depreciation from the Asset Quality Review (AQR) was accrued in full size. The additional capital buffer AQR as of 31.12.2017 was equalled to zero, following the recommendations of the BNB. The higher amount of reintegrated provisions for impairment losses in 2017 compared to 2016 the result of deteriorated exposures that have been repaid over the current period.

13. NET RESULT FROM INVESTMENT PROPERTY REVALUATION

In BGN'000	**2017**	**2016**
Revaluation income	964	3,946
	964	3,946
Revaluation expense	(6)	(1,195)
	(6)	(1,195)
Net revaluation result	958	2,751

14. TAXATION

In BGN'000	**2017**	**2016**
Current tax expense	-	(321)
Income/(expense) from changes in deferred taxes	(258)	(287)
Total tax costs	(258)	(608)
In BGN'000		
Accounting profit/(loss)	(29,075)	1,646
Tax rate	10%	10%
	2,907	(165)
Effect of tax asset on loss	(2,933)	
Tax effect of permanent differences	(26)	(443)
Current tax expense	(258)	(608)
Effective tax rate	0%	36.94%

The Bank has not accrued a deferred tax asset in the amount of BGN 2,933 thousand in respect of the tax loss that is subject to deduction over the next five years.

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

In BGN'000	**2017**	**2016**
Cash on hand	31,611	31,313
Cash in transit	12,256	12,502
Current accounts with banks (in BGN and foreign currencies)	27,860	14,620
Deposits with banks	26,096	11,137
Current accounts with the Central Bank	197,454	202,565
Total	295,277	272,137

The current account with the Central Bank is used for direct participation in the money and treasury markets and for settlement purposes.

16. RECEIVABLES FROM BANKS

In BGN'000	**2017**	**2016**
Receivables from local banks	451	925
Receivables from foreign banks	2,571	2,382
Total	3,022	3,307

17. FINANCIAL ASSETS HELD FOR TRADING

In BGN'000	**2017**	**2016**
Securities held for trading:		
Government securities of the Republic of Bulgaria		
- short-term and medium-term government securities denominated in BGN	2,734	3,906
- short-term and medium-term government securities denominated in foreign currency	4,418	3,152
Total	7,152	7,058

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of borrower

In BGN'000	**2017**	**2016**
Other financial institutions	22,395	22,423
Physical persons	146,295	142,916
State & Municipality enterprises	11,317	13,117
Private enterprises		
- Loans and advances	646,972	646,835
- Cession receivables	10,946	11,462
	837,925	836,753
Impairment loss	(58,554)	(31,308)
Total	779,371	(805,445)

(b) Impairment losses of loans and advances to customers

In BGN'000	**2017**	**2016**
Balance as of 1 January	31,308	14,069
Accrued	63,750	31,445
Reintegrated	(13,448)	(9,920)
Derecognized	(23,056)	(4,286)
Balance as of 31 December	58,554	31,308

19. NET INVESTMENT IN FINANCE LEASES

Net investment in finance leases is the gross investment in finance leases less the unrealized finance income and accrued impairment.

In BGN'000	**2017**	**2016**
Gross investment in finance leases	49,635	56,811
- Impairment losses:		
- accrued	2,942	1,740
- reintegrated	-	(14)
- derecognized		(1,726)
Unrealized finance income	(15,092)	(15,569)
Net investment in finance leases	37,485	41,242

Net investment in finance leases is allocated as follows:

In BGN'000	**2017**	**2016**
Maturity within 1 year	-	159
Maturity from 1 to 5 years	1,519	2,309
Maturity over 5 years	35,966	38,774
Net investment in finance leases	37,485	41,242

20. FINANCIAL ASSETS AVAILABLE FOR SALE

In BGN'000	**2017**	**2016**
Securities available for sale:		
Stocks and shares in local enterprises	8,426	14,648
Bulgarian government securities denominated in BGN	63,310	62,984
Bulgarian government securities denominated in foreign currency	130,794	89,902
Debt instruments – Bulgarian issuers	10,442	10,485
Debt instruments – foreign issuers	227,991	202,874
Total	440,963	380,893

21. FINANCIAL ASSETS HELD TO MATURITY

In BGN'000	**2017**	**2016**
Securities held to maturity:		
Bulgarian government securities denominated in BGN	21,599	50,932
Foreign government securities denominated in Euro	67,460	67,211
Total	89,059	118,143

Government securities held to maturity are stated at amortized cost.

22. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

In BGN'000	**Land and buildings**	**Equipment**	**Vehicles**	**Business inventory**	**Other**	**Investment property**	**Total**
Book value							
As of 1 January 2016	13,618	8,529	2,588	3,939	20,752	11,407	60,833
Increase	360	1,864	-	139	17,703	7,715	27,781
Decrease	-	(802)	(207)	(183)	(1,885)	-	(3,077)
Transfers (net)	7,405	1,471	-	(1,255)	-	46,958	54,579
Revaluation	-					2,751	2,751
As of 31 December 2016	21,383	11,062	2,381	2,640	36,570	68,831	142,867
As of 1 January 2017	21,383	11,062	2,381	2,640	36,570	68,831	142,867
Increase	-	266	-	20	2,764	849	3,899
Decrease	(113)	(686)	(32)	(217)	(124)	(553)	(1,725)
Transfers (net)	-	118	-	-	(36,318)	2,348	(33,852)
Revaluation	-	-	-	-	-	957	957
As of 31 December 2017	21,270	10,760	2,349	2,443	2,892	72,432	112,146
Depreciation and amortization accumulated							
As of 1 January 2016	4,771	7,691	2,408	2,951	135	1,496	19,452
Accrued for the year	824	445	77	163	-	219	1,728
Derecognized	-	(816)	(207)	(178)	-	-	(1,201)
Transfers (net)	1,126	1,053	-	(921)	(132)	(1,126)	-
As of 31 December 2016	6,721	8,373	2,278	2,015	3	589	19,979
As of 1 January 2017	6,721	8,373	2,278	2,015	3	589	19,979
Accrued for the year	829	655	58	158	-	-	1,700
Derecognized	(46)	(673)	(26)	(212)	-	(20)	(977)
As of 31 December 2017	7,504	8,355	2,310	1,961	3	569	20,702
Carrying value as of 1 January 2016	8,847	838	180	988	20,617	9,911	41,381
Carrying value as of 31 December 2016	14,662	2,689	103	625	36,567	68,242	122,888
Carrying value as of 31 December 2017	13,766	2,405	39	482	2,889	71,863	91,444

As of 31 December 2017, the Bank's Management has assigned to independent external valuers the assessment of the fair value of investment property, according to which a revaluation in the amount of BGN 957 thousand was accrued in the statement of profit or loss, the revaluation amounting to BGN 2,751 thousand in 2016. The valuers are members of the Chamber of Independent Valuers in Bulgaria and have the appropriate qualification and experience in the field of property valuation. Estimates have been obtained using the methods and references specified in the valuation standards for market certificates from transactions or bid prices of similar properties.

23. INTANGIBLE ASSETS

In BGN'000	**Patents, licenses, trademarks**	**Software products**	**Other**	**Total**
Book value				
As of 1 January 2016	975	382	1,496	2,853
Increase	456	23	63	542
Decrease	-	(53)	-	(53)
Transfers (net)	(238)	661	(326)	97
As of 31 December 2016	1,193	1,013	1,233	3,439
As of 1 January 2017	1,193	1,013	1,233	3,439
Increase	28	20	139	187
Decrease		-	(24)	(24)
Transfers (net)	-	271	-	271
As of 31 December 2017	1,221	1,304	1,348	3,873
Depreciation and amortization accumulated				
As of 1 January 2016	625	342	1,080	2,047
Accrued for the year	21	34	79	134
Derecognized	-	(53)	(54)	(107)
Transfers (net)	(10)	642	(632)	-
As of 31 December 2016	636	965	473	2,074
As of 1 January 2017	636	965	473	2,074
Accrued for the year	21	76	126	223
Derecognized	-	-	(17)	(17)
As of 31 December 2017	657	1,041	582	2,280
Carrying value as of 1 January 2016	350	40	416	806
Carrying value as of 31 December 2016	557	48	760	1,365
Carrying value as of 31 December 2017	564	263	766	1,593

24. ASSETS HELD FOR SALE

In BGN'000	**2017**	**2016**
Balance as of 1 January	152,416	94,299
Reclasified	33,581	(54,363)
Acquired	18,921	148,767
Sold	(6,891)	(36,287)
Balance as of 31 December	198,027	152,416

The assets for sale as of 31.12.2017 amount to BGN 198,027 thousand of which: land amounting to BGN 51,379 thousand, buildings amounting to BGN 99,597 thousand, buildings under construction amounting to BGN 36,013 thousand, and others amounting to BGN 10,997 thousand.

