

TBI BANK EAD

**ANNUAL SEPARATE FINANCIAL STATEMENTS
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED FOR USE IN THE EUROPEAN UNION**

31 DECEMBER 2015

Financial statements in English are translation from the original in Bulgarian. This version of the financial statements is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the report takes precedence over this translation.

Contents

Independent auditors' report	
Annual management report	i-vi
Separate statement of comprehensive income	1
Separate balance sheet	2
Separate statement of changes in equity	3
Separate statement of cash flows	4-5
Notes to the separate financial statements	6-66



Independent auditor's report

To the Shareholders of TBI Bank EAD

Report on the Separate Financial Statements

We have audited the accompanying separate financial statements of TBI Bank EAD (the "Bank") which comprise the separate statements of comprehensive income, the separate balance sheet as of 31 December 2015 and the changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers Audit OOD, 9-11 Maria Louisa Blvd., 1000 Sofia, Bulgaria
T: +359 2 9355200, F: +359 2 9355266, www.pwc.com/bg
Registered with the Sofia City Court under company file number 13424/1997.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



Opinion

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the Annual Report in accordance with the Accounting Act.

We are required by the Accounting Act to express an opinion whether the Annual Report is consistent with the annual financial statements of the Bank.

In our opinion, the Annual Report set out on pages i to vi, is consistent with the accompanying financial statements of the Bank as of 31 December 2015.

Anna Boteva
Registered Auditor

31 March 2016
Sofia, Bulgaria



Stefan Weiblen
PricewaterhouseCoopers Audit OOD

PricewaterhouseCoopers Audit OOD, 9-11 Maria Louisa Blvd., 1000 Sofia, Bulgaria
T: +359 2 9355200, F: +359 2 9355266, www.pwc.com/bg
Registered with the Sofia City Court under company file number 13424/1997.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Annual Management Report of TBI Bank EAD

TBI Bank EAD (the Bank) is member of the Kardan Group, which as at 31 December 2015 holds 100 % (78,600,000 shares) of the Bank's capital through TBIF Financial Services B.V. TBI Bank EAD offers a wide range of banking services to local and foreign clients through its Head office in Sofia, the branch in Bucharest, 162 offices and outsourced working stations serviced by 734 officers (2014: 722).

TBIF Financial Services B.V. is a company operating in Bulgaria, Romania and Ukraine. The subsidiaries of the company are providing banking and non-banking financial services with a key focus on servicing individuals and small and medium-sized enterprises.

TBI Bank has a two-tier management structure. All members of the Supervisory and Management Boards meet the requirements of the Law on Credit Institution and Regulation 20 of BNB, and have been explicitly approved by the Central Bank. TBI Bank EAD has a functioning Audit Committee, the structure of which is compliant to the requirements of the Independent Financial Audit Act.

As at 31 December 2015 TBI Bank holds controlling interest in TBI RENT EAD and TBI CREDIT IFN S.A.

As at 31 December 2013 the Bank holds controlling interest in the milk processing company Opicvet Milk AD. In May 2014 the Bank disposed its interest in this company. As at 31 December 2014 TBI Bank does not hold shares or shareholdings in other entities.

In October 2012 the Bank has registered its branch in Romania, based on the Single European Passport right.

TBI Bank EAD holds a well-diversified client portfolio. The strategy adopted, focused on increased lending to individuals, predetermines the significant increase in the loan portfolio. Although the newly attracted resources are characterised with a decreasing cost, the profitability of the Bank remains stable. The maintenance of stable liquidity levels is of great importance. Despite the expansion of the Bank's activity and the sharp increase in the lending operations, the Bank maintains adequate levels of liquidity.

In 2015 TBI Bank EAD has generated net interest income amounting to BGN 44,825 thousand which is a 30 % increase compared to 2014 as a result of the significant growth in the loan portfolio. The net profit of the Bank in 2015 amounts to BGN 28,103 thousand compared to a profit in the prior year amounting to BGN 17,536 thousand. Operating revenue (net interest income, net fees and commissions income, net foreign exchange gains and other income) have increased by 47 % during the reporting period as compared to the prior year similarly to the net interest income. The operating revenue structure is as follows: net interest income represents 65 %, fees and commissions income - 20 %, and the other types of income represent 15 %. The revenue structure is similar to that in the prior year.

In 2015 the total assets of the Bank have increased by 7 % compared to the end of 2015 and have reached BGN 515,305 thousand (2014: BGN 480,480 thousand). At the end of 2015 the biggest increase is noted in the cash on hand and balances with central banks - by BGN 32,675 thousand, followed by the loan portfolio increase by BGN 25,614 thousand.

The increase in the loan portfolio is due to the increase in retail exposures, which exceed the share of loans to legal entities.

As at 31 December 2015 the Bank's liabilities amount to BGN 408,785 thousand (2014: BGN 410,255 thousand), 97 % of which or BGN 396,136 thousand (2014: BGN 396,343 thousand) represent deposits from clients and banks. A 4 % or BGN 15,900 thousand decrease in deposits from clients, 175 % increase in deposits from banks are noted in 2015.

in BGN'000	2015	2014	2013	2012	2011
Balance sheet figure	515,305	480,480	406,022	187,932	74,769
Equity	106,520	70,255	52,703	32,394	26,168

There is an increase in the Bank's equity by 52 % as a result of the profit generated during the year and the increase of the share capital.

The key events for the Bank in 2015 were as follows:

- On 7 May 2015 Mr. Filip Popov was elected as member of the Management Board of TBI Bank;
- On 10 August 2015 share capital increase was registered at the amount of BGN 8,200 thousand (from BGN 70,400 thousand to BGN 78,600 thousand).

Liquidity

According to the current liquidity measurement and management policy in effect the liquid assets ratio is used as a key indicator. As at the end of 2015 this indicator is 35.71 % (2014: 40.15 %), which shows the stability of the cash flows and exceeds significantly the minimum threshold (15 % ratio of liquid assets to deposits other than those attracted from credit institutions) required.

	2015	2014	2013	2012	2011
Liquidity ratio	35.71	40.15	39.46	36.07	38.41

Trends, events or risks that might have material effect on the operations:

The global financial and economic crisis and the intense competition in the banking sector are the key factors affecting the development perspectives. The Bank has passed the liquidity stress test in real environment after the events which occurred in the banking system during the year.

The slowing down of the economy, globally as well as locally in Bulgaria, requires an in-depth and efficient analysis and complex risk monitoring. The expectations in general are for prudent increase in assets and mainly in loans, as well as increase in attracted funds.

In a situation of limited economic growth the Bank works towards the efficient risk management with the efforts being focused on improvement of the processes in the area of lending, payments, customer service and maintenance of the credit portfolio quality. The emphasis is laid on the timely measures for the collection of problematic receivables. The trends for the future development of the Bank in general are for continued increase in assets and mainly in loans, as well as increase in attracted funds.

The major risks related to the operations of TBI Bank EAD and the banking sector as a whole are as follows:

- Credit risk;
- Inflation risk;
- Interest rate risk;
- Interest rate risk;
- Business risk;
- Liquidity risk;
- Currency risk;
- Operational risk (including reputation risk).

In view of the economic environment business risk and credit risk influence the Bank's operations. To address these challenges the Bank has identified and has focused on specific circle of customers, as well as clear development strategy.

Research and development

The Bank has not carried out any research and development activities.

Information in accordance with art. 33, para 1, item 7 of the Accountancy Act

The Bank aims to maintain positive balance with respect to its assets and liabilities. It should be pointed out that with respect to a large portion of the liabilities representing term deposits from individuals and legal entities relevant measures are taken against the clients to motivate renewal of their deposits. Deposits received from legal entities are of significant amounts and the experience shows that the terms and conditions are usually reconsidered and negotiated again immediately before their maturity.

A policy of matching fixed and floating interest rate assets and liabilities is applied with respect to price (interest rate) risk. The Bank's policy is to determine a minimum interest rate threshold for floating rate assets.

To manage credit risk the Bank has developed strict potential borrowers analysis and assessment procedures, including scoring procedures and detailed verification of the data provided. In addition, the Bank has developed an effective payment monitoring system as well as active policy of measures for collection of receivables. Preliminary analysis and subsequent monthly monitoring are in place to detect concentration of related parties by sectors of the economy and other cross-sections in compliance with the Bank's internal rules.

Significant events after the annual closing of accounts

No significant events have occurred after 31 December 2015, which may have effect on the Bank's operations or may require adjustments in the financial statements.

In January 2016 the Bank acquired 99.9989 % of the shares of TBI LEASING IFN S.A., a company registered in Romania and specialised in finance lease of assets.

Future plans of the Bank

The Management Board of the Bank expects the economic environment in Bulgaria to continue its stabilisation and passing on to gradual economic growth. The macroeconomic and financial stability will contribute to the growing market of financial services in a viable, efficient and competitive banking system. We expect acceleration of the process of integration of the Bulgarian economic and financial system within the European space. This will contribute to the implementation of new and expansion of the existing bank services and products.

The Bank will continue to maintain adequate financial, management, and technical capacity as basis for the implementation of efficient and prosperous banking operations.

The Bank will continue its development in the main segments of the banking market – small and medium-sized enterprises (SME) and individuals. The main focus will be placed on lending to individuals and SME's, with a focus on loans to agricultural producers. The Bank will continue to develop products offering competitive conditions on deposits and current account to its customers, while developing project financing and commercial financing as well as new, innovative products. The future development of the Bank is expressed in the creation of wider customer base and strong distribution network for financial services. TBI Bank will continue to attain the high corporate governance standards, and will work actively for the development of bank security, implementing flexible and efficient organisational structure with clearly distinct duties and responsibilities. The Bank will continue to create opportunities for internal competition between the units, control and incentives for the activity with continuous improvement of the qualifications of its employees. It will follow an ambitious personnel recruitment, training and renewal policy. The Bank employs highly qualified personnel sharing the following major values:

- motivation and professional ambition;
- open and free communication;
- taking personal responsibility;
- commitment to the standards and goals of the organisation.

The main objectives and tasks TBI Bank is facing are related to:

- ensuring maximum security for the customers and depositors of the Bank;
- maintenance of very good quality of the assets with stable liquidity and profitability;
- maintenance of sufficient capital adequacy corresponding to the risk profile of the Bank and proper management of the currency, interest rate and other risks, inherent to the banking operations;
- performance of efficient cost control;
- ensuring good return on shareholders' equity.

Information required under art. 187(e) of the Commercial Act regarding treasury shares held, redeemed or transferred

No shares were redeemed or transferred during the year.

The interests held by the members of the Supervisory and Management Boards in commercial entities as unlimited liable partners, the holding of more than 25 percent of the capital of another entity, as well as their involvement in the management of other entities or cooperatives as procurators, general managers or board members are as follows:

- **Ariel Hasson - Chairman of the Supervisory Board**

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
- c) legal entities where he sits on the management or controlling bodies:
 - TBIF Financial Services B.V., the Netherlands – member of the Board of Directors and Executive Director;
 - TBI Financial Services Bulgaria EAD - member of the Board of Directors and Executive Director;
 - AVIS, Ukraine - member of the Supervisory Board;
 - TBI Leasing IFN S.A., Romania - member of the Administrative Board;
 - S. C. TBI Credit IFN S.A. Romania - member of the Board of Directors;
 - Sofia Portfolio B.V., the Netherlands - Executive Director;
 - Creditex OOD - General Manager.

- **Valentin Galabov - member of the Supervisory Board**

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
- c) legal entities where he sits on the management or controlling bodies:
 - TBI Leasing EAD - member of the Board of Directors and Executive Director;
 - TBI Rent EAD - member of the Board of Directors;
 - TBI Financial Services Bulgaria EAD - member of the Board of Directors;
 - Sofia Portfolio B.V., the Netherlands - Executive Director;
 - Hypocredit AD - member of the Board of Directors.

- **Zvi Ziv - member of the Supervisory Board**

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
- c) legal entities where he sits on the management or controlling bodies:
 - Gulliver Energy Ltd., Israel – member of the Board of Directors;
 - Tradair Ltd. - member of the Board of Directors.

- **Tsvetan Petrinin - Chief Executive Officer and Chairman of the Management Board**

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
- c) there are no legal entities where he sits on the management or controlling bodies.

- **Nora Petkova - member of the Management Board and Executive Director**

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
- c) there are no legal entities where he sits on the management or controlling bodies.

- **Ivan Ivanov - member of the Management Board and Executive Director**

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
- c) there are no legal entities where he sits on the management or controlling bodies.

- **Filip Popov - member of the Management Board**

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) there are no legal entities where he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
- c) there are no legal entities where he sits on the management or controlling bodies.

Contracts under art. 240 (b) of the Commercial Act in 2015:

The members of the Boards and their related parties have no contracts signed for activities beyond the ordinary ones, or at terms and conditions significantly different than the ordinary market conditions.

The total net income received by the members of the Management Board and the members of the Supervisory Board in 2015 amounts to BGN 744 thousand.

Information regarding shares and bonds acquired, held and transferred by the Boards members during the year

The members of the Management Board are not allowed to acquire shares and bonds issued by the Bank. Therefore the members of the Management Board of the Bank have not acquired, do not hold and have no transferred shares or bonds in 2015.

The management is required by Bulgarian legislation to prepare financial statements for each financial year that give a true and fair view of the financial position of the Bank and of its financial performance as at the year end. The management has prepared the accompanying financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted for use by the European Union.

The management confirms that it has consistently applied adequate accounting policies and has complied with the current IFRS requirements. The financial statements are prepared on a going concern basis.

In the future TBI Bank will continue to provide high quality banking services, market driven products and will strive to remain the best banking partner for its customers in the future.

A handwritten signature in blue ink, consisting of stylized, overlapping loops and strokes, representing the name Tsvetan Petrinin.

Tsvetan Petrinin
Chairman of the Management Board
and Chief Executive Officer of TBI Bank EAD
28 March 2016

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Separate statement of comprehensive income

	Notes	For the year ended 31 December	
		2015	2014
Interest income	4	53,514	45,962
Interest expense	4	(8,689)	(11,441)
Net interest income		44,825	34,521
Fee and commission income	5	17,122	10,962
Fee and commission expense	5	(3,073)	(1,895)
Net fee and commission income		14,049	9,067
Net trading gain	6	9,180	2,374
Other operating expenses	7	(30,880)	(23,379)
Loss on impairment of financial assets	14	(6,470)	(4,853)
Impairment of other assets	16	-	(137)
Loss on derivatives	2	(767)	(812)
Other operating income		751	755
Profit before tax		30,688	17,536
Income tax expense	9	(2,585)	-
Profit for the year		28,103	17,536
Other comprehensive income			
<i>Other comprehensive income subject to reclassification to the profit or loss in subsequent periods:</i>			
Foreign exchange differences on translation of foreign operations	28	16	4
Net gain/(loss) on available for sale financial assets	28	(54)	12
Other comprehensive income for the period		(38)	16
Total comprehensive income for the year		28,065	17,552

Tsvetan Petrinin
Chief Executive Officer and
Chairman of MB
28 March 2016

Ivan Ivanov
Executive Director and
Member of MB

Daniela Kostadinova
Chief Accountant

Anna Boteva
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

The notes on page 6 to 66 form an integral part to the accompanying separate financial statements.

