TBI BANK EAD

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

31 DECEMBER 2016

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

Annual Management Report
of TBI Bank EAD

TBI Bank EAD (the Bank) is a member of 4 Finance Group, which as at 31 December 2016 holds 100% (81,600,000 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, 300 offices and outsourced working stations serviced by 1,474 employees (2015: 1,415 employees).

The Bank operates in Bulgaria through its Head office and in Romania through a branch registered in October 2012 on the basis of the single European passport. The subsidiaries of the company are providing banking and non-banking financial services through the existing office network, with a key focus on servicing individuals and small and medium-sized enterprises.

TBI Bank EAD 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.

TBI Bank EAD is the owner, as at 31 December 2016, of TBI RENT EAD, Bulgaria, and TBI CREDIT IFN S.A., Romania, and TBI Leasing IFN S.A., Romania (the Group). As at 31 December 2015 TBI Bank EAD was the owner of TBI RENT EAD, Bulgaria, and TBI CREDIT IFN S.A., Romania.

The Group holds a well-diversified client portfolio. The strategy adopted, which is focused on increased lending to individuals, predetermines the significant increase in the loan portfolio, a characteristic of the Group's activity in both years of 2015 and 2016. Although the newly attracted deposit resources are characterised with a decreasing cost, the profitability of the Group 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 its lending operations, the Group maintains adequate levels of liquidity.

In 2016, the Group generated net interest income of BGN 85,163 thousand, or a 49 % increase compared to 2015 thanks to the significant growth in the loan portfolio. The net profit of the Group in 2016 amounts to BGN 32,543 thousand compared to a profit in the prior year of BGN 32,506 thousand.

Operating revenue (net interest income, net fee and commission income, net foreign exchange gains and other income) has increased by 19.10 % 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 79.11%, fee and commission income – 12.66 %, and the other types of income represent 8.23 %. The revenue structure is similar to that in the prior year.

In 2016 the total assets of the Group increased by 16.31 % compared to the end of 2015 and reached BGN 623,739 thousand (2015: BGN 536,263 thousand). At the end of 2016 the biggest increase was noted in placements with other banks by BGN 67,075 thousand, followed by held-for-sale non-current assets by BGN 21,195 thousand. The increase in the loan portfolio was due to the increase in retail exposures, which exceeded the share of loans to legal entities.

The Group's liabilities at 31 December 2016 amount to BGN 477,717 thousand (2015: BGN 425,409 thousand), 93.12 % of which or BGN 444,839 thousand (2015: BGN 395,978 thousand) represent deposits from clients and banks. An 18.22 %, or by BGN 67,657 thousand, increase in deposits from clients and a 76.17% decrease in deposits from banks were noted in 2016.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

in BGN'000	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Balance sheet figure	623,739	536,263	480,480	406,209	193,106	74,769
Equity	146,022	110,854	70 ,255	52,313	32,576	26,168

There is an increase in the Group's equity by 32 % as a result of the profit generated during the year and the increase in share capital.

The key events for the Group in 2016 were as follows:

- On 6 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.
- On 12 March 2016 a share capital increase was registered by BGN 3,000 thousand (from BGN 78,600 thousand to BGN 81,600 thousand).

Liquidity and risks

According to the current liquidity measurement and management policy, the liquid assets ratio is used as a key indicator. At the end of 2016, this indicator was 38.51 % (2015: 35.40 %), illustrating the stability of the cash flows and exceeded significantly the minimum threshold required (20 % ratio of liquid assets to deposits other than those attracted from credit institutions).

	2016	**2015**	**2014**	**2013**	**2012**	**2011**
Liquidity ratio	38.51	35.40	40.15	39.46	36.07	38.41

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

The intense competition in the banking sector is a key factor affecting the development perspectives. In the year, the Bank passed successfully the asset quality test in compliance with the requirements of BNB.

The higher growth 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 also in funds attracted.

In a situation of limited economic growth, the Group 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, relating to the operations of the Group and the banking sector as a whole are, as follows:

- Credit risk – the maximum exposure to credit risk as at 31 December 2016 amounts to BGN 594,634 thousand;
- Liquidity risk – the net difference in liquidity of assets and liabilities as at 31 December 2016 amounts to BGN 146,022 thousand;
- Currency risk – to hedge its currency risk, the Group uses currency swaps;
- Interest rate risk – the effect of changes in interest rates by +/- 100 basis points on the 2016 profit would amount to + / - BGN 295 thousand;
- Inflation risk;

- Business risk;
- Operational risk (including reputation risk).

In view of the economic environment, business risk and credit risk influence the Group's operations. To address these challenges, the Group has developed a clear development strategy and has focused on a specific circle of customers, as well as on enhancing its market share through geographic diversification of assets and liabilities.

Research and development

The Bank does not carry out any research and development activities.

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

The Group aims to maintain a 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 have been taken to motivate the clients to renew 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 Group's policy is to determine a minimum interest rate threshold for floating rate assets.

To manage credit risk the Group has developed strict potential borrowers analysis and assessment procedures, including scoring procedures and detailed verification of the data provided. In addition, the Group has developed an effective payment monitoring system, as well as active 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 Group's internal rules.

Significant events after the annual closing of accounts

No significant events have occurred after 31 December 2016, which may have an effect on the Group's operations or may require adjustments in the financial statements.

Future plans of the Group

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

The Group 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 Group 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 Group is expressed in the creation of wider customer base and stable distribution network for financial services.

The Group will continue to attain the high corporate governance standards, and will work actively for the development of bank security, by implementing flexible and efficient organisational structure with clearly distinct duties and responsibilities.

