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|  | <p style="text-align: right;">95, Evlogi Georgiev Blvd. Sofia 1142 phone: (+359 2) 9876363 www.bcra-bg.com</p> |
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| <p>„Investbank” AD</p> | <p>Radoslav Marinov, Lead Financial Analyst r.marinov@bcra-bg.com</p> |
| | <p>Ventseslav Petrov, Financial Analyst v.petrov@bcra-bg.com</p> |
| | <p>Vesela Velichkova, Financial Analyst v.velichkova@bcra-bg.com</p> |
| | <p>Nikoleta Koleva, Financial Analyst n.koleva@bcra-bg.com</p> |

| FINANCIAL STRENGTH RATING | Update 12.10.2015 | Update 26.10.2016 |
|-----------------------------------|----------------------|----------------------|
| Long-term rating: | B- | B- |
| Outlook: | Stable | In development |
| Short-term rating: | C | C |
| National-scale long-term rating: | B (BG) | B (BG) |
| Outlook: | Stable | In development |
| National-scale short-term rating: | C (BG) | C (BG) |

* To become familiar with the full rating history, please, see the chart at the end of the document.

BCRA – Credit Rating Agency (BCRA) is the third qualified rating agency in the EU, registered under Regulation (EC) No. 1060/2009 of the European Parliament and of the Council. The credit ratings, assigned by BCRA, are recognized throughout the EU and are entirely equal with the other ratings, recognized by European Securities and Markets Authority (ESMA), without any territorial or other limitations.

„BCRA – Credit Rating Agency“ (BCRA) assigns to „Investbank” AD the following ratings:

- **Long-term financial strength rating B-, outlook „in development”, short-term financial strength rating C;**
- **National-scale long-term rating B (BG), outlook „in development”, national-scale short-term rating C (BG).**

BCRA’s officially adopted Bank Financial Strength Rating Methodology has been applied (http://www.bcra-bg.com/files/file_66.pdf).

To elaborate the credit report and to assign the credit rating, BCRA used information from the rated Bank, the BNB, the National Statistical Institute, BCRA’s database, consultants and other sources of public information.

During 2015, the economy of the country reported a 3.0% real growth, as the greatest contribution has the export of commodities and services sustained by an

increase in the ultimate consumption. During the first half of 2016, an increase was observed in the importance of the domestic consumption for economy growth.

During 2015, the FIF (foreign investments flow) reached 3.8% of GDP outrunning the reported levels for the previous three years. For the first half of 2016, the foreign investments reduced slightly compared to the previous period of the past year – decreased to 2.0% of GDP (2.2% of GDP as of Q2 2015).

At the labour market the positive changes remained, that were observed during 2013 regarding employment. The economic activity showed signs of deterioration increasing during the half of 2016.

At the beginning of 2014, deflationary processes have been observed and reached their peak at the beginning of 2015, then remained the same and even became worse until mid-2016.

The state debt of the country improved slightly during 2015 and continued during 2016.

After some balancing of the state debt as of the end of 2015 and consequent considerable increase during March 2016, its size remains almost unchanged.

For the period of updating, the banking system in the country is characterized by:

- Retention of the considerable share of foreign capital in total capital of the banking system;

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- A slight hesitation in the value of the assets of the banking system expressed by a decline during 2014 and increase during 2015, as during the first half of 2016, the growth is confirmed. At the same time the started in 2013 trend for increasing the profit of the banks is retained;
- The stable growth in the size of the attracted deposits continues;
- The decline in loans giving is considerable;
- A stable uptrend in the net interest margin;
- The uptrend in the classified loans has been discontinued;
- High liquidity and capital adequacy levels.

During the period of updating, the process of implementation in the Bulgarian legislation of the effective regulatory requirements in EU in banking area continued.

During the period of updating, after a decrease in the Commercial Register at the Registry Agency on 25.08.2015 in the amount of 9 599 thousand BGN, the authorized capital of „Investbank” AD changed from 131 266 thousand BGN to 121 667 thousand BGN. The change was made in pursuance of a final judgment in a commercial case №3179/2010 of Sofia City Court, Commercial Department, VI-17 composition, by resolution of an extraordinary General meeting of shareholders of „Investbank” AD held on 17.11.2014 and then explicitly permitted by the Bulgarian National Bank (BNB), under orders of the Deputy Governor of BNB in charge of „Banking Supervision Department” since April 2016.