31.03.2016

31.03.2016

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Separate balance sheet

	Notes	As at 31 December	
		2015	2014
ASSETS			
Cash on hand and balances with central banks	10	109,616	76,941
Placements with other banks	11	38,379	90,455
Non-current assets held for sale	16	8,955	882
Loans to customers	13	311,437	285,823
Available for sale financial assets	12	11,878	1,109
Investments in subsidiaries	19	11,157	-
Other assets	20	10,414	11,836
Current tax assets		71	78
Intangible assets	17	1,634	1,327
Property and equipment	18	11,764	12,029
Total assets		515,305	480,480
LIABILITIES			
Deposits from banks	21	24,675	8,982
Derivatives	2	17	21
Deposits from customers	22	371,461	387,361
Other borrowings	23	4,324	7,448
Other liabilities	24	8,308	6,413
Total liabilities		408,785	410,225
EQUITY			
Share capital	28	78,600	70,400
Statutory reserves	28	2,596	2,596
Revaluation reserve	28	(42)	12
Foreign currency translation reserve	28	20	4
Accumulated profit/(loss)		25,346	(2,757)
Total equity		106,520	70,255
Total liabilities and equity		515,305	480,480

Tsvetan Petrinin
Chief Executive Officer and
Chairman of MB
28 March 2016

Ivan Ivanov
Executive Director and
Member of MB

Daniela Kostadinova
Chief Accountant

Anna Boteyva
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

31.03.2016

03.2016

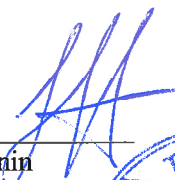
The notes on page 6 to 66 form an integral part to the accompanying separate financial statements.


31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Separate statement of changes in equity

	Share capital (Note 28)	Statutory reserve (Note 28)	Revaluation reserve (Note 28)	Foreign currency translation reserve (Note 28)	Accumulated loss/profit	Total
Balance at 1 January 2014	70,400	2,165	-	-	(19,862)	52,703
Other comprehensive income	-	-	12	4	-	16
Profit for the year	-	-	-	-	17,536	17,536
Total comprehensive income for the year	-	-	12	4	17,536	17,552
Transfer of reserves	-	431	-	-	(431)	-
Balance at 31 December 2014	70,400	2,596	12	4	(2,757)	70,255
Balance at 1 January 2015	70,400	2,596	12	4	(2,757)	70,255
Other comprehensive income	-	-	(54)	16	-	(38)
Profit for the year	-	-	-	-	28,103	28,103
Total comprehensive income for the year	-	-	(54)	16	28,103	28,065
Capital increase	8,200	-	-	-	-	8,200
Balance at 31 December 2015	78,600	2,596	(42)	20	25,346	106,520


Tsvetan Petrinin
Chief Executive Officer and
Chairman of MB
28 March 2016


Ivan Ivanov
Executive Director and
Member of MB

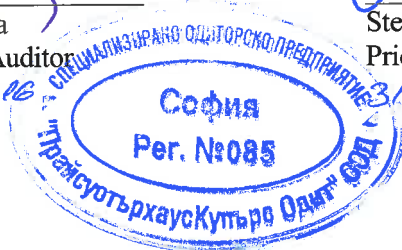

Daniela Kostadinova
Chief Accountant


Anna Boteva
Registered Auditor


Stefan Weiblen
PricewaterhouseCoopers Audit OOD

31.03.2016

31.03.2016



The notes on page 6 to 66 form an integral part to the accompanying separate financial statements.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Separate statement of cash flows

	Notes	For the year ended 31 December	
		2015	2014
Cash flows from operating activities			
Profit for the year		28,103	17,536
Adjustments to reconcile the profit after tax to the net cash flows			
<i>Non-monetary</i>			
Impairment of financial assets	14	6,470	4,853
Impairment of non-current assets held for sale	16	-	137
Depreciation and amortisation	17,18	1,421	1,267
Taxes paid		7	(1)
Gain on disposal of property and equipment		-	(35)
Gain on disposal of investments in subsidiaries	19	-	(49)
Loss on disposal of non-current assets held for sale	6	9	23
Unused leaves provision	24	51	13
Unrealised foreign exchange losses	6	276	110
Cash flows from/used in operating activities before changes in operating assets and liabilities		36,337	23,854
<i>Changes in operating assets and liabilities</i>			
Net decrease/(increase) in minimum statutory reserves with central banks	10	1,356	(2,475)
Net decrease/(increase) in loans to customers	13,14	(32,084)	(46,427)
Net decrease/(increase) in non-current assets held for sale	16	(8,073)	321
Net decrease/(increase) in derivatives	2	(4)	(35)
Net decrease/(increase) in other assets	20	1,422	(6,546)
Net (decrease)/increase in deposits from banks	21	15,693	4,978
Net (decrease)/increase in deposits from customers	22	(15,900)	51,341
Net (decrease)/increase in other liabilities	24	1,604	1,755
Net cash flows from operating activities		351	26,766

(continued on the next page)

The notes on page 6 to 66 form an integral part to the accompanying separate financial statements.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Separate statement of cash flows (continued)

	Notes	For the year ended 31 December	
		2015	2014
Cash flows from investing activities			
Cash payments related to available for sale investments	12	(10,769)	(1,020)
Proceeds from sale of investments in subsidiaries		-	1,745
Purchase of subsidiaries	19	(11,157)	-
Purchase of intangible assets	17	(843)	(425)
Proceeds from disposal of property and equipment	18	-	182
Purchase of property and equipment	18	(703)	(3,677)
Net cash flows used in investing activities		(23,472)	(3,195)
Cash flows from financing activities			
Payments received on other borrowings	23	1,209	4,559
Payments made on other borrowings	23	(4,333)	(5,755)
Capital increase	28	8,200	-
Net cash flows from/used in financing activities		5,076	(1,196)
Net increase in cash and cash equivalents		(18,045)	22,375
Cash and cash equivalents at the beginning of the period	29	134,515	112,140
Cash and cash equivalents at the end of the period	29	116,470	134,515
For the year ended 31 December			
Cash flows related to interest and dividends		2015	2014
Interest paid		(9,347)	(13,943)
Interest received		57,849	44,829
Dividends received		5	7

Tsvetan Petrinin
Chief Executive Officer and
Chairman of MB
28 March 2016

Ivan Ivanov
Executive Director and
Member of MB

Daniela Kostadinova
Chief Accountant

Anna Boteva
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

The notes on page 6 to 66 form an integral part to the accompanying separate financial statements.

31.03.2016

31.03.2016

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements

1 General information and accounting policies

TBI Bank EAD (the Bank) was established on 11 November 2002 as a joint-stock company with a two-tier management system under the name West - East Bank AD with the following shareholders: Aktiva Holding B.V., Factor Banka d.d. and LB Maxima D.O.O. The Bank was registered at Sofia City Court as a joint-stock company on 28 August 2003 after receiving a licence from the Bulgarian National Bank allowing it to render banking services on 13 August 2003. It started its operations on 1 October 2003. In 2006 Nova Ljubljanska Banka d.d. consecutively acquired 97.01% of the share capital of the Bank; on 14 April 2006 - 72.51 %, and then on 28 December 2008 another 24.50 % of the capital. The name of the Bank was initially changed to NLB Banka West – East AD, and subsequently to NLB Banka Sofia AD. Until mid 2011 the Bank, still under the name of NLB Banka Sofia AD, was controlled by Nova Ljubljanska Banka d.d., which held 97.01 % of its shares. The remaining 2.99 % of the shares were held by Factor Banka d.d.

At the end of July 2011 TBIF Financial Services B.V, having its registered office in the Netherlands acquired 100 % (38,399,001 shares) of the Bank's capital. The legal form of the Bank was changed – from a joint-stock company it was transformed into a sole owner joint-stock company. In October 2011 the Bank's capital was increased by BGN 8,001 thousand, and at the end of November 2011 the name of the Bank was changed to TBI Bank EAD. As at 31 December 2015 the Bank's capital amounts to BGN 78,600 thousand, distributed in 78,600,000 ordinary dematerialised shares with a par value of BGN 1 each.

The Headquarters of the Bank was moved to a new registered office as of September 2012 - Sofia, 52-54, Dimitar Hadzhikotzev street. The operations of the Bank are carried out through the Headquarters in Sofia, the branch in Bucharest, 162 offices and outsourced working stations. At the end of 2012 the Bank obtained permit issued by the Bulgarian National Bank to open a branch in the Republic of Romania and launched the steps required for the coordination, technical and resource provisioning for the operations related to the upcoming start of the work of the branch. The branch launched its operations in 2013 with a focus on financing to individuals and legal entities.

The parent of the Bank is TBIF Financial Services B.V., with address of management 30, Claude Debussylaan, Amsterdam, the Netherlands. The parent is looking for opportunities to invest in financial services, particularly banking, mortgage and consumer financing, asset management and investment advisory services in Central and Eastern Europe, and in some former CIS republics. Majority holder of TBIF Financial Services B.V. is Kardan Financial Services B.V. (100.00 %). The ultimate parent of the Bank is Kardan N.V. having its registered address in the Netherlands. The Company is listed on both the Euronext Amsterdam and the Tel Aviv Stock Exchange. As at 31 December 2015 the Bank holds controlling interest in TBI Credit IFN SA with a place of business and country of incorporation Romania and TBI RENT EAD with a place of business and country of incorporation Bulgaria. Investments in subsidiaries are accounted for at cost method in these separate financial statements of the Bank. Dividends are recognized as income when the Bank's right to receive the dividend is established.

The accompanying financial statements are not consolidated financial statements in accordance with art. 37, para 2 of the Accountancy Act and IFRS 10 Consolidated Financial Statements. The Bank prepares separately consolidated financial statements in accordance with IFRS 10 and the Bulgarian legislation. The consolidated financial statements are accessible at www.tbibank.bg. Users of these separate financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2015, as soon as they become available in order to obtain full information on the financial position, results of operations and changes in the financial position of the Group as a whole.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

The Bank is managed by Management Board under the control of a Supervisory Board. As at 31 December 2015 the Management Board comprises four members with a mandate up to five years, elected by the Supervisory Board. Three of the Management Board members are also Executive Directors of the Bank and the Bank is represented jointly by either two of the Executive Directors. The Supervisory Board comprises at least three but not more than seven members with a mandate up to five years.

These separate financial statements as well as the consolidated financial statements were approved by the Management Board by virtue of Decision dated 28 March 2016.

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements to the extent they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated.

a Basis of preparation of the financial statements

(i) *Compliance with IFRS*

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union.

(ii) *Historical cost convention*

The financial statements have been prepared on a historical cost basis, except for the following:

- Available for sale financial assets, financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property – measured at fair value;
- assets held for sale – measured at fair value less cost of disposal;

(iii) *Amendments to published standards and interpretations which have come into force and have been applied by the Bank since 1 January 2015*

The Bank has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2015:

- *Annual Improvements to IFRSs 2011 – 2013 Cycle* (EU effective date – 1 January 2015);
- *IFRIC Interpretation 21 Levies* (EU effective date – 17 June 2014);

The changes did not have a significant impact on these financial statements except for introducing certain new disclosures.

(iv) *Amendments to published standards and interpretations which have not yet come into force and will be applied by the Bank in uze next years*

Approved by the EU

The Bank will apply the following standards and amendments for the first time for their annual reporting period commencing 1 January 2016 (EU effective date – 1 February 2015):

- *Annual Improvements to IFRSs – 2010-2012 Cycle*;
- *Defined Benefit Plans: Employee Contributions – Amendments to IAS 19 'Employee Benefits'* - these changes had no impact on the financial statements of the Bank.

Annual Improvements to IFRSs 2010-2012, concern 7 standards and include changes in presentation, recognition and measurement, as well as terminology and editorial changes:

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

- *IFRS 2 'Share-based payments'* - clarified the definitions of terms: 'market condition', 'performance condition', 'service condition' and 'vesting condition';
- *IFRS 3 'Business combinations'* – amended provisions concerning the recognition of change in fair value of other contingent considerations, currently the standard allow to recognise them only in the income statement;
- *IFRS 8 'Operating Segments'* – obligation to disclose a judgement made by the management in aggregating operating segments;
- *IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets'* – amended provisions concerning the revaluation model;
- *IAS 24 'Related Party Disclosures'* – an entity, that provides services of key management personnel, was added as a related party. A requirement to disclose the amounts paid for management services to this entity was introduced;
- *IAS 37 'Provisions, contingent liabilities and contingent assets' and 'IAS 39 'Financial instruments: recognition and measurement'* amended in accordance with amendments to *IFRS 3 'Business combinations'*.

The above-mentioned amendments will apply for the first time for the financial statements of the Bank for the year 2016 and they will have a presentation character, requiring a possible extension of disclosures.

The Bank also has assessed the adoption of the following amendments (EU effective date – 1 January 2016):

- *IFRS 11 'Joint Arrangements'*;
- *IAS 16 'Property, plant and equipment' and IAS 38 'Intangible assets' concerning amortisation and depreciation*;
- *IFRS 5 'Non-current assets held for sale and discontinued operations'*;
- *IAS 19 'Employee Benefits'*;
- *IAS 34 'Interim financial reporting'*.

These changes will have no significant impact on the financial statements of the Bank.

Other new accounting pronouncements:

- *IAS 1 - 'Presentation of the financial statements'*

The introduced amendments clarify that the principle of materiality applies to both the primary part of the financial statements and explanatory notes, also indicate that it is required to disclose only the information that is relevant. The Bank will review the financial statements for significance and relevance of disclosure in the notes.

- *Amendments to IAS 27 'Separate Financial Statements'*

The amendments allow the reporting entity the application of the equity method for accounting for its investments in subsidiaries, associates and joint ventures in the separate financial statements. The amendments precise also that if a parent company is no longer an investment entity, it should account for its investments in subsidiaries at cost or using the equity method, or in accordance with *'IAS 39 'Financial instruments: recognition and measurement'/IFRS 9 'Financial Instruments'*. In case the Bank applies equity method, this will enable the Bank to diagnosis results of subsidiaries, associates and joint ventures earlier.

The Bank did not yet take final decision on the approach.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

Not yet approved by the EU

Standards issued but not yet approved by the EU are listed below. This listing includes issued standards and interpretations. The Bank reasonably expects the latter will have impact on its disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.

IFRS 9 'Financial Instruments' (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement and that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
- Most of the requirements in *IAS 39 'Financial instruments: recognition and measurement'* for classification and measurement of financial liabilities were carried forward unchanged to *IFRS 9 'Financial Instruments'*. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities, designated at fair value through profit or loss, in other comprehensive income.
- *IFRS 9 'Financial Instruments'* introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of *IFRS 9 'Financial Instruments'* and continuing applying *IAS 39 'Financial instruments: recognition and measurement'* to all hedges because the standard currently does not address accounting for macro hedging.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

Not yet approved by the EU (continued)

- *IFRS 9 'Financial Instruments'* introduces an expected credit loss model that will apply to all financial instruments that are subject to impairment accounting and replaces the incurred loss model in *IAS 39 'Financial instruments: recognition and measurement'*.
- The new requirements eliminate the threshold in *IAS 39 'Financial instruments: recognition and measurement'* that required a credit event to have occurred before credit losses were recognised. Under *IFRS 9 'Financial Instruments'*, a loss allowance will be recognised for all financial assets, therefore the new requirements will result in the earlier recognition of credit losses. The standard is expected to have a significant impact on the Bank's loan impairment provisions. The Bank has already started assessing the impact of the new standard on its financial statements.

IFRS 9 'Financial Instruments' must be applied for financial years commencing on or after 1 January 2018.

IFRS 15 'Revenue from contracts with customers' and associated amendments to various other standards. The IASB has issued a new standard for the recognition of revenue. This will replace *IAS 18 'Revenue'* which covers contracts for goods and services and *IAS 11 'Construction contracts'* which covers construction contracts. *IFRS 15 'Revenue from contracts with customers'* establishes a single comprehensive revenue recognition model to be applied consistently to all contracts with customers, determining when and how much revenue to recognize, but has no impact on income recognition related to financial instruments which is under the scope of *IFRS 9 'Financial Instruments'* and *IAS 39 'Financial instruments: recognition and measurement'*. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers;
- identify the separate performance obligation;
- determine the transaction price of the contract;
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

Entities will have a choice of full retrospective application, or prospective application with additional disclosures.