The Group 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 Group 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 the Group is facing are related to:

- ensuring maximum security for the customers and depositors of the Group;
- 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 Group, 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 Hason - Chairman of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or has control - Trailpoint Ltd., Israel;
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;
TBIF Financial Services B.V., The Netherlands– member of the Board of Directors and Executive Director;
Kardan Financial Services B.V., The Netherlands– member of the Board of Directors and Executive Director;
Kardan Land, China – member of the Board of Directors and Executive Director;
Tahal Group International B.V., The Netherlands– member of the Board of Directors and Executive Director;
TBI Leasing IFN S.A., Romania - member of the Administrative Board;

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

a) does not hold any interests in commercial entities as unlimited liable partner;
b) legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control – TBI Leasing – 100%;
c) legal entities where he sits on the management or controlling bodies:
TBI Rent EAD - member of the Board of Directors;

- **Nick Philpott – member of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which 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:
SIA 4Finance IT, Latvia – member of the Board of Directors
SIA 4Finance IT, UK branch – Executive Director
SIA 4Finance Media, Latvia – member of the Board of Directors
Microfinance Organization 4Finance LLC, Georgia – member of the Supervisory Board
4Finance Group – member of the Executive Committee, Executive Remuneration Committee and the Remuneration Committee.

- **Kieran Donnelly – member of the Supervisory Board**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) there are no legal entities of which 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:
Scion Spirits Co., Ireland – Chairman of the Board of Directors;

- **Gauthier Van Weddingen – member of the Supervisory Board**

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

- **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 of which 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 of which she holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where she has control;
c) there are no legal entities where she 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 of which 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.

- **Nikolay Spasov – 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 of which 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 of which 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 2016:

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 2016 amounts to BGN 700 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 had not acquired, held or transferred shares or bonds in 2016.

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 Group and of its financial performance as at the year end. Management has prepared the accompanying financial statements in accordance with the International Financial Reporting Standards (IFRS), as adopted for use by the European Union.

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

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

Nikolay Spasov
Executive Officer of TBI Bank EAD and
Member of the Management Board
21 March 2017

CORPORATE GOVERNANCE DECLARATION OF
„TBI Bank" EAD
31.12.2016

1. CORPORATE POLICY AND STRUCTURE

„TBI Bank" EAD is solely owned joint stock company established in line with the regulations of Republic of Bulgaria, which conduct business in Bulgaria as well as abroad under license obtained by Bulgarian National Bank.

Capital structure

As of 31 December 2016 the share capital of the Bank amounts to BGN 81,600 thousand, with total amount of shares of 81,600,000 (eighty-one million and six hundred thousand), each with nominal of BGN 1. The Bank has the right only to issue ordinary shares, each of which gives the owner the right of 1 vote in the general shareholders meeting. As of 31st December 2016 the sole owner of the share capital of the Bank is TBIF Financial Services B.V, Netherlands.

Rights and obligations of the shareholders

The shareholder owns all rights and obligations set by the Bulgarian law regulations, other legal enactments and the Bank's statute.

Organisational structure of the Bank

„TBI Bank" EAD has two-tier management system. All members of the Supervisory and Management board of the Bank meet the requirements of the Law on Credit Institutions as well as Ordinance 20 of Bulgarian National Bank.

The Bank's structure consist of :

1. General assembly of shareholders;
2. Supervisory board (SB);
3. Management board (MB);
4. Other structure units, set by the General assembly, Supervisory board or Management board

The general meeting of the shareholders is the supreme governing body of the Bank which allows the shareholders to participate in the decision making process, regarding the fundamental questions concerning the existence of the Bank.

The annual General assembly takes place up to 6 (six) months after the conclusion of the financial year, unless anything other specific is disclosed by the law.
The Management board of the Bank convene an extraordinary General assembly if:

- The share capital of the Bank decrease under the set limit by the law
- Such decision is requested by the shareholders which represent at least 1/10 of the share capital of the Bank
- Such decision is requested by other person, authorized by the law

The General assembly have the right to:

1. Change or supplement the statute of the Bank;
2. Increase or decrease the share capital;
3. Decide regarding any mergers, splitting, conversion or closure of the Bank
4. Appoint or dismiss members of the Supervisory board and establishes their remuneratons.;

5. Appoint or dismiss the auditor of the Bank and sets its remuneration;
6. Approve the financial statement of the Bank and decides on the profit distribution;
7. Discharge the members of the Supervisory and Management board;
8. Decide regarding claims against member of the SB or MB, or shareholder of the Bank;
9. Decide regarding the issuance of bonds;
10. Appoint the liquidators if the Bank faces closure, unless the Bank's statute is set to insolvency;
11. Decide regarding other questions for specific rights of the General Assembly set by the law.

The Supervisory board (SB) excercises control over the main activity of the Bank as well as the Management board. The Supervisory board sets high corporate culture and business ethics with the established ethical norms and corporate values for business behavior. SB selects and dismisses the members of the Management board in line with the principals of continuity of its work.

The main functions of the Supervisory board are:

- To perform supervisory functions and to represent the Bank in the relationship with the Management board;
- To set the main targets regarding the activity of the Bank and to set the strategy for their achievement;
- To approve the decisions of the Management board, which are in the responsibility of the Supervisory board in line with the Statute of the Bank, the regulations for the activity of the Supervisory board and the law.;

The Supervisory board consists of at least 3 (three) and no more than 7 (seven) members. Members of the SB are appointed and dismissed by the General Assembly of the shareholders. The members of the SB are selected for the term of 5 (five) years. The SB of "TBI Bank" EAD is comprised of people with the proper qualification and professional experience, in compliance with the performed by the Bank activities and the main risks which it faces.

The members of SB bear joint and individual liability regarding the law for each damage, caused by violating the requirements of the law or of the Statute of the Bank. The members of the Supervisory board are obliged to work objectively, critically and independently by avoiding conflicts of interest and when it is not possible, to disclose promptly.

Members of the Supervisory board elect chairman of the Supervisory Board among themselves who organize the work of the SB. Members of the SB can also choose the deputy chairman of the Supervisory Board replacing the president if he is absent.

The Management Board (MB) manage the daily activities of the Bank in accordance with the strategy and the basic principles of activity established by the Supervisory Board and oversees the daily activities of employees of the Bank.