25. OTHER ASSETS

In BGN'000	**2017**	**2016**
Accounts with customers	1,776	3,629
Various materials	1,181	1,190
Costs for future periods	211	198
Tax assets	299	50
Other accounts and receivables	7,269	6,228
Total	10,736	11,295

26. DEPOSITS FROM CREDIT INSTITUTIONS

In BGN'000	**2017**	**2016**
Deposits		
- in local currency	-	10,012
Total	-	10,012

27. DEPOSITS FROM CUSTOMERS

In BGN'000	**2017**	**2016**
Physical persons	1,185,431	1,183,028
Institutions	549,031	474,445
Total	1,734,462	1,657,473

28. DEBT LOANS

In 2017 the Bank has not raised bond issues. As of 31 December 2017 the structure of the debt loans issued by the Bank includes:

Nominal value in BGN	**Currency**	**Interest rate**	**Date of issue**
30,110,000	BGN	4%	30 April 2013
214,116		Accrued interest	
(2,000)		Depreciation fee	
30,322,116			
9,100,000	BGN	4%	31 May 2013
30,333		Accrued interest	
(2,501)		Depreciation fee	
9,127,832			

29. DEBT-EQUITY HYBRID INSTRUMENT

As of 31 December 2017, the Bank has attracted additional capital reserves in the amount of BGN 24,837 thousand, including interest of BGN 58 thousand. As of 31 December 2016, the attracted additional capital reserves were in the amount of BGN 24,832 thousand, including interest of BGN 53 thousand.

30. OTHER LIABILITIES

In BGN'000	**2017**	**2016**
Accounts with customers	1,349	601
Tax liabilities	1,309	1,486
Payables to personnel	175	129
Other	360	370
Total	3,193	2,586

31. EQUITY

(a) Share capital

As of 31 December 2017, the Bank's share capital amounts to BGN 121,666,667 and is distributed into 121,666,667 common stock with par value of BGN 1 each.

(b) Reserves

• **Statutory reserves**

Statutory reserves are set aside in accordance with the local legislation. Pursuant to the local legislation, the Bank is required to maintain equity exceeding or equal to the amount of the capital requirements for credit risk; position risk; foreign currency and commodity risk; operational and other risks related to its operations. The Bank does not pay dividends before setting aside the necessary funds to the Reserve Fund.

• **Retained earnings**

The Bank states as retained earnings all distributable reserves in excess of the statutory reserves under item (b).

32. CASH AND CASH EQUIVALENTS

In BGN'000	**2017**	**2016**
Cash on hand	43,867	43,815
Deposits with banks with original maturity of up to 3 months	53,956	25,757
Current accounts with the Central Bank	197,454	202,565
Total	295,277	272,137

The current account with the Central Bank is used for direct participation in the money and treasury markets and for settlement purposes. It also includes the Bank's minimum required reserves. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, cash on current accounts and deposits with other banks and current accounts with the Central Bank with original maturity of up to 3 months.

33. ENCUMBERED ASSETS

The encumbered assets for 2017 are described below:

	Carrying value of encumbered assets			**Fair value of encumbered assets**		**Carrying value of unencumbered assets**			**Fair value of unencumbered assets**	
		including: issued by other entities within the group	including: meeting the requirements of central banks		including: meeting the requirements of central banks		including: issued by other entities within the group	including: meeting the requirements of central banks		including: meeting the requirements of central banks
Loans on demand						225,314		225,314		
Capital instruments						8,427			8,427	
Debt securities	138,006		138,006	138,006	138,006	390,743		380,300	390,743	380,300
including: covered bonds										
including: asset-backed securities										
including: issued by the Government sector	138,006		138,006	138,006	138,006	390,743		380,300	390,743	380,300
including: issued by financial enterprises										
including: issued by non-financial enterprises						10,443			10,443	
Loans and advances other than loans on demand						844,227				
including: mortgage loans						405,729				
Other assets	1,747					345,665				
Total:	**139,753**		**138,006**			**1,814,376**		**605,614**		

As of 31.12.2017, the amount of blocked government securities to cover the attracted funds on budget accounts amounts to BGN 138,006 thousand, of which financial assets held for trading amounting to BGN 5,3224 thousand, financial assets available for sale amounting to BGN 81,620 thousand and held-to-maturity investments amounting to BGN 3,162 thousand.