IFRS 15 'Revenue from contracts with customers' must be applied for financial years commencing on or after 1 January 2018. The Bank is currently assessing the impact of the new standard on its financial statements.

Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Associates and joint ventures' concern the sale or contribution of assets by an investor to its joint venture or associate. In the case of a transaction involving an associate or joint venture, the extent of the gains or losses recognised is dependent upon whether the assets sold or contributed constitute a business.

If an entity: sells or contributes assets constituting a business to an associate or joint venture or loses control over a subsidiary that contains a business but retains joint control or significant influence; gains or losses relating to the transaction are recognised in the full amount.

These amendments will not have an impact on disclosures extension.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

a Basis of preparation of the financial statements (continued)

Not yet approved by the EU (continued)

Amendments to IFRS 10 ‘Consolidated Financial Statements’, IFRS 12 ‘Disclosure of interests in other entities’ and IAS 28 ‘Associates and joint ventures’ concern the application of the exception from the consolidation of investment entities. The ability to exclude subsidiaries of investment entities from the consolidation was confirmed, even if the parent company of an investment entity measures all its subsidiaries at fair value. In addition, the amendments clarify when an investment entity should consolidate a subsidiary providing services related to investment activities instead of measuring it at fair value and to facilitate the use of the equity method for an entity, which is not an investment entity itself but has shares in an associated investment entity.

It is not expected that these amendments would be relevant to the Bank.

IFRS 16 ‘Leases’ (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019) - the new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, **IFRS 16 ‘Leases’** eliminates the classification of leases as either operating leases or finance leases as is required by **IAS 17 ‘Leases’** and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. **IFRS 16 ‘Leases’** substantially carries forward the lessor accounting requirements in **IAS 17 ‘Leases’**. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Bank will analyze and assess the impact of the new standard on its financial position or performance.

Disclosure Initiative: Amendments to IAS 7 ‘Statement of Cash Flows’ (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017) - the amended **IAS 7 ‘Statement of Cash Flows’** will require disclosure of a reconciliation of movements in liabilities arising from financing activities.

The Bank is currently assessing the impact of the new standard on its financial statements.

IAS 12 ‘Income tax’ (issued in January 2016 and effective for annual periods beginning on or after 1 January 2017) - the amendments concern the clarification of how to account for deferred tax assets concerning debt instruments measured at fair value.

Impact of these changes on the Bank is yet to be estimated.

b Foreign currency transactions

(a) Functional and presentation currency

The items included in the Bank's financial statements are measured and presented in Bulgarian lev, which is the functional and presentation currency of the Bank.

The Bulgarian lev is pegged to the EURO at an exchange rate BGN 1.95583 to EUR 1 as of 1 January 1999 under the provisions of the BNB Act of 1997.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

b Foreign currency transactions (continued)

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates valid on the dates of the transactions. Foreign currency gains and losses arising as a result of the settlement of such transactions, as well as translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates valid at the year-end, are recognised in profit or loss.

Non-monetary items that are measured at historical cost in a foreign currency are translated to the functional currency using the exchange rate as of the date of initial transaction (acquisition).

As at 31 December 2015 monetary assets and liabilities denominated in foreign currencies have been translated using the official exchange rate quoted by BNB on this date – BGN 1.95583 = EUR 1, BGN 1.79007 = USD 1 and BGN 0.431789 = RON 1 (31 December 2014: B BGN 1.95583 = EUR 1, BGN 1.60841 = USD 1 and BGN 0.436112 = RON 1).

The Bank's foreign operation assets and liabilities, through its branch in Bucharest, Romania, are translated into Bulgarian lev using the closing exchange rate quoted by BNB, valid for the new Romanian leu as at 31 December 2015. The income and expenses of the foreign operation are translated using the average exchange rate for the reporting period, which amounted to BGN 0.440019 = RON 1 in 2015 (2014: 0.440214). The effects of the translation of the functional currency of the branch into the functional currency of the Bank are recognised in the other comprehensive income.

c Interest income and expense

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of the timing of the payment. Interest income/expense is recognised in the statement of comprehensive income for all interest-bearing instruments measured at amortised cost, based on the accruals principle using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or liability and allocating interest income or interest expense over the respective time period. The effective interest rate is the rate that discounts exactly the estimated future cash inflows or outflows over the expected life of the financial instrument, or a shorter period, as appropriate, to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate the Bank makes an estimate of the cash flows taking into account all contractual terms and conditions of the financial instrument (such as, early payment options), excluding any future loan losses. The calculation includes all fees, paid or received between the parties under the contract, which form an integral part of the effective interest rate, the transaction costs and any other premiums or discounts.

If the collectability of a loan is uncertain it is written down to its recoverable amount and the interest income is recognised based on the interest rate which is the original effective interest rate on the financial asset. The fees on the unabsorbed portion of loans are deferred (together with the related direct costs) and are recognised as an adjustment to the effective interest rate on the respective loans.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

d Fees and commissions income and expenses

Fees and commissions are recognised based on the accruals principle upon the rendering of the service. Fees and commissions income comprise mainly agent's commissions, transfer fees in Bulgarian lev and foreign currency, and cash transactions, and are recognised under the current accruals principle or on the transfer date, as appropriate.

e Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value, loans and receivables, held to maturity investments, and available for sale financial assets. The management designates the classification of its investments upon the initial recognition.

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

A financial asset is classified in this category if acquired or originated in order to be sold or repurchased in a short-term or is part of a portfolio of designated financial assets managed on aggregate basis for which objective data is available as a result of recent specific short-term profit generation pattern.

Derivative instruments are also classified as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are initially recognised at fair value and are subsequently measured at fair value based on the current dealing prices as at the date of the financial statements. Any realised or unrealised gains and losses arising are included in the net gain from dealing transactions as they occur. The realised interest income on financial assets held for trading is reported as interest income.

(b) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not traded in an active market other than: (a) loans and receivables which the entity intends to sell immediately or over a short period of time, which are classified as assets held for trading, or those which are designated as loans and receivables at fair value through profit or loss upon their initial recognition; (b) those which are designated as available-for-sale assets upon initial recognition; or (c) those for which the holder is unable to recover fully the initial investment due to reasons other than the deterioration of the credit quality. Loans and receivables are recognised upon the disbursement of the cash to the borrowers. Following initial recognition loans and receivables are subsequently carried at amortised cost, less any impairment allowance, using the effective interest method.

(c) Investments held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Bank's management intends to and is capable to hold to maturity.

If the Bank intends to sell a material portion of the value of held-to-maturity assets the whole category is reclassified as available for sale financial assets. Following initial recognition held-to-maturity investments are measured at amortised cost applying the effective interest rate method before impairment allowances. Interest income on investments held to maturity is reported as interest income. The Bank assesses its intention and opportunity to holds its investments to maturity not only upon the initial recognition of these financial assets, but subsequently at each balance sheet date.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

e Financial assets (continued)

(d) Available for sale financial assets

Available for sale investments are the ones which are to be held over an indefinite period of time and which may be disposed of in response to liquidity needs or changes in interest rates, exchange rates or prices of securities.

Purchases and sales of financial assets held for trading, held to maturity and available for sale are recognised on the trade date - the date when the Bank has committed to purchase or sell the asset.

All financial assets not carried at fair value through profit or loss are initially recognised at fair value plus the attributable transaction costs.

Available for sale financial assets are subsequently carried at fair value, and when it cannot be measured reliably – at the cost of the equity instruments or at the amortised cost of the debt instruments.

Gains and losses arising on their revaluation are recognised directly in the other comprehensive income, in the revaluation reserves, except impairment losses, interest income determined under the effective interest rate method and foreign exchange gains and losses which are recognised in the current financial result. The Bank includes the accumulated revaluation reserve in the financial result for the current period upon disposal of available for sale investments.

Equity investments traded in an active market are measured at fair value. Equity investments that are not traded in an active market are carried at cost less any impairment loss, if it exists. Dividends are recognised in the statement of comprehensive income in the period when the Bank becomes entitled to receive them.

f Impairment of financial assets

(a) Assets carried at amortised cost

At each date of financial statements the Bank determines whether there are objective indications for impairment of a financial asset or group of financial assets. A financial asset or group of financial assets are impaired and impairment loss exists, if and only if objective evidence for impairment exists which is the result of one or more events occurring after the initial recognition of the asset (event resulting in impairment) and this event (or events) has impact on the estimated future cash flows from the asset or the group of financial assets which can be measured reliably. The objective evidence that a financial asset or group of assets is impaired includes objective data that the Bank becomes aware of in respect of the following circumstances leading to a loss:

- non-performance of contractual payments on principal or interest;
- financial difficulties of the debtor;
- breach of clauses or provisions of the contract;
- filing of bankruptcy procedures;
- deterioration of the competitive positions of the debtor;
- decrease in the value of the loan collateral;
- deterioration of the credit rating below the investment level.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

f Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

The Bank initially estimates whether objective evidence of impairment exist separately for individually significant financial assets, and individually or on portfolio basis for financial assets that are not individually significant. If the Bank assesses that no objective evidence for impairment exist for a financial asset, whether individually significant or not, it includes this asset in a group of financial assets with similar risk features and assesses the whole group for impairment on portfolio basis. Assets which are reviewed for impairment individually and for which impairment loss is recognised and continues to be recognised are excluded from the assessment of the impairment on portfolio basis.

If there are objective evidences that impairment loss exists for loans and receivables, or held to maturity investments, the loss is calculated as the difference between the carrying amount of the asset and the present value of the estimated cash flows (except future losses that are not accumulated), discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is written down using an allowance account and the impairment loss is recognised in the profit or loss.

If a loan or held to maturity investment is bearing a floating interest rate, the discount rate used to determine the impairment loss is the current effective interest rate set out in the agreement. When practicable the Bank may calculate the impairment based on the fair value of the instrument using determinable market price.

The calculation of the present value of the expected future cash flows of secured financial assets takes into account the cash flows which may be received upon realisation of the collateral, less the costs to acquire or sell it.

When consumer loans are extended to individuals the Bank accrues collective impairment which reflects the expectations of the management for the future cash flows from the consumer portfolio. When applying collective impairment the loan portfolio of the Bank is assessed on portfolio basis, taking into account the homogeneous nature of the exposure's risk profile. Impairment is calculated applying certain percentage on the gross exposure based on the number of days the payments are overdue. For exposures that are not overdue - 0 percent impairment is applied, for exposures that are less than 29 days overdue - 0,5 percent impairment is applied, for exposures overdue 30 to 89 days - 10 percent impairment is applied, for exposures overdue 90 to 179 days - 50 percent impairment is applied, for exposures overdue more than 180 days - 100 percent impairment is applied.

The future cash flows for a group of financial assets that are collectively reviewed for impairment are determined based on the contractual cash flows related to the assets at the Bank and the historical loss experience on credit risk bearing assets similar to those at the Bank. The loss assessed, based on the historical experience is adjusted based on current data, in order to reflect the influence of the present conditions which did not impact the period in which the loss assessment was made, as well as to eliminate the effect of conditions in the historical period, which no longer exist.

If in a subsequent period the impairment loss decreases and this decrease may be objectively attributed to an event occurring after the recognition of the loss (i.e. improvement of the credit rating of the debtor) the impairment loss already recognised is reversed through the allowance account. The amount of the adjustment is recognised in the profit or loss.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

f Impairment of financial assets (continued)

(b) Available for sale financial assets

At each balance sheet date the Bank assesses whether objective evidence exists that a financial asset or group of financial assets should be impaired. For equity investments classified as investments available for sale, a prolonged or significant decline in the fair value of the security below its cost is taken into account in assessing whether the assets are impaired.

(c) Renegotiated loans

Loans which are subject to collective impairment review or which are individually significant and their terms have been renegotiated, are considered performing as of the time of the renegotiation. In subsequent periods the asset is considered in default and is disclosed as such only if the new terms and conditions have been breached.

g Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are carried at their net amount in the Bank's statement of financial position if and only when there is legal right to offset the recognised amounts, and when there is an intention to settle them at maturity on net basis and the realisation of the asset and the settlement of the liabilities can be done simultaneously.

h Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the contractual rights to receive cash flows from the financial asset have expired;
- the contractual rights to receive cash flows from the financial asset have been retained, but there is a contractual obligation to pay all cash flows collected, without significant delay, to a third party under a transfer arrangement, or the contractual rights to receive cash flows from the financial assets have been transferred, where (a) the Bank has transferred significantly all risks and rewards from the ownership of the transferred asset; or (b) the Bank has neither transferred, nor retained significantly all risks and rewards from the ownership of the financial asset, but has not retained control over the asset.

Where the Bank has transferred its contractual rights to receive cash flows from a financial asset and has neither transferred, nor retained substantially all the risks and rewards from the ownership of the asset, but has retained control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Bank's continuing involvement is the amount of the transferred asset that the Bank may repurchase. In the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Bank's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

h Derecognition of financial assets and liabilities (continued)

Financial liabilities

A financial liability is derecognised from the balance sheet when settled, i.e. the obligation under the contract is discharged or cancelled, or expired. Where an existing financial liability is replaced by another debt instrument from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original financial liability and the recognition of a new financial liability. The difference in the respective carrying amounts of the original and the new liability is recognised in the profit or loss.

i Investments in subsidiaries and associates

Investments in subsidiaries comprise of equity participations in entities where the Bank exercises control. In accordance with *IFRS 10 'Consolidated Financial Statements'* control is achieved when cumulatively the Bank:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee;
- has the ability to use its power to affect its returns.

Following the above criteria, in 2014 the Bank has assessed that it has control in all the investees, where it holds directly or indirectly more than 50% of the voting rights. Investments in associates comprise of equity participations in entities where the Bank does not exercise control or joint control but has significant influence in governing the investees' activities.

In its separate financial statements the Bank has adopted a policy of carrying investments in subsidiaries and associates at cost.

j Property and equipment

Equipment and other tangible assets are carried at historical cost less any depreciation and impairment. The historical costs includes expenses directly related to the acquisition of the tangible assets.

The subsequent costs are included in the carrying amount of a tangible asset or are recognised as a separate asset only when it is probable that the latter will bring future economic benefits to the Bank and its cost can be measured reliably. All costs for current repair and maintenance are recognised in the profit or loss as incurred.

Depreciation is charged under the straight-line method over the useful life of the asset. At each balance sheet date the residual amount of the asset and its useful life are reviewed and adjusted as appropriate.

The annual depreciation rates are as follows:

Buildings	4 %
Computers and peripherals	25 %
Leasehold asset improvements	15 %
Other tangible assets	15 %

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

j Property and equipment (continued)

Assets that are subject to depreciation are reviewed for impairment when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of the asset is written down to its recoverable amount. The recoverable amount is the higher of the asset's fair value less the costs to sale and the value in use.

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from the disposals and the carrying amounts of the respective assets. These are included in the profit or loss.

The depreciation rate adopted in respect of leasehold improvements is the lower of the useful life of the assets and the term of the lease contract.

k Intangible assets

Intangible assets comprise mainly software and are stated at historical cost less the accumulated amortisation and impairment. Amortisation is charged under the straight-line method over the useful life of the asset. At each date of financial statements the residual amount of the asset and its useful life are reviewed and adjusted as appropriate.

The annual amortisation rates are as follows:

Software	25%
Other	25%

l Non-current assets classified as held for sale

Non-current assets classified as held for sale are assets acquired as a result of the acquisition of collaterals on non-performing loans. They comprise buildings and land. This group of assets is measured at the lower of the assets' fair value less the costs to make the sale and their carrying amounts. The assets are measured at cost upon initial recognition, which is the fair value as at the acquisition date.

m Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash at bank accounts held with central banks, cash at nostro accounts held with other banks, as well as deposits with banks with original maturity of less than three months.

n Taxes

Current income taxes are calculated in accordance with the requirements of the Bulgarian tax legislation - the Corporate Income Tax Act and the Romanian tax legislation with respect to the income taxes of the branch. The nominal tax rate applicable in Bulgaria in 2015 is 10 % (2014: 10 %), and the tax rate applicable in Romania is 16 % (2014: 16 %). Current tax for the reporting period is based on the taxable profit for the year at the tax rates in effect as at the balance sheet date. Tax expenses, other than income taxes, are included in the other operating costs.