- The Management Board is authorized to decide on all matters related to the operability of the Bank and perform transactions independently within its powers under the law, the Bank's Statute and Rules of procedure of the Board, approved by the Supervisory Board;
- - Board sets policy risk and establish a system of risk management and internal control;
- - Board provides guidance, approve and oversee the implementation of the company's business plan, material transactions and other activities set out in the Bank's strategy;
- The Management board reports to the Supervisory Board and the General Assembly. The Management board shall submit to the SB at least once every 3 (three) months report on business activity and condition of the Bank and shall immediately inform the SB of a significant deterioration of the economic situation of the Bank and other important circumstances regarding the economic activity of the Bank.

Board members are elected to the Supervisory Board for a term of office of five (5) years. Board consists of at least three (3) members but not more than seven (7) members. At least 2 (two) members of the MB shall be the Executive Director (executive members), and the Bank is represented by two Executive Directors together only.

The members of the Management Board, with the approval of the Supervisory Board shall elect among themselves the Executive Director, Chairman of the Board and / or the Vice Chairman of the Board, replacing the president when he is absent. As executive directors can only be chosen those individuals who have received appropriate prior approval of the Bulgarian National Bank to manage and represent the Bank under the terms provided for in current legislation. Board members are established professionals with proven leadership qualities, representing a prerequisite for achieving the objectives of the Bank.

Management board members must avoid actions that will or may create a conflict between their interests and those of the Bank. In the event that such a conflict arise, they should disclose it and not participate in the discussion and decision making.

Committees and commissions:

- As an institution of public interest, according to the Law regulation of Independent Financial Audit, in the Bank operates an **Audit Committee**, which is responsible for monitoring of the financial reporting and the independent financial audit as well as the effectiveness of the internal audit function and control systems and risk management at the Bank. The Committee recommends choosing a registered auditor to conduct an independent audit of the bank and monitor its independence in accordance with the law and the Code of Ethics for Professional Accountants. The purpose of the Audit Committee is to assist and advise the General Assembly in its oversight of the activities of the Bank. Main functions of the Audit Committee are: monitoring the financial reporting processes of the Bank, monitoring the effectiveness of internal surveillance systems, and systems of risk management, independent financial audit of the Bank.
- **Risk Committee** is an internal unit of the leadership of the group, which is committed to managing and controlling all types of risks faced by the Bank in connection with the provisions of Regulation № 7 of the Bulgarian National Bank.
- **Impairment Committee** - the body that decides the classification and provisioning of credit risk exposures.
- **Lending loans committee** (Credit Committee) is the body that is empowered to approve the emergence of risk exposures to corporate customers. Credit exposures based on preset limits are subject to subsequent approval by the Management Board and / or must be confirmed by the Supervisory Board.
- **The Committee for management of assets and liabilities** is responsible for the overall operation of the balance sheet of the Bank and monitor interest rates and liquidity in accordance with its competence and organizational structure referred to in the internal rules of the institution.
- According to Bulgarian legislation, the **Credit Council** is a specialized internal body for evaluation and classification of risk exposures.
- **The Special Services is responsible for preventing money laundering and terrorist financing**, and risk associated with compliance.
- **Specialized Service for safe working conditions** is responsible for carrying out the statutory requirements in this area.

2. AUDIT AND INTERNAL CONTROL

The Bank builds and improves a reliable and comprehensive framework for internal control, which includes control functions with the necessary right and access for independent execution of the structural and supporting units' obligations, which supervise and control. The processes, procedures and requirements on risk management are structured in accordance with the "three lines of protection". The control functions are independent from the operational business units, which supervise and control. They are also independent from organizational point of view due to their different functions.

Auditor – the auditor is selected by the General Assembly of the shareholders. The auditor performs an independent financial audit, which purpose is to express an independent audit opinion about the authentic presentation in all material aspects in the financial statements of the financial position, financial result, cash flows and equity of the Bank.

3. INFORMATION SYSTEMS

The Bank is dependant of complex informational systems, including management informational system, and possible crash, ineffectiveness or failure of these systems can have significant unfavorable effect on the Bank.

The information systems are generally exposed to multiple problems, such as computer viruses corruption, hacker attacks, software and hardware malfunctions. Each deficiency, interruption and violation in the security of these systems might lead to problems or interruptions in the client relations, risk management, accounting system and systems for deposits and loans servicing. In case that there is an interruption in the normal functioning of the information systems of the Bank, even for short period of time, the Bank can possibly become incapable for certain time to service its clients and lose them as clients. Temporary interruption of the functioning of the information systems can as well result in extraordinary expenses for recovery and confirmation of the information. Each failure of the Bank to update and develop the existing informational systems equally effectively to its competitors, might lead to loss of its market share. Although the Bank management believes that the adequate program for security and program for work in crysis situations, including fully equipped information center duplicate, there is no assurance that they will be sufficient to prevent problems, such as the above-mentioned, nor they guarantee that Bank operations will not be significantly interrupted.

Each of the above-mentioned or other problems, related to the informational systems of the Bank, might lead to significant negative effect on the Bank activities, results from its operations and financial position.

4. RENUMERATION POLICY

Bank renumeration principals are structured in a way to contribute for the sensible corporate management and risk management. TBI Bank EAD applies Renumeration Policy in accordance with the Credit Institution Act and BNB Ordinance №4 about requirements towards renumeration to bank employees, which is consistent with the business strategy, objectives, values and long-term interests of the Bank, by encouraging the reliable and effective risk management, and it does not enable risk taking behavior, exceeding the acceptable for the Bank levels. The main purpose of the policy is attraction and retention of the highly qualified personnel, their motivation for achievement of high results at moderate risk level and in accordance with the long-term Bank interests and its shareholders. It is based on the transperancy, conflict of intersts prevention and equal treatment of employees, documentation, objectivity, reliable risks management principles.