At the end of September 2016, the shareholding structure of Investbank was as follows:

| Shareholders | Share | |
|-----------------------------|----------------|----------------|
| | Sep16 | Sep15 |
| Festa Holding PLc. | 48.55% | 49.50% |
| Adil Said Ahmed Al Shanfari | 34.25% | 31.74% |
| Petia Slavova | 13.49% | 14.56% |
| Black Sea Gold AD | 3.14% | 2.91% |
| Others | 0.57% | 1.29% |
| Total: | 100.00% | 100.00% |

During the period of updating, the following changes have been made in the Management Board of the Bank:

- During October 2015, Lyubomir Karimanski resigned, and its position was occupied by Vesela Koleva-Dzhidzeva;
- During August 2016, Emilia Traykova was elected as member of the Management Board;
- Since August 2016, Zdravka Ruseva has been approved as Executive Director except being member of the Management Board;
- During September 2016, Plamen Milkov was elected for another mandate.

At the end of September 2016, the Management Board of Investbank is in the following composition:

- Plamen Milkov – Chairman and Executive Director;
- Radka Nikodimova – Executive Director and Member;
- Zdravka Ruseva – Executive Director and Member;
- Vesela Koleva-Dzhidzeva – Member;
- Emilia Traikova – Member.

At the beginning of October 2016, Mrs. Radka Nikodimova resigned as member of the Management Board, and Mrs. Vesela Koleva-Dzhidzeva occupied the positions of member of the Management Board and Executive Director.

In the composition of the Supervisory Board there were not changes in the period of updating.

During 2015, the capital base of the bank reported a decline of 5.0%, as this is reduction of Tier I capital and Tier II capital. The decrease in Tier I capital is mainly in line of the decrease of the equity. During the first half of 2016, the capital base of the bank reported insignificant decline of 0.1%. The total size of risk exposures increased by 15.1% during 2015 and by 3.8% during the first half of 2016. The decrease of the capital base and growth of the risk exposures led to decrease of the indicators for capital adequacy as their levels remained below average for the banking system and banks from the second group but continued to be considerably over the regulatory requirements.

The faster decline of the capital base compared to the net size of classified exposures led to increase of the ratio Net classified exposures / Capital base, as the value of the indicator continued to be considerably higher compared to the average for the banking system and banks from the second group.

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|  <p>BCRA CREDIT RATING AGENCY</p> | <p>FINANCIAL STRENGTH RATING „Investbank“ AD Long-term / short-term rating: B- / C <i>Outlook: In development</i> National-scale rating: B (BG) / C (BG) <i>Outlook: In development</i> 26.10.2016</p> |
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The announced results by the Bulgarian National Bank on the Asset Quality Review (AQR) and stress test of the Bulgarian banking system show that the increase of the base equity of Investbank decreased with the capital coverage of T1 and T2 amounted to 122 141 thousand BGN. The needed corrections and executable capital buffers, are in the size of 89 164 thousand leva and 66 252 thousand leva, respectively, the measures of coverage with extra capital buffers are in the amount of 33 275 thousand leva. The actions and measures that the bank has planned are:

- Support from the shareholders (increase of the capital by 20 mln. BGN by April 2017, capitalization of the profit);
- Paying off exposures leads to decrease of the connected corrections with AQR;
- Charging additional accounting provisions;
- Assets sales, purchased by securities;
- Retention of liquidity;
- Implementation of an internal model for collective provision;

For successful application of the above mentioned measures, the bank will create a special Committee to the Management Board with the intent to provide with current surveillance and monthly reporting.

During 2015, the resource base „Investbank“ for first time after some consecutive years of growth reported insignificant decline in the amount of 0.2% compared to the previous year, whereas for the banking system there is slight growth of 1.1%. During the first half of 2016, the resource base of the bank increased by 0.93% compared to the end of 2016 as the increase is close to the reported by the banking system (1.10%).

In the structure of the deposit base of Investbank there were not considerable changes during the period as it continued to be dominated by deposits of physical persons.

At the end of 2015, the share of the term deposits in the resources attracted by companies and citizens and households increased considerably after two consecutive years of decrease and reached 60.9% (62.4% at the end of June 2016).

The share of the deposits of physical persons in the total resource base of the bank exceeded the average levels for the banking system and the second group of banks.