Deferred tax is provided using the liability method for all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

n Taxes (continued)

Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised for all deductible temporary differences and carry-forward tax loss, to the extent it is probable that they will reverse and that sufficient taxable profit will be available in the future or taxable temporary differences, against which such deductible differences can be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred tax assets and liabilities relate to income taxes, levied by the same taxation authority and the same taxable entity.

o Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the liability, and the liability can be measured reliably.

p Financial liabilities

Borrowings are initially recognised at the fair value of the cash inflows upon origination of the liability, less any transaction costs. Subsequently borrowings are measured at amortised cost and any difference between the net cash flows and the amortised residual cost is recognised in the profit or loss using the effective interest rate method over the useful life of the liability.

The Bank only holds financial liabilities carried at amortised cost. Financial liabilities that are not classified at fair value through profit or loss, fall into this category and are measured at amortised cost. Financial liabilities at amortised cost are deposits from banks or customers, subordinated term debt and other liabilities.

q Share capital

The Bank's share capital is reported at the nominal value of the shares. Incremental costs, directly attributable to the issue of new shares or options, or the acquisition of business, are stated in the equity as a decrease in proceeds, net of tax.

r Operating leases

Payments made under operating leases are charged profit or loss on straight line basis.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

1 General information and accounting policies (continued)

s Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payment to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payments when they fall due in accordance with the terms of the debt instrument. Such financial guarantees are issued to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other bank facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date of issuance of the guarantee. Following initial recognition the Bank's liabilities related to such guarantees are measured at the higher of: (a) the initial measurement less the amortisation calculated for the purpose of recognising in the profit or loss the commission income earned on a straight-line basis over the life of the guarantee and (b) the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are based on the experience with similar transactions and history of past losses, supplemented by the judgement of the management.

t Employees benefits

According to the local legislation the Bank is obliged to make defined contributions to the state social security fund on behalf of the employee. All such payments/liabilities are recognised as an expense in the period they refer to.

u Dividends

Dividends are recognised as a liability when a decision is made by the sole owner of the equity to distribute dividends.

v Fiduciary assets in custody

The Bank keeps assets on behalf of its customers and in its capacity as investment intermediary. These assets are not presented in the statement of financial position as they do not represent Bank's assets.

w Financial leases

Lease contracts are classified as finance leases when the Bank has transferred to the lessee all material risks and rewards associated with the leased assets. Finance lease receivables are taken to the line Loans and advances to customers in the balance sheet. The Bank applies its accounting policies for impairment of financial assets when finance lease contracts are impaired.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management

In performing its activities the Bank is exposed to variety of financial risks: market risk (including currency risk, risk of changes in the fair value of financial instruments as a result of movements in the interest rates, risk of changes in the cash flows as a result of changes in the market interest rates and price risk), credit risk and liquidity risk. The Bank's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor adherence to the risk limits by means of a reliable and up-to-date information system. The Bank regularly reviews its risk management policies and systems to reflect in a timely manner changes in the markets, products and emerging best practice. The Bank has not changed its risk management methodology as compared to 2014.

The process of risk management includes the following stages:

- risk identification – definition of its nature and description;
- risk measurement and assessment – methods to measure the risks and to ensure reliable outgoing data for risk measurement;
- risk mitigation – mitigation of potential and probable losses by means of definition of acceptable risk levels, outsourcing, monitoring and other risk mitigation methods.

Risk management units:

- coordinate the work of the departments related to analysis, assessment, supervision, management and control over risk;
- develop and implement an internal rating system for the customers of the Bank;
- develop and implement approaches to meet the requirements of Basel III and the respective internal rules.

a Credit risk

The Bank is exposed to credit risk which is the risk that a counterparty will be unable to pay the amounts in full when they fall due. Significant changes in the economy or in the situation in a particular industry segment that represents a concentration in the Bank's portfolio could result in losses other than the losses for which impairment loss allowances are identified by the Bank's management as at the balance sheet date. The management manages carefully the Bank's exposure to credit risk.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers, and the geographical and industry segments. Such risks are monitored regularly and are subject to annual or more frequent review.

Loans to other banks and customers

In measuring the credit risk of loans to other banks and customers the Bank considers the following components:

- international ratings awarded by recognised rating agencies;
- assessment of the financial position of the individual debtor;
- the ability of the debtor to secure sufficient funds for regular repayment of its future payables to the Bank;

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to other banks and customers (continued)

- servicing of past liabilities of the debtor to the Bank and/or to other institutions;
- type and amount of impairment provisions for the balance sheet and contingent liabilities of the customer.

The Bank manages the credit risk on loans and advances to customers or banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

Financial risk is assessed following detailed analysis of the financial statements of the borrower/guarantor, based on a system of creditworthiness indicators.

Market risk is assessed based on the economic characteristics/prospects of the relevant market and the competitive position of the proposed borrower.

Risk exposures are evaluated and classified based on the credit risk level, the period of delay of the amounts due, the analysis of the financial position of the debtor and the main sources for repayment of the debtor's liabilities. The assessment of the financial position includes qualitative and quantitative analyses taking into account all circumstances which may affect debt repayment according to the clauses of the loan agreement. Risk exposures on loans to individuals are measured and classified based on the defaults of any amounts due.

The Bank's risk exposures are classified in four groups based on the criteria of credit risk level, as follows:

Standard exposures - standard risk exposures are those which are serviced and the information on the debtor's financial position casts no doubts that the debtor will be capable to repay the debt in full. A risk exposure is classified as a standard exposure if all of the conditions listed below are met simultaneously:

- the principal and the interest are repaid currently in accordance with the contractual terms or repayments on them have been past due up to 30 days, provided the delay is accidental;
- the debtor uses the loan for the purposes stipulated in the agreement;
- the Bank has sufficient updated information on the debtor's financial position and the sources for repayment of the debtor's liabilities, as well as other documents relating to the debtor's activity.

Watch exposures – watch exposures are risk exposures where insignificant weaknesses exist with respect to their servicing or there is a possibility for deterioration in the financial position of the debtor which may cast doubts as to the full repayment of the obligation. A risk exposure is classified as watch exposure provided it meets one of the conditions listed below:

- principal or interest arrears payments have been past due 31 to 90 days;
- the debtor uses the loan for the purposes other than the ones stipulated in the agreement;
- the final maturity of a loan with bullet repayment granted to a newly established company or a company with poor credit history has been renegotiated.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Non-performing exposures – non-performing exposures are risk exposures where significant weaknesses exist with respect to their servicing or available information points that the debtor's financial position is unstable, current and anticipated proceeds are insufficient for the full repayment of the obligations to the Bank and to other creditors, as well as where weaknesses have been found with the distinct possibility that the Bank will sustain loss. A risk exposure is classified as non-performing exposure provided it meets one of the conditions listed below:

- principal or interest arrears payments have been past due 91 to 180 days;
- the debtor's financial position has deteriorated significantly and may jeopardise the repayment of his obligations.

Loss– exposures classified as a loss are those risk exposures where as a result of the debtor's deteriorated financial position it is expected for the obligations to become uncollectible, even though they have partial recoverable value that may be realised in the future. A risk exposure is classified as a loss provided it meets one of the conditions listed below:

- principal or interest arrears payments have been past due more than 180 days;
- the debtor suffers a permanent shortage of money;
- the debtor has been declared bankrupt or is in a liquidation procedure and there is a risk of leaving creditors unsatisfied;
- the receivable reported as a balance sheet item is subject to court proceedings or the court has awarded it to the Bank but it has not been collected;
- other conditions providing grounds to consider that the risk exposure is jeopardised by non-repayment.

Loans to individuals are monitored as per the overdue payments indicator.

Risk limitation control and mitigation policies

The Bank manages limits and controls the concentration of credit risk whenever they are identified in particular to individual counterparties, groups, and industries.

The Bank has established a set of credit approval levels with the relevant approval bodies in order to manage its credit risk. Depending on the amount of the facility requested, loans are submitted for approval to the appropriate level. The Bank assesses the financial, market and business risk, as well as the adequate structuring of the deals. Credit risk is measured following detailed analysis of the financial statements of the borrower/guarantor based on a system of creditworthiness indicators.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Risk limitation control and mitigation policies (continued)

The exposure to each borrower, including banks and intermediaries, is further restricted by: sub-limits covering on-balance sheet and off-balance sheet exposures and commitments, daily delivery risks in relation to trading items such as forwards. The actual exposures against the respective limits are monitored on a daily basis. Exposure to credit risk is managed through regular analysis of the ability of the borrowers and potential borrowers to meet their obligations and through a change in the lending limits, where appropriate.

Collateral

The Bank employs a set of policies and practices to mitigate credit risk. A requirement of the Bank to the borrowers is to provide suitable collateral prior to the disbursement of the loans approved, other than consumer loans to individuals. The main types of collateral for loans to customers are as follows:

- cash in Bulgarian levs and foreign currencies;
- mortgages on real estate;
- pledges on business assets such as receivables, inventory, plant and equipment;
- pledges over financial instruments; and
- guarantees issued in favour of the Bank.

In order to minimise credit loss the Bank requires additional collateral from the counterparties as soon as impairment indicators are noticed for the relevant individual loans receivable. Collateral held as pledge for financial assets, other than loans and advances, is determined by the nature of the financial instrument.

In view of the specifics of the Bank's business and the increasing portfolio of small consumer loans, the share of unsecured loans within the Bank's portfolio is growing. This type of loans are mostly short-term (average term of the portfolio is approximately 20 months) and they have very low limits (average receivable amount approximately BGN 1 thousand), therefore providing collateral is expensive and unjustified.

The following types of collateral are considered by the Bank as highly liquid: cash in Bulgarian levs and foreign currencies; guarantees by states, governments, banks or institutions with awarded high ratings from recognised rating agencies; first mortgage on a real estate in a residential, commercial, administrative or hotel building insured against destruction in favour of the Bank; first mortgage on regulated land estate. The value of highly liquid collaterals is determined in accordance with the internal policy of the Bank, taking into account evaluations and analyses prepared by independent appraisers and/or internal experts of the Bank. Such values are reviewed regularly to ensure adequacy of the respective valuation. Placements with other banks are not secured.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The table below shows the total amount of loans to customers before provisions and impairment losses by type of collateral:

As at 31 December	Loans to customers			
	2015		2014	
	Gross Amount	Collateral amount	Gross Amount	Collateral amount
Mortgages	80,385	237,463	81,691	126,799
Cash collateral	319	406	14,669	14,789
Other collateral	12,287	43,185	6,367	30,449
Unsecured	236,863	-	204,376	90,446
Total loans to customers	329,854	281,054	307,103	262,483

The next table presents the amount of coverage of credit risk via collateral, expressed as percentage of the loans carrying amount per type of collateral as of 31 December 2015 and 31 December 2014. Collateral values are considered up to the exposures to which these relate excluding the effects of overcollateralization. The exposures secured with mortgage collateral are 92 % covered for credit risk and these secured with cash collateral – 78 %, showing the extent to which the Bank is exposed to credit risk losses.

	2015	2014
Mortgages	92 %	68 %
Cash collateral	78 %	100 %
Other collateral	82 %	66 %

Contingent liabilities and irrevocable commitments

Guarantees and letters of credit which represent irrevocable commitment by the Bank to make the respective payment if the customer fails to discharge its liability to a third party give rise to the same type of risk as loans. Documentary and commercial letters of credit which represent written commitments of the Bank on behalf of a customer that has authorised a third party to issue orders to the Bank up to an agreed amount in accordance with specific conditions, are secured with cash deposits or other pledges in favour of the Bank and therefore the Bank reports minimum risk levels.

Commitments to grant loans represent the unutilised portion of the allowed loan amount, guarantees or letters of credit. The Bank controls the maturity of the credit commitments since in most cases long-term commitments bear higher credit risk compared to the short-term ones.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Maximum exposure to credit risk before collaterals

The table below presents the worst case scenario of exposure to credit risk of the Bank as at 31 December 2015 and 31 December 2014 without taking into account any collateral. Exposures for balance sheet assets are based on the net book values reported at the balance sheet date.

As at 31 December	Maximum exposure	
	2015	2014
Balances with central banks	100,310	67,405
Placements with other banks	38,379	90,455
<i>Loans to customers:</i>		
Mortgage loans	64,596	70,475
Agriculture loans	7,177	4,314
Commercial loans	57,338	43,156
Consumer loans	182,326	167,878
Available for sale financial assets	11,878	1,109
Other receivables	9,614	9,715
<i>Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows :</i>		
Guarantees	1,852	2,501
Undrawn loans commitments	13,776	13,630
Total maximum exposure to credit risk	487,246	470,638

Loans to customers are summarised as follows:

As at 31 December 2015	Loans to customers
Neither past due, nor impaired	242,006
Past due but not impaired	27,958
Past due and impaired	59,890
Gross amount	329,854
Less: allowance for impairment losses	(18,417)
Carrying amount	311,437
As at 31 December 2014	Loans to customers
Neither past due, nor impaired	207,776
Past due but not impaired	37,913
Past due and impaired	61,414
Gross amount	307,103
Less: allowance for impairment losses	(21,280)
Carrying amount	285,823

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Past due but not impaired loans include past due loans where the recoverable amount of the collateral covers fully the exposure to the respective borrower.

The total allowance for impairment losses of loans and advances is BGN 18,417 thousand (2014: BGN 21,280 thousand). Allowances accrued on individually assessed financial assets amount to BGN 2,776 thousand (2014: BGN 10,189 thousand), and allowances based on collective impairment assessment amount to BGN 15,641 thousand (2014: BGN 11,091 thousand). Further information on the impairment allowance for loans to customers is provided in Note 14.

In 2015 loans to customers granted by the Bank before impairment have increased by 7.41 % compared to the prior year. For the purpose of the effective credit risk management the Bank continues to be actively involved in renegotiation, restructuring and closing of existing risk exposures. An expert working group for collection of bad debts functions. This group holds weekly meetings.

Loans to customers that are neither past due nor impaired

According to its internal rules and policies the Bank assesses individually all corporate loans in its portfolio and sets aside impairment allowance if objective evidence for impairment exist. Consumer loans are reviewed for indicators for impairment on portfolio basis and the credit quality is determined based on analysis of the number of days past due and the amount overdue.

Loans to customers that are neither past due, nor impaired are presented in the table below depending on the purpose of the loan:

31 December 2015	Consumer	Mortgage	Agriculture	Corporate	Total
Total	154,674	47,556	3,724	36,052	242,006
Of which:					
<i>Standard credit risk</i>	<i>154,613</i>	<i>47,556</i>	<i>3,724</i>	<i>36,052</i>	<i>241,945</i>
<i>Higher credit risk</i>	<i>61</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>61</i>
31 December 2014	Consumer	Mortgage	Agriculture	Corporate	Total
Total	139,389	34,546	2,169	31,672	207,776
Of which:					
<i>Standard credit risk</i>	<i>139,319</i>	<i>34,087</i>	<i>2,169</i>	<i>31,672</i>	<i>207,472</i>
<i>Higher credit risk</i>	<i>70</i>	<i>459</i>	<i>-</i>	<i>-</i>	<i>529</i>

As at 31 December 2015 agriculture loans that are neither past due nor impaired include exposures of BGN 465 thousand (2014: BGN 542 thousand), secured by mortgage.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are neither past due nor impaired (continued)

The consumer loan portfolio which represents more than 64,28 % of all receivables that are neither past due, nor impaired is strongly diversified both in terms of number and amount. The latter comprise many small exposures without geographic and sector concentrations, characterised with its short-term nature and high quality based on past experience. Referring to the loans to legal entities, those are mainly SME clients with acceptable quality and within the risk appetite of the institution. The portfolio comprises loans secured mainly with mortgages and loans financed under joint schemes with SFZ and NGF.