The policy establishes the main principles for forming of renumeration – constant and variable, in accordance with the purpose of the Bank to stick to the optimal proportion between the constant and variable renumeraiton at sufficiently high share of the constant one and in proportional to the personnel cathegories, in a way that it ensures higher flexibility to the variable one, including possibility for non-payment.

5. DISCLOSURE OF INFORMATION

Transparency and timely disclosure of information is a key principle in corporate governance. The Bank maintains a system of disclosure in accordance with current regulations, which is aimed at providing timely, accurate and understandable information about significant events, allows for objective and informed decisions, and ensure equal access to information and does not tolerate abuses with inside information. In disclosing information, the Bank is guided by the principles of accuracy, accessibility, equality, timeliness, integrity and regularity.

In the Bank's website there is published information on:
- Data about the Bank;
- Data on the shareholder structure;
- Data on management bodies and structure of the Bank;
- Financial statements for the at least the last 3 financial years;
- Information on upcoming events;
- Other important information, related to the Bank activities

6. STAKEHOLDERS

TBI Bank EAD applies a policy for provision of information to stakeholders with respect to its activities. These include persons who are not shareholders but have an interest in the economic development of the Bank, such as creditors, customers, employees, society and other.

7. INFORMATION ON COMPLIANCE IN FEASIBILITY OF THE CODE OF CORPORATE GOVERNANCE APPROVED BY THE VICE-PRESIDENT OF FINANCIAL SUPERVISION COMISSION IN ART. 100H, PARAGRAPH 8 OF LOW ON PUBLIC OFFERING OF SECURITIES

TBI Bank (hereinafter briefly "Bank") is not a public company and has no legal obligation to apply the provisions of the National Code of Corporate Governance (NCGC) approved by the deputy chairman of the Bulgarian Stock Exchange - Sofia, but corporate policy of TBI Bank EAD is based on professional and transparent management in accordance with internationally recognized standards, good banking practice and where appropriate with the principles enshrined in the NCGC. Since the Bank is a solely owned joint stock company, the requirements on the protection of shareholders' rights, publishing and disclosure of information concerning the shareholders are not valid.

Corporate Governance Policy of TBI Bank EAD (the "Policy") is the common document containing the recognized standards of good and responsible management and defining the rules, criteria and mechanisms for serving on corporate governance of the Bank.

The principles are established by the following internal documents of the Bank:
- Compendium of TBI Bank EAD;
- Corporate Governance Policy;
- Organizational structure;
- Code of Ethics for administrators and employees of TBI Bank EAD;
- Renumeration Policy.

The aim of the policy is to regulate corporate governance as one of the major business functions and to outline the basic principles and requirements for maintaining and improving the organization and management methods in TBI Bank EAD. The policy also aims to structure the basic components, functions and responsibilities building the system of corporate governance in the Bank. Its implementation contributes to the objectives and plans that are in the interest of the Bank as a whole, customers, shareholders, creditors, stakeholders at home and abroad, and to facilitate efficient control over the efficient use of resources.

The policy defines the general principles and mechanisms of corporate governance of the Bank, such as:

- Standardisation and harmonization of the process of corporate governance;
- Identify key business objectives that take place within the business line "Planning and reporting."

The Management Board determines the main indicators of their performance such as growth, return on equity, level of provisions, market share etc. within the set targets, providing a basis for preparing concrete business plans, whereas the bodies of governance - the possibility of controlling these plans in accordance with the Policy.

8. INTERNAL CONTROL INCLUDES THE FOLLOWING COMPONENTS:

(A) the control environment - a description of the control environment can be found in "Audit and internal control" section of the Corporate Governance Declaration.

(B) the process of assessing the risks of the enterprise - description of the control risk assessment of the Bank can be found in the section "Audit and Internal Control" of the Corporate Governance Declaration as well as in the section "Liquidity and risks" of the Annual Management Report;

(C) information system, including related business processes relevant to financial reporting, and communication - a description of the information system of the Bank can be found in section No. 3 of the Corporate Governance Declaration;

(D) control activities - description of control activities of the Bank can be found in the section "Audit and Internal Control" of the Corporate Governance Declaration as well as in the section "Liquidity and risks" of the Annual Management Report;

(E) monitoring of controls - a description of the monitoring and control of the Bank can be found in the section "Audit and Internal Control" of the Corporate Governance Declaration as well as in the section "Liquidity and risks" of the Annual Management Report.

Nikolay Spasov
Executive Officer of TBI Bank EAD and
Member of the Management Board
21 March 2017

Ernst & Young Audit OOD
Polygraphia Office Center
47A, Tsarigradsko Shose Blvd., floor 4
1124 Sofia, Bulgaria

Tel: +359 2 81 77 100
Fax: +359 2 81 77 111
ey.com

Independent auditor's report

To the sole shareholder of

TBI BANK EAD

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of TBI BANK EAD and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other matter

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 31 March 2016.

A member firm of Ernst & Young Global Limited

Ernst & Young Audit OOD
with seat and address of management in Sofia
Polygraphia Office Center,
47A, Tsarigradsko Shose Blvd., floor 4
UIC: 130972874, VAT # BG130972874
BGN IBAN: BG48 UNCR 7000 1520 6686 91
BIC: UNCRBGSF with Unicredit Bulbank AD

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the consolidated management report, including information on the activity of the Group as investment intermediary and the corporate governance statement of the Group prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and presentation of the consolidated financial statements that give a true and fair view in accordance with IFRS as adopted by the EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on Other Legal and Regulatory Requirements

Additional Matters to be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the Consolidated Financial Statements and Auditor's Report Thereon* section, in relation to the *Consolidated* management report, including information on the activity of the Group as investment intermediary the corporate governance statement of the Group, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016 / approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the consolidated management report referring to the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.
c) The corporate governance statement of the Group referring to the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.