During 2015, the amount of the assets of „Investbank“ AD is characterized by slow growth (2.2%) compared to the banking system (2.8%), whereas during the first half of 2016 the growth of the assets amounted to 1.5% and is by 0.2 p.p. higher than the banking system.

In the assets structure there were not any considerable changes during the period of updating.

During the analyzed period, there were not considerable changes in the investments structure and they continued to be dominated by debt securities whose share amounted to 94.4% at the end of 2015 (94.1% at the end of 2014) and to 94.9% at the end of June 2016. The share of the state securities increased from 50.5% at the end of 2014 to 97.9% at the end of 2015, and at the end of June 2016 it amounted to 98.1%.

During 2015, the uptrend (started since 2014) of gross credit portfolio retained. An increase of 12.8% was reported on a yearly basis. In a comparative aspect, during the period of updating, the gross loans of the banking system reported a decline of 2.6%, and these of the banks from second group increased by 5.5%. During the first half of 2016, a decline was reported in the gross credit portfolio (8.9%), as in a comparative aspect the banking system and banks from second group reported the same trend, but the decrease is characterized by lower rates (0.8% and 1.7%). Structurally, the gross portfolio of the bank continued to be dominated by loans to companies.

Net credit portfolio and gross credit portfolio have similar reported trends.

Some concentration by sectors and residual size of the loans is observed in the structure of the corporate credit portfolio.

At the end of 2015 and June 2016, the trend in a comparative aspect continues the coverage from depreciations of gross credit portfolio and gross classified loans of the rated bank to be considerably lower than the banking system and banks from the second group, and the share of its non-performing loans in total credit portfolio exceeded the average levels for the banking system and banks from second group.

Over the last years, Investbank has made essential reorganization in credit process as the changes were made to exercise effective control over the risk exposures and to restrict negative manifestations.

During 2015, the incomes from interests of „Investbank“ reported growth of 3.6% on a yearly basis and during the first half, the increase was 1.9% compared to the same period of the previous year. The return on interest bearing assets during 2015 remained the same (growth of 0.02 p.p. to 4.52%), and six months later increased to 4.66%. At the same time, the banking system continued to report a descending trend of the indicator. Despite this, the reported level as of June 2016 (4.77%) was higher compared to „Investbank“. The bank, however, is characterized with a higher level compared to the average for the second group of banks as of 06.2016 (4.62%).

The bank maintained the favourable descending trend of the price of the interest liabilities, which in 2015 decreased by 0.85 p.p. to 2.86%, and during the first half of 2016 – by more 0.48 p.p. compared to the end of 2015, reaching 2.38%. Still, these levels are much higher in a comparative aspect: as of June 2016 the banking system reported 0.87%, and the second group of banks – 1.05%.

The Gross Interest Spread of the bank continued to increase with comparatively high rates, reaching 1.66% at the end of 2015 (0.79% a year earlier) and 2.28% in the mid-2016. The sector and the second group of banks are also characterized by an ascending trend of the indicator as its levels continued to exceed considerably the reported by the bank.

The dynamics of the net interest margin is similar.

During 2015, the non-interest income of the bank reported growth of 9.4% mainly in line of the income from taxes and commissions that increased by 20.9% on a yearly basis. It determines the increase by 0.02 p.p. of the indicator Non-interest income / Average assets, which reached 1.60%. During the first half of 2016, there was also growth compared to the same period of the previous year – from 1.80% to 1.84%. The level of the ratio for the bank as of June 2016 is close to the average for the sector and higher compared to the second group of banks.

During 2015, „Investbank“ generated a net profit in the amount of 1 633 thousand leva compared to 1 606 thousand leva for the previous year which is increase of 1.7%. Due to increase in assets, however, their return during the period decreased from 0.09% for 2014 to 0.08% for 2015. These levels are lower in a comparative aspect: during the period, the banking system reported 1.05 % and the second group of banks – 0.52%. During the first half of 2016, the

indicator grew and reached 0.49%, compared to 0.10% for the same period of the previous year. During this period, the bank continued to position itself unfavorably in a comparative aspect – the sector reported 1.35%, and the second group of banks - 0.84%.

During the last complete year „Investbank“ is characterized by considerably higher size of operating financial result compared to the previous year which is due to growth in net interest income and increased incomes from taxes and commissions.