Loans to customers that are neither past due, nor impaired are split to present the credit risk quality based on the historical analysis of clients' default behaviour. The higher credit risk group is considered to include exposures overdue more than 90 days in the last six months to the reporting date. All other exposures are included in the standard credit risk quality group.

Loans to customers which are past due but not impaired:

31 December 2015	Consumer	Mortgage	Agriculture	Corporate	Total
Past due up to 29 days	8,768	7,337	452	2,504	19,061
Past due 30 to 89 days	33	3,280	139	836	4,288
Past due more than 90 days	7	2,158	24	2,420	4,609

Total	8,808	12,775	615	5,760	27,958
--------------	--------------	---------------	------------	--------------	---------------

31 December 2014	Consumer	Mortgage	Agriculture	Corporate	Total
Past due up to 29 days	10,338	2,341	713	110	13,502
Past due 30 to 89 days	33	7,290	219	63	7,605
Past due more than 90 days	2	16,804	-	-	16,806

Total	10,373	26,435	932	173	37,913
--------------	---------------	---------------	------------	------------	---------------

Loans to customers which are not past due but are impaired:

31 December 2015	Consumer	Mortgage	Agriculture	Corporate	Total
Total	-	193	533	1,787	2,513

31 December 2014	Consumer	Mortgage	Agriculture	Corporate	Total
Total	-	920	478	4,262	5,660

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers which are past due and are impaired

For individually assessed accounts loans are treated as impaired as soon as objective evidence indicate that an impairment loss has been incurred.

31 December 2015	Consumer	Mortgage	Agriculture	Corporate	Total
Past due up to 29 days	15,677	1,064	2,230	5,431	24,402
Past due 30 to 89 days	6,000	-	672	2,410	9,082
Past due 90 to 179 days	1,420	-	15	173	1,608
Past due more than 180 days	11,388	3,234	-	10,176	24,798
Total gross amount	34,485	4,298	2,917	18,190	59,890
Less: allowance for impairment losses	(15,641)	(33)	(79)	(2,664)	(18,417)
Total net amount	18,844	4,265	2,838	15,526	41,473
31 December 2014	Consumer	Mortgage	Agriculture	Corporate	Total
Past due up to 29 days	14,741	4,464	902	9,506	29,613
Past due 30 to 89 days	6,004	229	357	2,090	8,680
Past due 90 to 179 days	1,336	-	-	26	1,362
Past due more than 180 days	7,135	14,454	-	170	21,759
Total gross amount	29,216	19,147	1,259	11,792	61,414
Less: allowance for impairment losses	(11,100)	(9,653)	(46)	(481)	(21,280)
Total net amount	18,116	9,494	1,213	11,311	40,134

As at 31 December 2015 agriculture loans include exposures amounting to BGN 344 thousand (2014: BGN 141 thousand) that are secured by mortgage.

Consumer loans which are past due and are impaired as at 31 December 2015 include BGN 31,980 thousand of exposures impaired on portfolio basis (2014: BGN 29,216 thousand). The other items listed in the table above are subject to individual impairment.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Concentration of risks by geographic sectors for financial assets with credit risk exposure

Geographic sectors

Total assets

	2015	2014
Bulgaria	257,036	250,247
Romania	207,908	175,159
Other countries	6,674	29,101

Total financial assets	471,618	454,507
-------------------------------	----------------	----------------

Exposures to credit risk related to contingent liabilities and irrevocable commitments:

Bulgaria	11,825	15,870
Romania	3,800	261
Other countries	3	-

Total financial assets and contingent liabilities and irrevocable commitments	487,246	470,638
--	----------------	----------------

The table below presents an analysis of deposits with other banks and available for sale financial assets at 31 December 2015 based on criteria set by a rating agency as a result of credit assessments of a recognised external institution. Ratings awarded by Standard & Poor's or their equivalents are shown in the table below:

31 December 2015			31 December 2014		
Rating	Available for sale financial assets	Placements with central and other banks	Rating	Available for sale financial assets	Placements with central and other banks
AA	-	-	AA	-	25,138
A - to A+ (S&P)	-	-	A - to A+ (S&P)	-	-
A+ (Fitch)	-	-	A+ (Fitch)	-	-
BBB (Fitch)	-	17,648	BBB (Fitch)	-	34,242
BBB - (Fitch)	11,789	-	BBB - (Fitch)	1,020	-
BB - (Fitch)	-	20,730	BB - (Fitch)	-	17,721
Ba2 (Moody's)	-	1	Ba2 (Moody's)	-	13,353
CCC (Fitch)	-	-	CCC (Fitch)	-	1
Unrated	89	-	Unrated	89	-
Total	11,878	38,379	Total	1,109	90,455

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The unrated placements with other banks and financial institutions are rated internally based on profound analysis of quantitative and qualitative factors.

As at 31 December 2015 and 31 December 2014 the other receivables are neither past due, nor impaired. The other receivables are settled within 30 days period following their date of occurrence and therefore considered not impaired. Total amount of other receivables outstanding has been repaid by the date of the publication of financial statements.

At 31 December 2015 the rating of cash balances on accounts with central banks is BBB- (2014: BBB-).

b Market risk

The Bank is exposed to market risk. Market risk is the risk that the fair value or future cash flows of a financial instruments will fluctuate as a result of changes in market prices. Market risk arises from open positions in interest rate, currency and equity items, which are exposed to the general and specific movements in market rates and prices, such as interest rates, credit spreads, foreign exchange rates and security prices. The components of market risk include foreign currency risk, risk of changes in the fair value of financial instruments due to changes in the interest rates, risk of changes in the cash flows as a result of changes in the market interest rates and price risk.

The interest rate risk is the risk of a potential loss as a result from adverse changes in the interest rates. These include risk of changes in the yield curve, basis risk, spread risk, etc.

Foreign currency risk is the risk of a potential loss as a result of adverse changes in foreign currency exchange rates against the main currency. It includes the overall risk (or global currency risk that impacts the complete operations of the Bank – income, expenses, cash flow dynamics, regardless of which market transactions are oriented to), volatility risk and convertibility risk.

The risk related to the changes in the fair value of security prices is the risk of a potential loss as a result of changes in these prices.

The Bank's market risk policy is developed by the Risk management units and is approved by the Management Board of the Bank. This policy is reviewed at least annually and the changes are submitted to the Management Board. The market risk policy is applied in respect of control of this risk, arising on all assets, liabilities, contingencies and commitments of the Bank and accordingly covers financial and non-financial transactions that are subject to market risk.

The objectives of market risk control and supervision are:

- to protect the Bank against unforeseen market losses;
- to contribute to more stable and predictable earnings; and
- to develop transparent, objective and consistent market risk information which is to serve as basis for sound decision making.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Market risk measurement techniques

The risk factors which generate market risk and should be included in the market risk measurement system consist of, but are not limited to:

- foreign exchange rates;
- interest rates;
- fair value of securities.

The Bank's exposure to derivative contracts is monitored as part of the overall market risk management.

Upon their origination derivatives frequently include only a mutual promise for an exchange against the payment of low or no consideration. Nevertheless these instruments often lead to high indebtedness levels and are extremely volatile. A relatively small change in the value of assets, interest rate levels or other indices underlying the derivative contracts, may have significant impact on the Bank's profit and loss.

Swaps are contractual arrangements between two parties to exchange payments over fixed periods of time and based on nominal amount set in relation to a contractual index such as interest rate, foreign exchange rate or capital index.

In foreign exchange swaps the Bank pays a fixed amount in certain currency and receives a fixed amount in another currency.

The Bank uses foreign currency swaps to hedge potential changes in the exchange rates.

The nominal amounts in the table below show the volume of outstanding transactions related to derivative contracts as at 31 December 2015 and 31 December 2014.

	Assets 2015	Liabilities 2015	Nominal amount 2015
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	-	17	39,073
	Assets 2014	Liabilities 2014	Nominal amount 2014
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	-	21	39,094

As at 31 December 2015 the Bank has two active derivatives maturing on 18 January 2016 and 21 January 2016, respectively. The effect of the concluded derivative contracts on the profit and loss in the reporting period is a loss amounting to BGN 767 thousand (2014: BGN 812 thousand).

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Foreign currency risk

Fluctuations in the foreign exchange rates have impact on the financial position and cash flows of the Bank and expose it to foreign currency risk. The Management Board sets limits to control the risk on open FX positions, which are monitored daily. As a rule the Bank does not maintain material open positions in currencies other than the Bulgarian lev and Euro. The Bank does not measure sensitivity to Bulgarian leva and Euro since as at 31 December 2015 the Bulgarian lev is pegged to the Euro. The open FX position in RON, which amounts to BGN 43,050 thousand as at 31 December 2015 (2014: BGN 42,770 thousand) is hedged by means of FX swap with a nominal amount of BGN 39,073 thousand (2014: BGN 39,094 thousand).

The table below presents a summary of the extent to which the Bank is exposed to foreign currency risk as at 31 December 2015. Assets and liabilities are stated at their carrying amounts and are classified by currency.

As at 31 December 2015	BGN	EUR	RON	Other currencies	Total
Assets					
Cash on hand and balances with central banks	37,255	64,316	7,673	372	109,616
Placements with other banks	1	26,545	927	10,906	38,379
Loans to customers	139,993	76,626	94,816	2	311,437
Available for sale financial assets	69	9,757	2,052	-	11,878
Investments in subsidiaries	11,157	-	-	-	11,157
Current tax assets	-	-	71	-	71
Other assets	15,868	130	16,769	-	32,767
Total assets	204,343	177,374	122,308	11,280	515,305
Liabilities					
Deposits from banks	17,530	1,963	5,182	-	24,675
Derivatives	-	-	17	-	17
Deposits from customers	115,072	171,548	73,428	11,413	371,461
Other borrowings	1,706	2,618	-	-	4,324
Other liabilities	6,940	737	631	-	8,308
Total liabilities	141,248	176,866	79,258	11,413	408,785
Net balance sheet position	63,095	508	43,050	(133)	106,520
Contingent liabilities and irrevocable commitments	11,585	1,958	2,085	-	15,628

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Foreign currency risk (continued)

As at 31 December 2014	BGN	EUR	RON	Other currencies	Total
Assets					
Cash on hand and balances with central banks	43,678	23,640	9,361	262	76,941
Placements with other banks	1	23,095	224	67,135	90,455
Loans to customers	116,283	91,441	78,099	-	285,823
Available for sale financial assets	69	20	1,020	-	1,109
Current tax assets	1	-	77	-	78
Other assets	8,604	439	16,935	96	26,074
Total assets	168,636	138,635	105,716	67,493	480,480
Liabilities					
Deposits from banks	6,993	1,966	-	23	8,982
Derivatives	-	-	21	-	21
Deposits from customers	107,537	150,310	62,540	66,974	387,361
Other borrowings	4,829	2,619	-	-	7,448
Other liabilities	5,613	29	385	386	6,413
Total liabilities	124,972	154,924	62,946	67,383	410,225
Net balance sheet position	43,664	(16,289)	42,770	110	70,255
Contingent liabilities and irrevocable commitments	15,141	769	221	-	16,131

Foreign exchange risk sensitivity has been calculated directly on the total net open position (excluding Euro) of the Bank as a 10 % depreciation of the local currency against all foreign currencies (except Euro). The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

	31 December 2015
	Effect on profit/loss
<u>Foreign exchange</u>	
-10 % depreciation of local currency	374
	31 December 2014
	Effect on profit/loss
<u>Foreign exchange</u>	
-10 % depreciation of local currency	379

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will vary due to changes in the market interest rates. Interest rate risk is the risk that the fair value of a financial instrument will vary due to changes in the market interest rates.

The Bank takes on risks related to the effect of changes in the market interest rates both in respect of its own financial assets, and in respect of the cash flows. As a result of such changes interest rate margins may increase but they may decrease as well and cause losses in case of unforeseen shocks. The management sets limits to maintain an acceptable level of interest rate imbalance and these limits are monitored regularly.

The sensitivity analysis below illustrates the potential impact on the statement of comprehensive income of floating rate items. The table below shows possible acceptable deviations selected based on the market and economic environment during the reporting period.

At 31 December 2015		Effect of the change in the interest rate on profit/loss
<u>Interest rate</u>		
+100 bp change		227
-100 bp change		(227)

At 31 December 2014		Effect of the change in the interest rate on profit/loss
<u>Interest rate</u>		
+100 bp change		145
-100 bp change		(145)

c Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market should be accessible to the Bank.

Fair value of an asset or liability is measured using assumptions that market participants would make to determine the price of the asset or liability, assuming that they would act in their best economic interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

External valuers are usually engaged for the measurement of the fair values of the material assets and liabilities. The need to engage external valuers is assessed by the Bank's management every year. Selection criteria for external valuers include professional experience, qualities and reputation. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured as per the Bank's accounting policies. This involves verification of the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the valuation experts, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

	Carrying amount		Fair value	
	2015	2014	2015	2014
Financial assets				
Cash on hand and balances with central banks	109,616	76,941	109,616	76,941
Placements with other banks	38,379	90,455	38,379	90,455
<i>Loans to customers</i>				
Mortgage loans	64,596	70,475	67,605	70,130
Agriculture loans	7,177	4,314	7,175	4,202
Commercial loans	57,338	43,156	58,671	43,038
Consumer loans	182,326	167,878	182,133	168,634
Available for sale financial assets	11,878	1,109	11,878	1,109
Other receivables	9,614	9,715	9,614	9,715
Financial liabilities				
Placements from banks	24,675	8,982	24,675	8,982
Derivatives	17	21	17	21
Deposits from customers	371,461	387,361	371,310	388,344
Other borrowings	4,324	7,448	4,324	7,448
Other liabilities	5,546	4,042	5,546	4,042

(a) Financial assets and liabilities measured at fair value

The financial assets and liabilities are measured at fair value by reference to quoted market prices in active markets at the end of the reporting period. If quoted prices are not available, the fair values used are the historic costs, net of impairment loss if any.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

(b) Financial asstest and liabilities not measured at far value:

- *Placements with other banks*

Placements with other banks include interbanking deposits and current accounts. The fair value of floating rate and overnight deposits approximates their carrying amount. The estimated fair value of fixed rate deposits is based on the discounted cash flows using average market interest rates for liabilities with similar credit risk and remaining maturity.

- *Loans to customers*

Loans to customers are carried at amortised cost less any impairment allowance. The fair value of fixed interest rate loans to customers is the discounted future cash flows applying statistics interest rates published by the respective Central banks.

- *Deposits from banks and from customers*

The fair value of deposits from banks approximates their carrying amount due to their short-term nature. The fair value of fixed-rate deposits from customers is the discounted amount of the estimated future cash outflows. In 2015 and 2014 the Bank has extended consumer loans bearing mainly fixed interest rates.

- *Other borrowings*

The fair value of other fixed rate borrowings without quoted market prices is based on the discounted cash flows using interest rates for new liabilities with similar remaining maturity. The fair value of other borrowings approximates their carrying amount due to the fact that as at 31 December 2015 most of them bear floating interest rates.

All assets and liabilities for which fair value is measured or for which fair value disclosure is required in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are measured at fair value on a recurring basis, the Bank reviews their categorisation at the respective fair value hierarchy level (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period and determines whether transfer(s) should be made between levels.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy

The tables below present the fair value hierarchy of the Bank's assets and liabilities measured as at 31 December 2015 and 31 December 2014.