Audit Firm Ernst & Young Audit OOD:

Milka Natcheva-Ivanova
Legal Representative

Nikolay Garnev
Registered Auditor in charge of the audit

Sofia, Bulgaria
22 March 2017

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

TBI Bank

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

	Notes	For the year ending 31 December 2016	2015
Continuing operations			
Interest income	4	91,535	66,396
Interest expense	4	(6,372)	(9,252)
Net interest income		**85,163**	**57,144**
Fee and commission income	5	16,896	19,658
Fee and commission expense	5	(3,270)	(3,639)
Net fee and commission income		**13,626**	**16,019**
Net trading gain	6	3,961	9,126
Other operating expenses	7	(62,015)	(45,225)
Loss on impairment of financial assets	18	(11,516)	(8,182)
Impairment of other assets	23	(82)	(177)
Loss on derivative instruments	26	(885)	(767)
Other operating income	9	8,450	8,053
Profit before tax from continuing operations		**36,702**	**35,991**
Income tax expense	10	(4,159)	(3,485)
Profit for the year from continuing operations		**32,543**	**32,506**
Profit for the year		**32,543**	**32,506**
Attributable to:			
The owners of the parent		32,543	32,518
Non-controlling interest		-	(12)

(continued on the following page)

The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

Financial statements on which our auditors' report was issued dated:
EY 22-03-2017
Ernst & Young Audit OOD
EY Representative:............ Registred auditor:............

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Consolidated statement of comprehensive income
for the year ended 31 December 2016 (continued)

	Notes	For the year ending 31 December 2016	2015
Profit for the year		**32,543**	**32,506**
Other comprehensive income			
Other comprehensive income to be reclassified to the profit or loss in subsequent periods:			
Foreign exchange differences from translation of the financial statements of foreign operations	30	(142)	(53)
Net gain/(loss) on available for sale financial assets	30	141	(54)
Other comprehensive income for the period, net of tax		**(1)**	**(107)**
Total comprehensive income for the year		**32,542**	**32,399**
Attributable to:			
The owners of the parent		32,542	32,411
Non-controlling interest		-	(12)

Nikolay Spasov
Executive Officer and
Member of MB
21 March 2017

Nora Petkova
Executive Director and
Member of MB

Yordan Stoyanov
Preparer

Financial statements
on which our auditors' report was
issued dated:
EY 22-03-2017
Ernst & Young Audit OOD
EY Representative:.................Registred auditor:...............

The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Consolidated Balance Sheet
as of 31 December 2016

	Notes	As of 31 December 2016	2015
ASSETS			
Cash on hand and balances with central banks	11	66,402	109,620
Placements with other banks	12	107,341	40,266
Held-for-trading financial assets	13	1,019	-
Available-for-sale financial assets	14	10,764	11,878
Other assets	23	5,428	7,360
Current tax assets		254	242
Loans to customers	16	349,668	331,092
Finance lease	17	30,261	-
Held-to-maturity investments	15	8,081	-
Intangible assets	21	1,629	2,243
Property and equipment	22	12,742	24,607
Non-current assets held for sale	20	30,150	8,955
Total assets		**623,739**	**536,263**
LIABILITIES			
Derivatives	2b	31	17
Deposits from banks	24	5,879	24,675
Deposits from customers	25	438,960	371,303
Other borrowings	26	924	12,195
Deferred tax liabilities		128	115
Other liabilities	27	22,522	17,104
Held-for-sale non-current liabilities	20	9,273	-
Total liabilities		**477,717**	**425,409**
EQUITY			
Share capital	30	81,600	78,600
Statutory reserves	30	7,187	4,349
Revaluation reserve	30	99	(42)
Foreign currency translation reserve	30	(191)	(49)
Accumulated profit		57,327	28,008
Equity attributable to the owners of the parent		**146,022**	**110,866**
Non-controlling interest		-	(12)
Total equity		**146,022**	**110,854**
Total equity and liabilities		**623,739**	**536,263**

Nikolay Spasov
Executive Officer and
Member of MB
21 March 2017

Nora Petkova
Executive Director and
Member of MB

Yordan Stoyanov
Preparer

The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

Financial statements
on which our auditors' report was
issued dated:
EY 22-03-2017
Ernst & Young Audit OOD
EY Representative:.................. Registred auditor:..........

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

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

	Share capital (Note 30)	Statutory reserves (Note 30)	Revaluation reserve (Note 30)	Foreign currency translation reserve (Note 30)	Accumulated loss/ Retained earnings	Attributable to the parent company's equity owners	Non-controlling interest	Total equity
At 1 January 2016	**78,600**	**4,349**	**(42)**	**(49)**	**28,008**	**110,866**	**(12)**	**110,854**
Other comprehensive income	-	-	141	(142)		**(1)**	-	**(1)**
Profit for the year	-	-	-	-	32,543	**32,543**	-	**32,543**
Total comprehensive income for the year	**-**	**-**	**141**	**(142)**	**32,543**	**32,542**	**-**	**32,542**
Reclassification of non-controlling interest							**12**	**12**
Other	-	-	-	-	(386)	**(386)**	-	**(386)**
Reserve transfer		2,838			(2,838)	-		-
Capital increase	**3,000**	-	-	-	-	**3,000**	-	**3,000**
As of 31 December 2016	**81,600**	**7,187**	**99**	**(191)**	**57,327**	**146,022**	**-**	**146,022**
At 1 January 2015	**70,400**	**2,596**	**12**	**4**	**(2,757)**	**70,255**	-	**70,255**
Other comprehensive income	-	-	(54)	(53)	-	**(107)**	**(12)**	**(119)**
Profit for the year	-	-	-	-	32,518	**32,518**	**(12)**	**32,506**
Total comprehensive income for the year	**-**	**-**	**(54)**	**(53)**	**32,518**	**32,411**	**(12)**	**32,399**
Reserve transfer	-	1,753	-	-	(1,753)	-	-	-
Capital increase	8,200	-	-	-	-	-	-	**8,200**
As of 31 December 2015	**78,600**	**4,349**	**(42)**	**(49)**	**28,008**	**110,866**	**(12)**	**110,854**

Nikolay Spasov
Executive Officer and Member of MB
21 March 2017

Nora Petkova
Executive Director and Member of MB

Yordan Stoyanov
Preparer

Financial statements on which our auditors' report was issued dated:
EY 22-03-2017
Ernst & Young Audit OOD
EY Representative:........ Registred auditor:........