The encumbered assets for 2016 are described below:

	Carrying value of encumbered assets			**Fair value of encumbered assets**		**Carrying value of unencumbered assets**			**Fair value of unencumbered assets**	
		including: issued by other entities within the group	including: meeting the requirements of central banks		including: meeting the requirements of central banks		including: issued by other entities within the group	including: meeting the requirements of central banks		including: meeting the requirements of central banks
Loans on demand						217,185		217,185		
Capital instruments						14,648		0	14,648	
Debt securities	120,088		120,088	120,088	120,088	371,357		360,872	371,357	360,872
including: covered bonds										
including: asset-backed securities										
including: issued by the Government sector	120,088		120,088	120,088	120,088	360,872		360,872	360,872	360,872
including: issued by financial enterprises										
including: issued by non-financial enterprises						10,485		0	10,485	
Loans and advances other than loans on demand	2,355					858,777		0		
including: mortgage loans	0					452,666		0		
Other assets	0					331,779		0		
Total:	**122,443**		**120,088**			**1,793,746**		**578,057**		

34. COMMITMENTS AND CONTINGENT LIABILITIES

Off-balance sheet commitments

The Bank provides financial guarantees and letters of credit to guarantee the performance of commitments made by its customers to third parties. These agreements have fixed limits and a term of validity generally up to one year.

The amounts related to guarantee agreement entered into and contingent liabilities are shown in the below table. The amounts shown in the table for commitments made imply scenario that the liabilities have arisen in their full volume. The amounts of guarantees and letters of credit represent the maximum accounting loss amount to be recognized in the statement of financial position in the event that the counterparties have failed to fulfil their obligations.

In BGN'000	**2017**	**2016**
Bank guarantees and letters of credit		
- in Bulgarian Leva	73,834	110,035
- in foreign currency	10,414	11,236
Liabilities on undrawn loans	62,232	62,338
Total	147,480	183,609

These commitments bring off-balance sheet credit risk only since just service fees and the accruals for probable losses are stated in the statement of financial position until the expiry of the term of the commitment made or until the fulfilment thereof. Many of the contingent liabilities are expected to end without the need for a payment obligation occurring for the Bank. Therefore, the amounts do not represent future cash flows.

As of 31 December 2017, the amount of collaterals on guarantees and letters of credit exceeds 168%.

35. RELATED PARTY TRANSACTIONS

31 December 2016

Related parties	Nature of legal relationship	Type of transaction	Residual balance
In BGN'000			
Festa Holding AD	Shareholders	1) Deposits granted	189
		2) Loans received	493
	Members of management bodies	1) Deposits granted	360
		2) Loans received	1,771
	Members of supervisory bodies	1) Deposits granted	2,981
		2) Loans received	6
	Other	1) Deposits granted	4,666
		2) Loans received	8,582

31 December 2017

Related parties	Nature of legal relationship	Type of transaction	Residual balance
In BGN'000			
Festa Holding AD	Shareholders	1) Deposits granted	2,738
		2) Loans received	454
	Members of management bodies	1) Deposits granted	338
		2) Loans received	1,756
	Members of supervisory bodies	1) Deposits granted	3,045
		2) Loans received	23
	Other	1) Deposits granted	1,125
		2) Loans received	4,479

The remunerations of the Executive Directors and the Management Board as of 31.12.2017 amount to BGN

417 thousand (2016: BGN 403 thousand), and those of the Supervisory Board amount to BGN 376 thousand (2016: BGN 344 thousand).

35. OTHER STATUTORY DISCLOSURES

Pursuant to the requirements of Art. 70, Para. 6 of the Credit Institutions Act, banks are required to make certain quantitative and qualitative disclosures relating to key financial indicators and other indicators separately for their business in the Republic of Bulgaria and in other countries where the Bank has subsidiaries and/or branches. Investbank JSC has a complete license for the conduct of banking activities. In 2017 and 2016 the Bank has no subsidiaries or branches registered outside the territory of the Republic of Bulgaria. Summarized information about the statutory disclosures under the Credit Institutions Act and reference to the relevant notes in these financial statements or other required reports is as follows:

In BGN'000	**References to other Notes and reports**	**2017**	**2016**
Gross operating income	Notes 6, 7, 8, 9 and 10	69,130	64,474
(Loss)/Profit before tax	Statement of Profit or Loss	(29,075)	1,646
Tax costs	Note 14	(258)	(608)
Return on assets (%)	Annual Activity Report	(1,52)	0,05
Equated number of full-time employees as of 31 December	Note 11	740	750

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

Following the date of the statement of financial position, no significant events have occurred requiring any adjustments or disclosures.