During the first half of 2016, the bank reported considerable growth of the net profit on a yearly basis as a result mainly from the reduced interest expenses (30.7%) due to reduced interests on deposit products. It reached 8 890 thousand BGN compared to 1 116 thousand BGN for the same period of 2015. The Bank succeeded to achieve a comparatively high operating result – for the first six months of 2016 it was by 15.6% higher than for the entire 2015.

The value of the indicator Current assets to Total liabilities minus Equity decreased during the period of updating as it continued to report considerably lower levels than the banking system and the banks from the second group.


Liquidity ratio reported a slight decline in 2015 and the first half of 2016, as in a comparative aspect it is lower than the average levels for the banking system and the banks from the second group.

The value of the indicator Total loans to Total deposits continues to be considerably lower than the average for the system and the banks in the second group.

BNB has recommended the correlation of the liquid assets within the meaning of Ordinance 11 to attracted resources from institutions different from credit institutions, citizens and households of at least 20%, as of the end of 2015 and June 2016 the value of the indicator of the bank considerably exceeded the requirement.

During the period of updating, Investbank maintained its positions regarding the amount of the assets, gross loans and attracted deposits occupying the 12th position, the 13th and 11th position at the end of 2015 and June 2016.

At the beginning of 2016, „Investbank“ has successfully migrated to a new information system. The new system is entirely integrated with the internet

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banking system and with the new card management system.

As of the date of report preparation, there is a running process in the Bank related to introduction to software that is a specialized decision for automation of the activities on prevention of money laundering and terrorist financing. The expectations are the system to come into operation until the end of the year.

| <i>(BGN thousand)</i> | 06.2016 | 6.2015 | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Balance Sum | 1 985 189 | 1 884 044 | 1 955 963 | 1 923 929 | 1 676 365 | 1 370 565 | 1 253 657 |
| Equity | 186 528 | 182 390 | 176 474 | 183 287 | 177 989 | 161 557 | 108 580 |
| Net Financial Result | 8 890 | 1 116 | 1 633 | 1 606 | 452 | -725 | -4 993 |
| Return on Assets | 0.49% | 0.10% | 0.08% | 0.09% | 0.03% | -0.06% | -0.40% |
| Gross non-performing expositions / Total Loans | 27.04% | 24.75% | 22.41% | 25.79% | 38.68% | 42.34% | 47.31% |
| Liquidity Ratio | 33.48% | 31.13% | 34.47% | 35.17% | 33.35% | 32.10% | 26.61% |

During the period of updating, reorganizations and changes have been made in the organizational structure and internal regulatory framework of „Investbank“ AD, as well with regard to its management team.

Positive influence upon the rating of the bank might cause stable improvement in the portfolio quality, growth of the generated profit and profitability indicators, in case of additional decrease of the share of the non-performing exposures, increase of their coverage from depreciations, retention of stable capital adequacy and liquidity.

Negatively on the rating could reflect the deterioration in the assets quality (incl. increase of the share of the overdue served loans), considerable reduction of the activity, negative result of the led against the bank lawsuits, as well as decrease in the capital adequacy and liquid position of the bank.

***Rating History:**

The ratings displayed in the chart are assigned under the previous Methodology for assigning ratings of the ability of insurance companies to pay claims and are not directly comparable with the ratings assigned after the entry into force of the current methodology in September 2015.

| „Investbank“ AD | Initial Rating 4.2009 | Monitoring 18.11.2009 | Update 03.5.2010 | Monitoring 07.12.2010 | Update 25.5.2011 |
|----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------------------|
| FINANCIAL STRENGTH RATING | | | | | |
| Long-term Rating: | BBB- | BBB- | BBB- | BBB- | BB |
| Outlook: | <i>stable</i> | <i>negative</i> | <i>stable</i> | <i>negative</i> | <i>negative</i> |
| Short-term Rating: | A-3 | A-3 | A-3 | A-3 | B |
| FINANCIAL STRENGTH RATING | Monitoring 14.09.2011 | Update 19.12.2012 | Monitoring 10.05.2013 | Update 18.12.2013 | Update 13.10.2014 |
| Short-term Rating: | B+ | B+ | B- | C | B- |
| Outlook: | <i>negative</i> | <i>negative</i> | <i>negative</i> | <i>stable</i> | <i>stable</i> |
| Short-term Rating: | C | C | C | C | C |