The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

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

	Notes	For the year ending 31 December 2016	2015
Cash flows from operating activities			
Profit for the year		32,543	32,506
Adjustments to reconcile the profit after tax to the net cash flows			
Non-monetary			
Impairment of financial assets	18	11,516	8,182
Impairment of non-current assets held for sale	23	82	177
Impairment of property and equipment, and intangible assets	21,22	5,501	4,182
Taxes paid		(12)	(164)
Gain on disposal of property and equipment		(76)	-
Net losses on transactions with non-current assets held for sale	6	-	9
Unused leaves provisions	27	65	51
Negative goodwill recognised in profit or loss		(178)	(747)
Unrealised foreign exchange losses	6	363	327
Cash flows from in operating activities before changes in operating assets and liabilities		**49,804**	**44,523**
Changes in operating assets and liabilities			
Net (increase) / decrease in the statutory reserves with Central banks	11	(8,807)	1,356
Net decrease in loans to banks < 3 months	12	(9,188)	-
Net (increase) in loans to customers	16	(36,196)	(53,451)
Net (increase) in finance lease	17	(30,356)	-
Net decrease / (increase) in Available-for-sale financial assets	14	1,114	(10,769)
Net (increase) in non-current assets held for sale	20	(1,322)	(8,073)
Net (increase) in derivatives		(14)	(4)
Net (increase) in financial assets and liabilities carried at fair value	13	(1,007)	-
Net (increase) in other assets	23	(5,393)	4,476
Net increase / (decrease) in deposits from banks	24	(8,078)	23,564
Net increase / (decrease) in deposits from customers	25	70,617	(16,058)
Net increase / (decrease) in other liabilities	27	4,184	11,786
Net cash flows from operating activities		**25,358**	**(2,650)**

(continued on the following page)

The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

Financial statements on which our auditors' report was issued dated:
EY 22-03-2017
Ernst & Young Audit OOD
EY Representative:........ Registred auditor:........

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

TBI Bank

Consolidated statement of cash flows for the year ended 31 December 2016 (continued)

	Notes	For the year ending 31 December 2016	2015
Cash flows from investing activities			
Purchases in held-to-maturity financial assets	15	(8,081)	-
Purchase of intangible assets	21	(108)	(1,514)
Proceeds from disposal of property and equipment	22	2,669	-
Purchase of property and equipment	22	(6,001)	(17,066)
Net cash flows used in investing activities		**(11,521)**	**(18,580)**
Cash flows from financing activities			
Payments received on other borrowings	26	-	1,209
Payments made on other borrowings	26	(10,975)	(4,333)
Share capital increase	30	3,000	8,200
Net cash flows from/used in financing activities		**(7,975)**	**5,076**
Net increase in cash and cash equivalents		**5,862**	**(16,154)**
Cash and cash equivalents at the beginning of the period	31	118,361	134,515
Cash and cash equivalents at the end of the period	31	**124,223**	**118,361**

Cash flows related to interest and dividends	For the year ending 31 December 2016	2015
Interest paid	(7,049)	(9,419)
Interest received	93,797	69,069
Dividends received	(947)	5

Nikolay Spasov
Executive Officer and Member of MB
21 March 2017

Nora Petkova
Executive Director and Member of MB

Yordan Stoyanov
Preparer

The notes on pages 11 to 78 form an integral part to the accompanying consolidated financial statements.

Financial statements on which our auditors' report was issued dated:
EY 22-03- 2017
Ernst & Young Audit OOD
EY Representative:............ Registred auditor:............

Notes to the Consolidated financial statements

1 General information and accounting policies

TBI Bank EAD (the Bank) was incorporated 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, UIC 131134023, 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, is controlled by Nova Ljubljanska Banka d.d., which holds 97.01% of its shares. The remaining 2.99% of the shares are 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 2016 the Bank's capital amounted to BGN 81,600 thousand, distributed in 81,600,000 ordinary dematerialised shares with a par value of BGN 1 each.

The Head office of the Bank was moved to a new registered office in September 2012, as follows: Sofia, 52-54, Dimitar Hadzhikotzev street. The operations of the Bank are carried out through the Head office in Sofia, the branch in Bucharest, 294 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 providing financing to individuals and legal entities.

The parent of the Bank is Tirona Limited, Cyprus. 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. The ultimate parent of the Bank is 4Finance having its registered address in Latvia. The bonds of the company are quoted on the stock exchanges Frankfurt Stock, Irish Stock Exchange and Nasdaq Stockholm.

The Bank is managed by Management Board under the supervision of a Supervisory Board. The Management Board at 31 December 2016 comprises four members with a mandate of up to five years, elected by the Supervisory Board. Three of the members are also Executive Directors 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 of up to five years. The persons charged with governance are represented by the Audit Committee (Ariel Hason, Petr Baron and Dmitry Kislyakov) and the Supervisory Board (Ariel Hason, Valentin Angelov Galabov, Kieran Donnelly, Nicholas John Philpott and Gauthier Van Weddingen) of the Bank.

As of 31 December 2016 the Bank held the controlling interest of TBI CREDIT IFN S.A., with place of business and country of incorporation Romania, and of TBI RENT EAD, with place of business and country of incorporation Bulgaria, and TBI Leasing INF S.A., with place of business and country of incorporation Romania.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its fully owned subsidiaries:

- TBI RENT EAD, incorporated in the Republic of Bulgaria on 19 July 2005;
- TBI CREDIT IFN S.A., incorporated in the Republic of Romania on 11 January 2008;
- TBI LEASING INF S.A., incorporated in the Republic of Romania on 28 February 2002.