Quantitative disclosures of the fair value hierarchy as at 31 December 2015

	Total	Listed on active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Available for sale financial assets	11,878	11,789	-	89
Assets not measured at fair value				
<i>Loans to customers:</i>				
Mortgage loans	67,605	-	67,605	-
Agriculture loans	7,175	-	7,175	-
Commercial loans	58,671	-	58,671	-
Consumer loans	182,133	-	119,552	62,581
Liabilities measured at fair value				
Derivatives	17	-	17	-
Liabilities not measured at fair value				
Deposits from customers	371,310	-	371,310	-
Other borrowings	4,324	-	4,324	-

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Bank's management believes that their fair value approximates their carrying amounts as at 31 December 2015.

Consumer loans classified as Level 3 represent a portfolio of ceded receivables with a contractual first priority to satisfy the Bank from the mass of the total contributions collected for the total portfolio.

As at 31 December 2015 the management believes that no significant changes have occurred in the market at which the assets subject to the transaction have been originated and its parameters reflect the acceptable yield level for the respective type of financial instrument and risk to the Bank.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

In consumer loan measurements classified as Level 3 the management adjusts the market observable yields for the respective type of financial instrument which it believes reflect the risk profiles of the ceded receivables.

Reconciliation of Level 3 fair value measurement

Balance at 1 January 2015	89
Transfers into Level 3	-
Total gain/(loss) for the period included in profit or loss	-
Total gain/(loss) for the period included in other comprehensive income	-
Purchases/(sales)	-
Balance at 31 December 2015	89

The fair values of unquoted available-for-sale equity instruments are estimated mainly: (1) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, and (2) net assets' valuations, adjusted where considered necessary.

In 2015 no transfers between fair value hierarchy levels were made during the reporting period.

Description of valuation techniques and significant inputs to fair value measurement as at 31 December 2015:

	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity analysis
Loans to customers	DCFM	Statistic data of Central Bank for interest rates on new business for non-financial entities and mortgage by original maturity	3.75% - 19.3% (11.53%)	An increase (decrease) of interest rates by 5% would decrease (increase) the fair value.
Deposits from customers	DCFM	Statistic data of Central Bank for interest rates on new business by term deposits of sectors non-financial entities and individuals by original maturity	0.1% - 4.25% (2.18%)	An increase (decrease) of interest rates by 2% would decrease (increase) the fair value.
Other borrowings	DCFM	Current interest rates used to attract loans	2% - 7.55% (4.65%)	

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Quantitative disclosures of the fair value hierarchy as at 31 December 2014

	Total	Listed on active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Available for sale financial assets	1,109	1,020	-	89
Assets not measured at fair value				
<i>Loans to customers:</i>				
Mortgage loans	70,130	-	70,130	-
Agriculture loans	4,202	-	4,202	-
Commercial loans	43,038	-	43,038	-
Consumer loans	168,634	-	108,824	59,810
Liabilities measured at fair value				
Derivatives	21	-	21	-
Liabilities not measured at fair value				
Deposits from customers	388,344	-	388,344	-
Other borrowings	7,448	-	7,448	-

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Bank's management believes that their fair value approximates their carrying amounts as at 31 December 2014.

Reconciliation of Level 3 fair value measurement

Balance at 1 January 2014	89
Transfers into Level 3	-
Total gain/(loss) for the period included in profit or loss	-
Total gain/(loss) for the period included in other comprehensive income	-
Purchases/(sales)	-
Balance at 31 December 2014	89

In 2014 no transfers between fair value hierarchy levels were made during the reporting period.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Description of valuation techniques and significant inputs to fair value measurement as at 31 December 2014:

	Valuation technique	Significant observable inputs	Range (weighted average)	Sensitivity analysis
Loans to customers	DCFM	Statistic data of Central Bank for interest rates on new business for non-financial entities and mortgage by original maturity	5.5% -19.93% (12.72%)	An increase (decrease) of interest rates by 5% would decrease (increase) the fair value .
Deposits from customers	DCFM	Statistic data of Central Bank for interest rates on new business by term deposits of sectors non-financial entities and individuals by original maturity	0.1% - 5% (3.27%)	An increase (decrease) of interest rates by 2% would decrease (increase) the fair value
Other borrowings	DCFM	Current interest rates used to attract loans	2% - 7.89% (4.95%)	

d Liquidity risk

Liquidity risk is the risk that the available cash resources of the Bank may be insufficient to cover the withdrawals on financial liabilities as they fall due, and the inability to replace funds when they are withdrawn. The consequences may lead to inability to cover liabilities to make payments to depositors and to fulfil commitments to disburse loans.

Liquidity risk management process

The Bank adopts appropriate liquidity risk management policies which have to ensure that:

- sufficient liquid assets are available to meet the liabilities as they arise;
- financing of medium term assets with medium-term liabilities in a prudent proportion;
- the liquidity position is monitored on a daily basis and in the course of dealing operations.

The Management Board of the Bank assigns the Asset and Liabilities Management Committee, as the primary responsible unit, to advise the Management Board on the liquidity management strategy.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk (continued)

The Asset and Liabilities Management Committee manages:

- the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations;
- the Bank's cash inflows and outflows (liquidity sources) and the ratios between assets and liabilities;
- the liquidity ratios in compliance with the indicators set by the parent; and
- the liquidity ratios recommended by the Regulator.

The operational management of the Bank's assets and liabilities and the execution of the decisions of the Assets and Liabilities Management Committee is assigned to the head of the Financial Markets and Liquidity Department.

The table below presents the financial liabilities of the Bank by maturity groups based on the period remaining from the balance sheet date to the maturity date of the contract. The amounts disclosed in the table represent the contractual undiscounted cash flows.

As at 31 December 2015	Gross outflow	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	More than 5 years
Deposits from banks	24,680	22,712	-	1,968	-	-
Derivatives	17	17	-	-	-	-
Deposits from customers	373,117	164,333	54,585	154,158	41	-
Other borrowings	4,603	95	214	460	3,834	-
Other liabilities	8,308	1,486	6,569	253	-	-
Total liabilities (contractual maturity dates)	410,725	188,643	61,368	156,839	3,875	-

As at 31 December 2014	Gross outflow	Less than 1 month	1 - 3 months	3 -12 months	1 - 5 years	More than 5 years
Deposits from banks	9,008	3,026	4,013	1,969	-	-
Derivatives	21	21	-	-	-	-
Deposits from customers	391,640	194,720	47,071	149,379	247	223
Other borrowings	8,008	42	328	2,761	4,877	-
Other liabilities	6,413	1,229	4,982	202	-	-
Total liabilities (contractual maturity dates)	415,090	199,038	56,394	154,311	5,124	223

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk (continued)

Contingent liabilities and irrevocable commitments

The terms of the contractual amounts on contingent liabilities and irrevocable commitments which bind the Bank to extend loans to customers and other terms and conditions are presented in the table below.

Financial guarantees are presented in the table below based on the earliest contractual maturity date.

As at 31 December 2015	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	640	-	-	640
- performance	1,212	-	-	1,212
Commitments:				
- undrawn loan commitments	4,478	7,816	1,482	13,776
Total contingent liabilities and irrevocable commitments	6,330	7,816	1,482	15,628

As at 31 December 2014	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	1,162	-	-	1,162
- performance	1,339	-	-	1,339
Commitments:				
- undrawn loan commitments	10,317	2,207	1,106	13,630
Total contingent liabilities and irrevocable commitments	12,818	2,207	1,106	16,131

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk (continued)

The table below presents analysis of the Bank's assets and liabilities by maturity structure at the balance sheet date, based on the remaining period to the maturity dates. Loans to customers with remaining maturity of more than five years are included in the column "not defined".

Maturity structure of assets and liabilities

As at 31 December 2015	Demand / up to 1 month	1-3 months	3-12 months	1-5 years	Not defined	Total
Assets						
Cash on hand and balances with central banks	109,616	-	-	-	-	109,616
Placements with other banks	38,379	-	-	-	-	38,379
Non-current assets held for sale	-	-	8,955	-	-	8,955
Loans to customers	15,656	7,525	78,469	162,560	47,227	311,437
Available-for-sale financial assets	11,789	-	-	-	89	11,878
Investments in subsidiaries	-	-	-	-	11,157	11,157
Other assets	-	-	10,414	-	-	10,414
Current tax assets	71	-	-	-	-	71
Tangible and intangible assets	-	-	-	-	13,398	13,398
Total assets	175,511	7,525	97,838	162,560	71,871	515,305
Liabilities						
Deposits from banks	22,712	-	1,963	-	-	24,675
Derivatives	17	-	-	-	-	17
Deposits from customers	164,024	54,472	152,712	253	-	371,461
Other borrowings	24	76	5	4,219	-	4,324
Other liabilities	1,486	6,569	253	-	-	8,308
Total liabilities	188,263	61,117	154,933	4,472	-	408,785
Net liquidity	(12,752)	(53,592)	(57,095)	158,088	71,871	106,520
Cumulative gap	(12,752)	(66,344)	(123,439)	34,649	106,520	-

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk (continued)

The Bank monitors on daily basis its liquid assets and liabilities in terms of type, currency, amounts and interest rates. With respect to the large portion of liabilities representing term deposits from individuals and legal entities relevant measures are taken against the clients to motivate renewal of their deposits. Deposits received from legal entities are of significant amounts and the historical experience shows that the terms and conditions are usually reconsidered and negotiated again immediately before their maturity.

As at 31 December 2014	Demand / up to 1 month	1-3 months	3-12 months	1-5 years	Not defined	Total
Assets						
Cash on hand and balances with central banks	76,941	-	-	-	-	76,941
Placements with other banks	90,455	-	-	-	-	90,455
Non-current assets held for sale	-	-	882	-	-	882
Loans to customers	32,302	12,164	92,266	132,044	17,047	285,823
Available-for-sale financial assets	-	-	-	1,020	89	1,109
Other assets	-	-	11,836	-	-	11,836
Current tax assets	78	-	-	-	-	78
Tangible and intangible assets	-	-	-	-	13,356	13,356
Total assets	199,776	12,164	104,984	133,064	30,492	480,480
Liabilities						
Deposits from banks	3,026	4,000	1,956	-	-	8,982
Derivatives	21	-	-	-	-	21
Deposits from customers	194,619	46,747	145,545	231	219	387,361
Other borrowings	34	288	2,606	4,520	-	7,448
Other liabilities	1,229	4,982	202	-	-	6,413
Total liabilities	198,929	56,017	150,309	4,751	219	410,225
Net liquidity	847	(43,853)	(45,325)	128,313	30,273	70,255
Cumulative gap	847	(43,006)	(88,331)	39,982	70,255	-

Fiduciary assets in custody

The Bank is a registered investment intermediary and it carries out transactions on behalf of customers in accordance with the requirements of Regulation 38 of the Financial Supervision Commission. The Bank has approved a policy in relation to its fiduciary transactions for customers, which policy is based on the requirements of Regulation 38 of Financial Supervision Commission.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

e Capital management

The objectives of the Bank's management in capital management, as a broader concept compared to the "equity" on the face of the balance sheet, include:

- compliance with the capital requirements set by the regulators of the banking markets where the Bank operates;
- ensuring the Bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders; and
- maintaining strong capital base which is the basis for the development of the Bank's activity.

The capital adequacy and the use of equity are monitored by the Bank's management employing techniques based on the guidelines developed by the Basel Committee, as well as the EU Directives, adopted by the Bulgarian National Bank (Regulatory Authority) for supervisory purposes. The information required is filed with the Regulatory Authority regularly.

The Regulatory Authority requires each bank or group of banks: (a) to hold minimum level of equity of BGN 10,000 thousand and (b) to maintain a ratio of total regulatory capital to risk-weighted assets of 13.5 %, formed based on total capital adequacy requirement of 8 %, protective capital buffer of 2.5 % and systemic risk buffer of 3 %.

The Bank's equity is divided into two tiers in accordance with the definitions and requirements of Regulation No 575 of the European Parliament and of the Council of 26 June 2013:

(a) Tier one capital which comprises the following elements:

- registered and paid-in capital, excluding preference shares;
- Reserve fund;
- other reserves for general purposes set aside from the profit after tax;
- retained earnings from prior years;
- current year profit less any taxes due, expected dividend payments and other deductions.

The Bank includes the retained earnings from prior years in the capital, once the audited separate financial statements are approved by the sole owner of the capital and dividend payments and other deductions have been made.

Once included as elements of the tier-one capital the retained earnings from prior years may be used to pay dividends only after approval by the Regulatory Authority.

The current year profit can be included in the tier-one capital only if the following conditions are met:

- the maximum amount of expected dividend payments and other deductions is set;
- the profit and taxes due are confirmed by the specialised audit firm employed by the Bank;
- an announcement is sent to the Regulatory Authority with attached documents evidencing the circumstances related to the mandatory conditions and the Regulatory Authority has not objected and / or has given its approval.

The tier-one capital is reduced by:

- the current and prior year losses;
- the carrying amount of the treasury shares held by the Bank;
- the amount of intangible assets;
- the unrealised loss on available-for-sale financial instruments.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

b) Tier-two capital which comprises the following elements:

- revaluation reserves on the real estates occupied by the Bank;
- the amounts attracted by the Bank in debt – equity (hybrid) instruments and other financial instruments without specified terms, as well as preference shares with accumulating dividends and without any term set, provided these instruments meet the following specific requirements:
 - the amounts on these instruments are fully paid;
 - their payment is not limited by a term;
 - their repayment is not guaranteed by the Bank in any form;
 - in case of liquidation or bankruptcy of the Bank their repayment is admissible after the claims of all other creditors have been satisfied;
 - the receivables on these instruments as regards the principal may not become collectable without written permission of the Regulatory Authority;
 - the terms under which the Bank has attracted these funds entitle the Bank to defer the payment of the interest income on them, if it has not generated profit or if profit is insufficient;
- the amounts attracted as subordinated term debt, as well as term cumulative preference shares and long-term debt – equity (hybrid) instruments, provided these instruments meet the following specific requirements:
 - the amounts on the instruments are fully paid;
 - their payment is not guaranteed by the Bank in any form;
 - their original term to maturity is at least 5 years;
 - their early payment cannot be made without the prior written permission of the Regulatory Authority;
 - the contract may not provide for a possibility for mid-term collectability of the instruments;
 - in case of liquidation or bankruptcy of the Bank their payment is admissible after the claims of all other creditors are satisfied in full.

Instruments attracted as subordinate term debt are included in the tier-two capital reduced in accordance with the remaining term to the contractual maturity dates. After the instruments mature they are entirely excluded from the calculation of the equity (capital base).

Tier-two capital cannot exceed tier-one capital.

Tier-two capital attracted as subordinated term debt, term cumulative preference shares and long-term debt-equity (hybrid) instruments, cannot exceed 50% of the tier-one capital.

Tier-two capital includes the elements described above, in case they meet the following requirements:

- the funds are entirely available to the Bank to cover ordinary bank risks, when the losses of revenue or capital are not yet established;
- their availability is shown in the Bank's accounting ledgers;
- their amounts is determined by the competent managing body of the Bank and confirmed by an independent external auditor;
- the Regulatory Authority is acquainted with and may exercise supervision over the funds existence and utilisation.

The Bank cannot include in its equity:

- reserves from cash flow hedges of items previously measured at amortised cost and cash flow hedges related to forecasted transactions;
- gains or losses on liabilities measured at fair value due to changes in the assessment of the credit quality of the Bank;
- unrealised gain on investment properties and available-for-sale financial instruments.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

The equity is reduced by:

- the carrying amount of investments in shares or other forms of shareholdings amounting to more than 10 percent of the paid-in capital of a bank or credit institution under the Credit Institutions Act, as well as investments in long-term debt (hybrid) instruments and subordinated term debt in such institutions in which the Bank holds more than 10 percent of the paid-in capital, for each individual case, where they are not consolidated in the Bank's balance sheet;
- the carrying amount of investments in shares or other forms of shareholding in the capital, long-term debt-equity (hybrid) instruments and subordinated term debt in another bank or financial institution under the Credit Institutions Act, where their total amount exceeds 10 percent of the Bank's equity prior to deductions;
- the carrying amount of investments in shares or another form of direct or indirect shareholding, when they represent 20 or more than 20 percent of the paid-in capital on insurance, reinsurance undertakings and insurance holdings;
- the carrying amount of all investments in shares or other forms of shareholdings when they represent 10 or more than 10 percent of the paid-in capital of unconsolidated undertakings other than those listed above.