The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, by applying consistent accounting policies.

The subsidiaries are fully consolidated from the date of acquisition, which is the date on which control is transferred to the Bank, and continue to be consolidated until the date such control ceases.

The accompanying consolidated financial statements were approved by the Management Board by virtue of Decision dated 21 March 2017.

The following note presents the significant accounting policies according to which the financial statements have been prepared, to the extent they have not yet been disclosed in previous notes. These policies have been applied to all years presented, unless expressly state otherwise.

Basis of preparation of the financial statements

Statement of compliance

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 (IFRIC) as adopted by the European Union. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", specified in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

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

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

The accounting policies adopted by the Group are consistent with those of the previous financial year, except for the following amendments to IFRS that have been adopted as of 1 January 2016:

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

b Amendments to accounting policies and disclosures applicable to reporting periods ending 31 December 2016

Comparability of data

The financial statements provide comparative data with respect to the previous period. Aiming at achieving a better presentation, the Group's management judged as necessary and revised the previous period's presentation of certain items of the consolidated financial statements. The revision relates to the disclosure of the statement of comprehensive income, statement of equity, financial risk management and the notes. The reclassifications made do not have an effect on the reported financial position, operating results and cash flows.

IAS 16 *Property, Plant and Equipment and* IAS 38 *Intangible assets (Amendments): Clarification of Acceptable Methods of Depreciation and Amortization*
The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment or amortise intangible assets. The amendments have no effect on the financial position or performance of the Group.

IAS 16 *Property, Plant and Equipment and* IAS 41 *Agriculture (Amendments): Bearer Plants*
According to the amendments bearer plants are within the scope of IAS 16 and are subject to all of the requirements therein. This includes the ability to choose between the cost model and revaluation model for subsequent measurement. Agricultural produce growing on bearer plants (e.g., fruit growing on a tree) remains within the scope of IAS 41. Government grants relating to bearer plants are accounted for in accordance with IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, instead of in accordance with IAS 41. The amendments have no effect on the financial position or performance of the Group.

IAS 19 *Employee benefits (Amended): Employee Contributions*
The amendment applies to contributions from employees or third parties to defined benefit plans. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendment has no effect on the financial position or performance of the Group.

IFRS 11 *Joint Arrangements (Amendment): Accounting for Acquisitions of Interests in Joint Operations*
The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business in accordance with IFRS. The Group had no transactions in scope of this amendment.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

b Amendments to accounting policies and disclosures applicable to reporting periods ending 31 December 2016 (continued)

IFRS 10, IFRS 12 *and* IAS 28: *Investment Entities: Applying the Consolidation Exception (Amendments)*

The amendments clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments have no effect on the financial position or performance of the Group.

IAS 1 *Presentation of Financial Statements: Disclosure Initiative (Amendment)*

The amendments to IAS 1 Presentation of Financial Statements further encourage companies to apply professional judgment in determining what information to disclose and how to structure it in their financial statements. They clarify, rather than significantly change, existing IAS 1 requirements. The amendments relate to materiality, order of the notes, subtotals and disaggregation, accounting policies and presentation of items of other comprehensive income (OCI) arising from equity accounted Investments. The amendments to IAS 1 affect presentation only and have no impact on the Group's financial position or performance.

Annual improvements to IFRSs 2010-2012 Cycle

Summary of amendments and related standards are provided below:

- IFRS 2 Share-based Payments – amended definitions of 'vesting conditions' and 'market condition' and adding the definitions of 'performance condition' and 'service condition';
- IFRS 3 Business Combinations – clarification on the accounting for contingent consideration arising from business combination;
- IFRS 8 Operating Segments – additional disclosures of management judgement on aggregating operating segments and clarification on reconciliation of total segments' assets to the entity's assets;
- IFRS 13 Fair Value Measurement – clarification on interaction with IFRS 9 as regards short-term receivables and payables;
- IAS 16 Property, Plant and Equipment – amended to state that when an item of property, plant and equipment is revalued, the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount while the accumulated depreciation is calculated as a difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses;
- IAS 24 Related Party Disclosures – clarified that a management entity that provides key management services to a reporting entity is deemed to be a related party; disclosure of the service fee paid or payable is required;
- IAS 38 Intangible Assets – same amendment as IAS 16 above.

The adoption of the above amendments to standards has no effect on these financial statements of the Group.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

b Amendments to accounting policies and disclosures applicable to reporting periods ending 31 December 2016 (continued)

Annual improvements to IFRSs 2012-2014 Cycle
Summary of amendments and related standards are provided below:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations – clarification that changing from one of the disposal methods to the other (through sale or through distribution to the owners) should not be considered to be a new plan of disposal, rather it is a continuation of the original plan;
- IFRS 7 Financial Instruments: Disclosures – provides examples of continuing involvement in a financial asset and clarifies required disclosures in the condensed interim financial report;
- IAS 19 Employee Benefits – clarification on long-term liability discount rate determination;
- IAS 34 Interim Financial Reporting – clarification on required interim disclosures: they must either be in the interim financial statements or incorporated by cross-reference to other interim financial information (e.g., in the management report) that is available to users on the same terms as the interim financial statements and at the same time.

The adoption of the above amendments to standards has no effect on these financial statements of the Group.

c Standards issued but not yet effective and not early adopted

IFRS 9 *Financial Instruments: Classification and Measurement*
The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The final version of IFRS 9 reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group will analyse and assess the impact of the new standard on its future financial position or performance. After discussions held with representatives of external audit firms, the Group is to conclude a contract for consulting and expert assistance in connection with the introduction of the standard on 1 January 2018. The Bank has initiated IFRS 9 project where PD and LGD parameters will be defined. No any impact is known yet.