The amounts under the above items are reduced in a 50% ratio from tier-one capital and 50% from tier-two capital, and when the respective reduction exceeds the tier-two capital, the excess is reduced from tier-one capital.

Risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting the assessment of the credit, market and other related risks for each assets and counterparty, taking into account any eligible collateral or guarantee. A similar treatment is adopted for contingencies and commitments, with some adjustments to reflect the more contingent nature of potential losses.

The table below summarises the structure of equity and the Bank's ratios as at 31 December of the respective reporting years. During these two years the Bank has complied with the capital requirements to lending institutions.

	31 December	
	2015	2014
Tier-one capital		
Share capital	78,600	70,400
Reserves and accumulated profit/loss from prior years	(161)	(17,697)
Less:		
Intangible assets	(1,634)	(1,327)
Other deductions	(8,214)	-
Total tier-one capital	68,591	51,376
Tier-two capital		
Subordinated term debt	535	1,051
Total tier-two capital	535	1,051
Risk-weighted assets		
Balance sheet items	273,538	256,385
Off-balance sheet items	21	237
Total risk-weighted assets	273,559	256,622
Capital adequacy ratio	20.66 %	18.06 %

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

3 Critical accounting estimates and judgements in applying the accounting policies

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

The Bank reviews its loan portfolios to assess the need for impairment at least on a quarterly basis. In determining whether the impairment loss should be recorded in the statement of comprehensive income the Bank makes an analysis whether objective data exist indicating that there is significant decrease in the estimated future cash flows from a loan portfolio, before the decrease can be associated with an individual loan in that portfolio. Such evidence may include observable data, indicating adverse change in the borrowers' ability to meet their loan obligations in the respective portfolio, or their national or local economic conditions that correlate with defaults on the repayments of the loans to the Bank. The management uses estimates based on the historical loss experience for assets with the credit risk features and objective evidence for impairment similar to those in the portfolio when planning the cash flows. The methodology and assumptions used to estimate the amount and timing of the future cash flows are reviewed regularly, in order to reduce any differences between the loss estimates and the actual loss experience.

The value of collaterals representing real estates is determined by independent expert appraisers, using generally accepted valuation techniques. Such techniques include the revenue method and the discounted cash flows method. In certain cases the fair values are determined based on recent transactions with real estates having similar features and locations as the collaterals. The definition of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The continuing volatility and uncertainty of the global financial system is reflected in the uncertainties at the real estate markets. Therefore, in determining the estimates of the collaterals in 2015 the appraisers have used their knowledge of the market and their professional judgement, and did not simply rely of historical benchmarks for the transactions.

Under the circumstances the estimated values of the collaterals are underpinned by a higher level of uncertainty than that existing in a more active market.

The assets acquired as collateral on loans are classified as non-current assets held for sale. The Bank measures collateral acquired in relation to non-performing loans at the lower of their value upon acquisition and the fair value less the costs to make the sale. The definition of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The Bank's management has committed to specific actions aimed at the realisation of these assets through disposal.

The definition of the fair value of financial assets requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions of the local market existing as at the valuation date.

Sensitivity analysis for most significant assumptions are is available note 2 and note 16.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

4 Net interest income

	2015	2014
Interest income		
Loans to customers	52,683	45,030
<i>including impaired loans to customers</i>	<i>9,569</i>	<i>10,547</i>
Placements with other banks and financial institutions	786	924
Available for sale investments	43	8
Held for trading investments	2	-
Total interest income	53,514	45,962
Interest expense		
Deposits from banks and financial institutions	868	1,838
Deposits from customers	7,549	9,245
Other borrowings	272	358
Total interest expense	8,689	11,441
Net interest income	44,825	34,521

5 Net fee and commission income

	2015	2014
Fee and commission income		
Guarantees and letters of credit	306	44
Transfers and transactions	8,287	5,365
Agent's commissions	6,814	4,610
Other	1,715	943
Total fee and commission income	17,122	10,962
Fee and commission expense		
Bank transactions	685	602
Agents' commissions	1,283	1,231
Other	1,105	62
Total fee and commission expense	3,073	1,895
Net fee and commission income	14,049	9,067

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

6 Net trading gain	2015	2014
Net foreign translation gain/(loss)	(276)	(110)
Net foreign currency transaction gain/(loss)	9,487	2,513
Net gain/(loss) on financial assets	(22)	(6)
Net gain/(loss) on dealings with non-current assets held for sale	(9)	(23)
Net trading gains	9,180	2,374

7 Other operating expenses	2015	2014
Administrative expenses	12,230	9,362
Staff costs (Note 8)	14,734	11,096
Depreciation and amortisation (Note 17 and 18)	1,421	1,267
Operating lease rentals	1,697	1,399
Materials	798	255
Total other operating expenses	30,880	23,379

Administrative expenses	2015	2014
External services	3,078	1,875
Consultancy, legal and other professional services	1,186	1,496
IT services	579	351
Advertising expenses	752	841
Tax expenses	2,535	2,405
Other	4,100	2,394
Total administrative expenses	12,230	9,362

The tax expenses position includes withholding tax over interest income received from Romania. As at 31 December 2015 the amount of the withholding tax paid equals BGN 1,015 thousand (2014: 1,004 BGN thousand).

8 Staff costs	2015	2014
Wages and salaries	12,657	9,499
Social security contributions	2,077	1,597
-incl. Pension funds	781	450
Total staff costs	14,734	11,096

The number of employees of the Bank at the end of 2015 is 734 (2014: 722 employees).

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

9 Tax expense

	2015	2014
Current tax	(2,585)	-
Deferred tax	-	-
Total tax expense	(2,585)	-

The tax on the operating profit differs from the theoretical amount which would arise using the basic tax rate as follows:

	2015	2014
Profit/(loss) before tax	30,688	17,536
Estimated corporate tax at a statutory rate of 10 % (2014: 10%)	(3,069)	(1,754)
Tax effect of expenses not deductible for tax purposes	(127)	-
Tax effect of deduction of prior period tax losses for which no deferred tax assets was recognised	(3)	1,779
Tax effect of permanent differences for which no deferred tax was recognised	(51)	-
Tax losses of foreign operation for which no deferred tax asset was recognised	-	(53)
Current income tax paid abroad	665	27
Income tax (credit)/expense	(2,585)	-

As at 31 December 2015 the total tax loss which may be carried forward in future periods amounts to BGN 1,473 thousand (2014: BGN 1,478 thousand). The Bank has the right to carry forward the accumulated losses until fully utilised over the next 5 years.

Year	Tax loss for the year	Remaining tax loss as at 31 December 2015	Unrecognised deferred tax asset	Year of expiration
2014	528	1,478	148	2019
2015	-	1,473	147	2020

As at 31 December 2015 deferred tax assets amounting to BGN 147 thousand (2014: BGN 148 thousand) have not been recognised.

The tax authorities, may inspect at any time the books and records within 5 years subsequent to the reported tax year, and may impose additional tax assessments and penalties. The Management Board is not aware of any circumstances, which may give rise to a potential tax liability in this respect.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

10 Cash on hand and cash at central banks

	2015	2014
Cash on hand	9,306	9,536
Cash at central banks other than the minimum statutory reserves	68,785	34,524
Cash and cash equivalents for the purposes of the cash flow (Note 29)	78,091	44,060
Minimum statutory reserve	31,525	32,881
Total cash on hand and cash at central banks	109,616	76,941

As at 31 December 2015 the statutory minimum reserves held with the Bulgarian National Bank (BNB) amount to 10 % (2014: 10 %) of the deposits attracted, except: 5% of funds attracted from abroad and 0 % of funds attracted from other local banks, through branches of a local bank abroad; through debt/equity (hybrid) instruments; as subordinated term debt. As at 31 December 2015 the statutory minimum reserves held at the National Bank of Romania (NBR) amount to 10% of the funds attracted in new Romanian Lei and 14 % of the funds attracted in currencies other than new Romanian lei, except funds attracted from other local banks and funds attracted with residual maturity of less than two years without early termination clauses. The statutory minimum reserves are not available for use in the Bank's day-to-day operations. Cash on hand is not interest bearing. Minimum statutory reserves and balances with BNB are not interest bearing, and those in NBR are interest bearing.

11 Placements with other banks

	2015	2014
Deposits with foreign banks with original maturity up to three months	4,884	20,785
Deposits with local banks with original maturity up to three months	-	40,050
Current accounts with foreign banks	4,064	26,049
Current accounts with local banks	29,431	3,571
Included in cash and cash equivalents for the purpose of the cash flows (Note 29)	38,379	90,455
Total placements with other banks	38,379	90,455

12 Available-for-sale financial assets

	2015	2014
Securities available for sale:		
- unlisted equity securities	89	89
- listed debt securities	11,789	1,020
Total securities in investment portfolio	11,878	1,109

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

12 Available-for-sale financial assets (continued)

As at 31 December 2015 debt securities represent three types of issued Romanian government bonds: in EUR with a maturity on 21 January 2019 and coupon 3.40 % per annum and respectively; in RON with a maturity on 11 June 2017 and coupon 6.75 % per annum; in RON with a maturity on 29 August 2016 and coupon 4.75 % per annum. Interest accumulated as at 31 December 2015 amounts to BGN 333 thousand. Debt securities are carried at fair value based on listed market prices as at the date of the financial statements.

13 Loans to customers

	2015	2014
Loans extended by the Bank to:		
Corporate clients	131,588	126,873
Individuals	197,371	179,208
Staff	895	1,022
Total loans to customers	329,854	307,103
Impairment allowance (Note 14)	(18,417)	(21,280)
Total net loans to customers	311,437	285,823

Loans to customers include accrued interest amounting to BGN 5,166 thousand (2014: BGN 8,441 thousand). Loans to customers with floating interest rates amount to BGN 112,656 thousand (2014: BGN 95,665 thousand), and fixed rate loans to customers amount to BGN 217,198 thousand (2014: BGN 211,438 thousand).

The position Loans extended by the Bank to corporate clients also includes receivables on finance lease contracts with a book value of BGN 81 thousand as at 31 December 2015 (2014: BGN 6,736 thousand).

Information on receivables as at 31 December 2015 is presented in the table below:

	Within 1 year	1 to 5 years	Over 5 years	Total
Gross investment in lease contracts	23	76	-	99
Unrealised finance income	(7)	(11)	-	(18)
Net value of lease payments	16	65	-	81

Information on receivables as at 31 December 2014 is presented in the table below:

	Within 1 year	1 to 5 years	Over 5 years	Total
Gross investment in lease contracts	1,042	4,020	4,872	9,934
Unrealised finance income	(552)	(1,771)	(875)	(3,198)
Net value of lease payments	490	2,249	3,997	6,736

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

14 The movement in impairment loss allowances is as follows:

Individual impairment loss allowances	2015	2014
As at 1 January	10,189	9,052
Impairment loss allowance charged	6,470	5,392
Reversed	(4,556)	(4,220)
Loans written off against the allowance	(9,330)	(35)
Foreign exchange difference	3	-
As at 31 December	2,776	10,189
Collective impairment loss allowances	2015	2014
As at 1 January	11,091	7,410
Impairment loss allowance charged	6,239	3,734
Reversed	(1,683)	(53)
Foreign exchange difference	(6)	-
As at 31 December	15,641	11,091

15 Loan portfolio structure by economic sectors

The structure of the loan portfolio by economic sectors is as follows:

	2015	2015	2014	2014
Commerce	25,425	7.71%	37,006	12.05%
Agriculture	10,991	3.33%	5,958	1.94%
Construction and real estate	42,912	13.01%	34,164	11.12%
Services	27,941	8.47%	34,933	11.38%
Manufacturing	5,025	1.52%	5,663	1.84%
Tourism	19,001	5.76%	9,149	2.98%
Financial institutions	293	0.09%	-	-
Individuals	197,371	59.84%	179,208	58.35%
Staff	895	0.27%	1,022	0.33%
Total loans to customers	329,854	100.00%	307,103	100.00%

As at 31 December 2015 the ten largest loans to customers represent 10.82 % of the Bank's portfolio net of provisions (2014: 15.67 %).

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

16 Non-current assets held for sale

	2015	2014
Reposessed assets, including:		
Book value	9,176	1,291
Accumulated impairment	(221)	(409)
Total non-current assets held for sale	8,955	882

As at 31 December 2015 the Bank has reposessed assets under terminated or overdue loan agreements amounting to BGN 8,955 thousand (2014: BGN 882 thousand), net of impairment. As at 31 December 2015 the Bank has accrued impairment amounting to BGN 221 thousand (2014: BGN 409 thousand), and the forfeited assets item is presented net of the impairment charged.

In 2015 the Bank has realised through sale assets reported in this category amounting to BGN 241 thousand (2014: BGN 406 thousand). Impairment written off in relation to these assets amounts to BGN 188 thousand (2014: BGN 62 thousand). In 2015 the Bank has acquired BGN 8,126 thousand assets classified as held for sale (2014: nil).

The Bank intends to realise the non-current assets held for sale through disposal over the next reporting period.

The movement in the impairment for the non-current assets held for sale is, as follows:

	Total
At 1 January 2014	334
Impairment charged	137
Impairment written off	(62)
At 31 December 2014	409
Impairment charged	-
Impairment written off	(188)
At 31 December 2015	221

The table below contains information on reposessed assets fair value depending on the function of the property:

	2015	2014
Nature of reposesses assets		
Commercial (property and land)	6,867	937
Land	2,660	-
Total reposessed assets	9,527	937

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

16 Non-current assets held for sale (continued)

Quantitative information about fair value measurements using significant unobservable inputs (Level 3):

Class property	Valuation technique	Significant unobservable inputs	Range (weighted average) 2015	Range (weighted average) 2014	Connetction between the unobservable input and FV
Land	MVM	price per m2	€9.25 - €310.23	€8.05 - €51.84 (€27.81)	A significant increase in price per m2 would resul in higher fair value
	RM	price per m2	(€34.55)		A significant increase in price per m2 would resul in higher fair value
Commercial (property and land)	RVM	price per m2	€375.22 - €547.55		A significant increase in price per m2 would resul in higher fair value
	MCFCF	price per m2	(€501.98)		A significant increase in price per m2 would resul in higher fair value

In both 2015 and 2014 no transfers between fair value hierarchy levels were made.

Real value method (RVM) is a key method for determining the fair value of buildings „that are under construction, or that are not yet commissioned and/or that need construction and repair works in order to be used pursuant to their purpose“. This method is based on the calculation of the building's recoverable amount at the time of valuation. For the purpose, an unit price per square meter of the total built-out area or a price per cubic meter of the built-out area of newly constructed facilities with identical functional purpose, construction, specifics of any additional, completion, installation and other works are used. The unit price includes costs of designing and any expenditure on the construction of the facility. As unit prices are used standard construction prices, average for the country. The market value of the property is its amortised recoverable amount, which reflects the wear and tear due to ageing, any construction defects and damages (costs of completion, if it is a new construction), functional and economic obsolescence. The market value of the right of construction / the adjacent plot is added to the so-calculated amount of the building. the construction defects and damages and economic obsolescence are determined in percentages of the recoverable amount of the facility, based on expert observations and available information.

When the **market value method (MVM)** is used, an indicative amount is determined by comparing the asset, the object of evaluation, with identical or similar assets, for which pricing information is available. If at the date of valuation there are no transactions involving identical properties, the method is based on accepted assumptions. The information used is extracted from announcements and information about similar facilities published by real estate agencies and offers published in specialised websites. Additional adjustments are made to reflect the functionality, size, location, etc. Market comparatives current for the period of valuation are used. In addition, adjustments are made for offer prices due to the „limited demand and difficult accomplishment of such deals“. In assessing the final fair value of the property, the average unit price of the adjusted comparatives is used, which is multiplied by the total area of the assessed property.

When the **method of capitalisation of future cash flows (MCFCF)** is used, the fair value results from the nature and ability of the property to ensure for the owners, now and in the future, revenue from its use, through its letting out, at market prices current at the date of valuation. The monthly rent is estimated after conducting a research of the rental market for similar facilities in the same location. The necessary operating expenses, property management expenses, taxes and charges are determined by experts as a percentage of gross revenue and represent the normal expenses for maintenance of buildings of identical age and size.

When the **residual method (RM)** is used, the fair value of the plot of land is displayed after taking into account the market value of the completed building (subject to future construction) after deducting all expenses associated with entrepreneurship and profit of the developer and the price of risk for this type of business. The fair value in this case represents the updated value of the net result at the end of entrepreneurial cycle.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

17 Intangible assets

	Software	Other	Total
Balance at 1 January 2014			
Book value	2,460	10	2,470
Accumulated depreciation	(1,041)	-	(1,041)
Carrying amount	1,419	10	1,429
Year ended 31 December 2014			
Carrying amount at the beginning of the period	1,419	10	1,429
Additions	304	122	426
Transfers	106	(106)	-
Foreign exchange differences	(1)	-	(1)
Depreciation charge	(527)	-	(527)
Carrying amount at the end of the period	1,301	26	1,327
Balance at 31 December 2014			
Book value	2,869	26	2,895
Accumulated depreciation	(1,568)	-	(1,568)
Carrying amount at the end of the period	1,301	26	1,327
Year ended 31 December 2015			
Carrying amount at the beginning of the period	1,301	26	1,327
Additions	739	104	843
Disposals	(7)	-	(7)
Foreign exchange differences	(3)	-	(3)
Depreciation charge	(526)	-	(526)
Carrying amount at the end of the period	1,504	130	1,634
As at 31 December 2015			
Book value	3,288	130	3,418
Accumulated depreciation	(1,784)	-	(1,784)
Carrying amount at the end of the period	1,504	130	1,634

Intangible assets with book value 315 thousand and accumulated depreciation 308 thousand were written off in 2015 (2014: nil).

At the end of 2015 the book value of intangible assets which are fully amortised but are still in use amounts to BGN 601 thousand (2014: BGN 808 thousand).

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

18 Property and equipment	Buildings	Equipment	Leasehold improvements	Total
As at 1 January 2014				
Book value	7,811	2,302	545	10,658
Accumulated depreciation	(198)	(1,122)	(100)	(1,420)
Carrying amount	7,613	1,180	445	9,238
Year ended 31 December 2014				
Carrying amount at the beginning of the period	7,613	1,180	446	9,239
Additions	3,227	421	29	3,677
Disposals	(120)	(3)	-	(123)
Foreign exchange differences	(23)	(1)	-	(24)
Depreciation charge	(294)	(334)	(112)	(740)
Carrying amount at the end of the period	10,403	1,263	363	12,029
As at 31 December 2014				
Book value	10,835	2,703	575	14,113
Accumulated depreciation	(433)	(1,440)	(211)	(2,084)
Carrying amount	10,402	1,263	364	12,029
Year ended 31 December 2015				
Carrying amount at the beginning of the period	10,403	1,263	363	12,029
Additions	-	696	7	703
Foreign exchange differences	(72)	(2)	1	(73)
Depreciation charge	(332)	(474)	(89)	(895)
Carrying amount at the end of the period	9,999	1,483	282	11,764
As at 31 December 2015				
Book value	10,759	3,395	581	14,735
Accumulated depreciation	(760)	(1,912)	(299)	(2,971)
Carrying amount	9,999	1,483	282	11,764

In 2015 r. no property and equipment were disposed of (2014: BGN 120 thousand).

At the end of 2015 the book value of property and equipment, fully depreciated, but still in use, is BGN 881 thousand (2014: BGN 797 thousand).

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

19 Investments in subsidiaries

	2015	2014
Investments in subsidiaries:		
Book value	11,157	-
Accumulated impairment	-	-
Total investments in subsidiaries	11,157	-

In 2015 the Management Board of the Bank made a decision for purchase of all shares in the share capital of TBI Rent EAD namely: 1,000 registered voting shares with par value of BGN 1,400 each with a total par value of BGN 1,400 thousand, thus representing 100 % of the share capital of TBI Rent EAD at a price equal to the market value of the company, namely BGN 2,043 thousand. The market value was determined by external independent appraiser using the weighted approach of both discounted cash flows method and net book value method. In June 2015 the capital of TBI Rent EAD was increased by a paid in cash contribution at the amount of BGN 900 thousand.

In 2015 the Management Board of the Bank made a decision for purchase of all shares in the share capital of TBI Credit IFN S.A. namely: 72,999,999 registered voting shares with par value of RON 0.10 each, with a total par value of RON 7,300 thousand (BGN 3,152 thousand, fixing rate 31 December 2015), thus representing 99.99999863 % of the share capital of TBI Credit IFN S.A. at a price equal to the market value of the company, namely EUR 4,200 thousand (BGN 8,214 thousand). The market value was determined by external independent appraiser using the weighted approach of both discounted cash flows method and guideline company method (with two approaches: capital market approach and transaction approach).

20 Other assets	2015	2014
Financial		
Other receivables	9,614	9,715
Non financial		
Prepaid expenses	253	439
Advances to suppliers	547	262
Advances for acquisition of assets	-	1,420
Total other assets	10,414	11,836

As at 31 December 2015 and 31 December 2014 the other receivables are neither past due, nor impaired. The other receivables are settled within 30 days period following their date of occurrence and therefore considered not impaired.

As at 31 December 2014 the advances on acquisition of assets represent payments related to the future acquisition of properties – collateral on loans enacted in favour of the Bank in court procedures for debt exigibility.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

21 Placements from banks

	2015	2014
Deposits from banks	24,675	8,866
Current accounts of banks	-	116
Total placements from banks	24,675	8,982

As at the end of 2015 deposits from customers include interest payable amounting to BGN 37 thousand (2014: BGN 11 thousand).

22 Deposits from customers

	2015	2014
Corporate customers		
- current/settlement accounts	97,358	152,145
- term deposits	33,803	41,557
Individuals		
- current/settlement accounts	24,697	18,347
- term deposits	215,603	175,312
Total deposits from customers	371,461	387,361

As at the end of 2015 deposits from customers include interest payable amounting to BGN 2,134 thousand (2014: BGN 2,994 thousand).

23 Other borrowings

	2015	2014
State Fund "Agriculture"	1,706	4,829
Subordinated term debt from Nova Ljubljanska Banka d.d.	2,618	2,619
Total other borrowings	4,324	7,448

At the end of 2015 long-term borrowings included interest amounting to BGN 77 thousand (2014: BGN 83 thousand).

Borrowings from State Fund Agriculture bear fixed interest rate of 2%.

The subordinated term debt includes the following items:

- Subordinated term debt of 11 February 2010, principal – BGN 2,543 thousand, applicable interest rate 6M EURIBOR + 7.50 %, maturity 11 February 2017.

Early repayment of any amounts on borrowings in the form of subordinated term debt and any amendments in the agreements may only be made with the prior written permission of the Bulgarian National Bank.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

24 Other liabilities	2015	2014
Financial other liabilities		
Ordered transfers	517	386
Prepaid repayment instalments on loans to individuals	3,144	2,320
Other payables	1,885	1,336
Non-financial other liabilities		
Salaries payables	1,398	1,229
Provisions for unused paid leave	253	202
Taxes payable, other than income tax	186	236
Other payables	925	704
Total other liabilities	8,308	6,413

Prepaid repayment instalments on loans to individuals represent instalments that have not matured yet. Upon request by the customer the Bank is obliged to repay the amounts to the respective borrower. As at 31 December 2015 there are no provisions incurred for legal cases (2014: nil).

25 Contingent liabilities and irrevocable commitments

The Bank's contingent liabilities are related to its commitments to extend loans, credit lines, letters of credits and guarantees intended to meet the requirements of the bank customers.

Contingencies on loans and credit lines extended by the Bank represent contractual commitments to unconditionally provide a specified amount to the customer under the provisions of the loan agreement, in the part related to the utilisation, as well as an obligation of the Bank to maintain continuously amounts available up to those agreed to in the credit line agreements. Upon expiry of the fixed deadline the obligation, regardless of whether utilised or not, expires as well as the contingency for the Bank.

Guarantees and letters of credit obliged the Bank, if necessary, to make a payment on behalf of the customer – if the customer fails to discharge its obligations within the term of the agreement. At that time the Bank recognises the provision in its financial statements for the period of the occurred change.

As at 31 December 2015 and 31 December 2014 the contingent liabilities and irrevocable commitments (except operating lease commitments) of the Bank are as follows:

	2015	2014
Guarantees		
Corporates clients	1,852	2,501
Undrawn credit commitments		
Corporates clients	5,856	5,817
Individuals	7,920	7,813
Total contingent liabilities and irrevocable commitments	15,628	16,131

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

26 Operating lease commitments

In the cases when the Bank is a lessee it shall make the following minimum lease payments related to rentals of buildings and cars:

	2015	2014
Within 1 year	1,332	1,168
Over 1 year	970	1,183
Total	2,302	2,351

The Bank's commitments related to operating lease contracts are for an average term of one and a half years.

The Bank's commitments under lease contracts for buildings and cars are cancellable provided the fixed notice terms set are complied with in case of future termination.

27 Pledged assets

As at 31 December 2015 the Bank has pledged as collateral deposits with foreign banks amounting to BGN 4,884 thousand (2014: BGN 4,887 thousand) against the FX risk hedging transactions. The outcome of the FX hedging as at 31 December 2015 is shown in Note 2.

28 Equity

As at 31 December 2015 the total registered ordinary dematerialised shares are 78,600,000 (2014: 70,400,000), with a par value of BGN 1 each. All shares are fully paid-in and have equal voting rights.

The Bank's management has not changed its capital management methodology as compared to 2015.

Share capital

The table below presents the majority shareholders of the Bank at the end of 2015 and 2014:

	31 December 2015		31 December 2014	
	BGN	(%)	BGN	(%)
TBIF Financial Services B.V.	78,600,000	100.00%	70,400,000	100.00%
Total	78,600,000	100.00%	70,400,000	100.00%

Movements in the number of shares

	Shares
As at 1 January 2014	70,400,000
Newly issued shares	-
As at 31 December 2014	70,400,000
As at 1 January 2015	70,400,000
Newly issued shares	8,200,000
As at 31 December 2015	78,600,000

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

28 Equity (continued)

Foreign currency translation reserve

As at 31 December 2015 the foreign currency translation reserve includes the translation of the operations of the branch of the Bank in Romania from its functional currency – the new Romanian leu into the presentation currency of the Bank – Bulgarian leva.

Revaluation reserve

Revaluation reserve on available for sale financial instruments includes unrealised gains and losses on fair value movements of the instruments. The annual movements are included in the statement of comprehensive income. As at 31 December 2015 the accumulated revaluation reserve amounts to BGN 42 thousand (2014: BGN 12 thousand).

Statutory reserves

In accordance with the requirements of the Commercial Act the Bank is required to set Reserves Fund equalling at least 1/10 of the profit, which is set aside until the fund reaches 1/10 or more of the capital set out in the Statutes.

If the amounts in the Reserves Fund fall below the minimum the Bank is obliged to fill the gap, so as to recover the minimum level over a period of two years. Under the provisions of the banking legislation banks are not allowed to pay dividends before they make the required contributions. As at 31 December 2015 the Reserves Fund amounts to BGN 2,596 thousand (2014: BGN 2,596 thousand).

29 Cash and cash equivalents

	2015	2014
Cash at central banks other than the minimum statutory reserve (Note 10)	78,091	44,060
Deposits with other banks (Note 11)	38,379	90,455
Total cash and cash equivalents	116,470	134,515

30 Related party transactions

The transactions with related parties are conducted in the normal course of business on an arm's length basis. These include loans and deposits as well as purchase of receivables to invest Bank's excess liquidity. For the year ended 31 December 2015 the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2014: nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. In 2015 the Bank purchased portfolios of loan receivables from its related party TBI Credit IFN S.A. for the total amount of BGN 60,516 thousand (2014: BGN 58,591 thousand). TBI Credit IFN S.A. collects the amounts due in favour of the Bank under the portfolios that bear fixed interest rates. The portfolios purchased are classified by the Bank as consumer loans and as at 31 December 2015 these amount to BGN 65,040 thousand (2014: BGN 59,810 thousand).

As at 31 December 2015 the Bank is controlled by TBIF Financial Services B.V. (registered in the Netherlands) which owns 100% of the ordinary dematerialised shares of the Bank.

The ultimate parent is Kardan N.V., the Netherlands.

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)

30 Related party transactions (continued)

As at 31 December 2015 TBI Bank owned 100% of the capital in TBI RENT EAD and 99.99999863 % of the capital in TBI Credit IFN S.A. These should be treated as subsidiaries of the Bank

The balances with the subsidiaries and the other related parties from TBI Group as well as the related income and expenses are as follows:

31 December 2015	Parent company	Subsidiaries	Other related parties	Total
Loans to customers	-	2,273	-	2,273
Other assets	-	5,558	5,057	10,615
Deposits from customers	16,846	158	3,680	20,684
Other liabilities	-	75	127	202
Guarantees issued	-	65	-	65
Purchase of receivables	-	60,516	24,862	85,378
Sale of receivables	-	-	22	22
Interest incomes	-	647	203	850
Interest expenses	-	(95)	-	(95)
Fee and commissions income	1	51	13	65
Fee and commissions expense	-	(497)	(888)	(1,385)
Other operating income	-	18	33	51
Administrative expenses	-	(446)	(1)	(447)
31 December 2014	Parent company	Subsidiaries	Other related parties	Total
Loans to customers	-	-	15,346	15,346
Other assets	-	-	9,564	9,564
Deposits from customers	10,006	-	39,359	49,365
Other liabilities	-	-	183	183
Guarantees issued	-	-	79	79
Purchase of receivables	-	-	74,283	74,283
Interest incomes	-	-	656	656
Interest expenses	(1)	-	(660)	(661)
Fee and commissions income	1	-	114	115
Fee and commissions expense	-	-	(1,018)	(1,018)
Other operating income	-	-	43	43
Administrative expenses	-	-	(800)	(800)

31 December 2015

All amounts are in thousands of Bulgarian lev, unless otherwise stated

Notes to the separate financial statements (continued)**30 Related party transactions (continued)**

In 2015 the total amount paid as remuneration to the Directors amounts to BGN 744 thousand (2014: BGN 505 thousand). As at 31 December 2015 accrued but not paid remuneration to the Directors amounts to BGN 50 thousand (2014: BGN 50 thousand). They are short-term in their nature. No other benefits were paid to management incl. pension benefits, share based payments etc.

31 Events after the balance sheet date

On 6 January 2016 TBI Bank EAD has acquired 99.9989 % of the share capital of TBI Leasing IFN S.A. at a price of EUR 1,500 thousand (BGN 2,933 thousand).

The capital of the Bank was increased by a cash contribution at the amount of BGN 3,000 thousand effective as of 12 March 2016.

Except as disclosed above, no other material events have occurred after the balance sheet date that require adjustments or disclosures in the financial statements as at 31 December 2015.