IFRS 15 *Revenue from Contracts with Customers*
The standard is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).
Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group has not yet analysed and assessed the impact of the new standard on its financial position or performance.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Standards issued but not yet effective and not early adopted (continued)

IFRS 15 *Revenue from Contracts with Customers (Clarifications)*
The clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or elect to apply the modified retrospective approach. These clarifications have not yet been endorsed by the EU. The Group will analyse and assess the impact of these clarifications on its financial position or performance.

IFRS 10, IFRS 12 and IAS 28: *Investment Entities: Applying the Consolidation Exception* (Amendments) apply to the exemption from presenting consolidated financial statements of investment entities. The exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Also, the amendments clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. The amendments have no effect on the financial position or performance of the Group.

IFRS 16 *Leases*
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their balance sheet and to have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The standard has not been yet endorsed by the EU. The Group will analyse and assess the impact of the new standard on its financial position or performance.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Standards issued but not yet effective and not early adopted (continued)

Amendments in* IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognized when a transaction involves a business or a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

IAS 12 *Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses*

The amendments are effective for annual periods beginning on or after 1 January 2017, with early application permitted. The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and combined versus separate assessment. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would be relevant to the Group.

IAS 7 *Statement of Cash Flows (Amendments): Disclosure Initiative*

The amendments are effective for annual periods beginning on or after 1 January 2017, with earlier application permitted. The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

IFRS 4 *Insurance Contracts (Amendments): Applying* IFRS 9 *Financial Instruments with* IFRS 4 *Insurance Contracts*

The amendments are effective for annual periods beginning on or after 1 January 2018. The objective of these amendments is to address issues arising from the different effective dates of IFRS 9 Financial Instruments and the upcoming new insurance contracts standard IFRS 17 Insurance Contract. Entities issuing insurance contracts will still be able to adopt IFRS 9 on 1 January 2018. The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, notably a temporary exemption and an overlay approach. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9. The overlay approach allows an entity applying IFRS 9 from 2018 onwards to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before IFRS 17 is applied. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

c Standards issued but not yet effective and not early adopted (continued)

IFRS 2 *Share-based Payment (Amendments): Classification and Measurement of Share based Payment Transactions*
The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
The interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. This interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new interpretation on its financial position or performance.

IAS 40 *Investment Property (Amendments): Transfers of Investment Property*
The amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The amendments clarify transfers of property to, or from, investment property when there is a change in the use of such property which is supported by evidence. These amendments have not yet been endorsed by the EU. It is not expected that these amendments would impact the financial position or performance of the Group.

Annual Improvements to IFRSs 2014-2016 Cycle
In the 2014-2016 annual improvements cycle, the IASB issued amendments to three standards which are effective for annual periods beginning on or after 1 January 2017 / 1 January 2018. Summary of amendments and related standards are provided below:

- IFRS 1 First-time Adoption of International Financial Reporting Standards - deletion of short-term exemptions for first-time adopters (effective for annual periods beginning on or after 1 January 2018);
- IFRS 12 Disclosure of Interests in Other Entities - clarification of the scope of the Standard (effective for annual periods beginning on or after 1 January 2017), and
- IAS 28 Investments in Associates and Joint Ventures - measuring an associate or joint venture at fair value (effective for annual periods beginning on or after 1 January 2018).

The improvements to IFRSs 2014 – 2016 Cycle have not yet been endorsed by EU. The Group is in the process of assessing the impact of the amendments on its financial statements.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

d Foreign currency transactions

(a) Functional and presentation currency

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

(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 the profit or loss.

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

As at 31 December 2016 monetary assets and liabilities denominated in foreign currencies were translated at the official exchange rate quoted by BNB on this date – BGN 1.95583 = EUR 1, BGN 1.85545 = USD 1 and BGN 0. 430894 = RON 1 (31 December 2015: BGN 1.95583 = EUR 1, BGN 1.79007 = USD 1, BGN 0. 431789 = RON 1).

The Group's foreign operation assets and liabilities, through its branch in Bucharest, Romania, were translated into Bulgarian lev at the closing exchange rate quoted by BNB, valid for the new Romanian leu as at 31 December 2016. The foreign operation income and expenses were translated at the average exchange rate for the reporting period, which amounted to BGN 0. 435557 = RON 1 in 2016 (2015: 0.440019). The effects of the translation of the functional currency of the branch into the functional currency of the Group are recognised in the other comprehensive income.

e Interest income and expense

Income is recognised to the extent that it is probable that the economic benefits will flow to the Group 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 principal 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.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

e Interest income and expense (continued)

In calculating the effective interest rate the Group 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.

f Fee and commission income and expenses

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

g Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available for sale financial assets, and other assets. Management designates the classification of its investments upon 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 interest on held-for-trading financial assets is recorded as interest income.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

g Financial assets (continued).

Held-for-trading financial assets

Held-for-trading investments are part of the fair value throught profit and loss category and comprise those financial assets that the Bank acquires for generating a profit in the short-term fluctuations in price or trader's margin.. Held-for-trading financial assets are recognised initially on the Bank's statement of financial position and subsequently, they are revalued at fair value with transaction costs being reported directly in profit or loss.

(b) Loans and receivables

Loans and receivables, as well as other 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) Held-to-maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Group's management intends to and is capable to hold to maturity. If the Group 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 Group assesses its intention and ability to holds its investments to maturity not only upon the initial recognition of these financial assets, but subsequently at each balance sheet date.

(d) Available-for-sale financial assets

Available-for-sale investments are the ones that are to be held over an indefinite period of time and that may be disposed of in response to liquidity needs or changes in interest rates, exchange rates or prices of securities. Purchases and sales of held-for-trading, held-to-maturity and available-for-sale financial assets are recognised on the trade date - the date when the Group has committed to purchase or sell the asset.

Financial assets, not carried at fair value through profit or loss, are initially recognised at fair value plus the related transaction costs. Available for sale financial assets are subsequently carried at fair value, and when it cannot be measured reliably – at cost of equity instruments or at amortised cost of debt instruments.

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

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

g Financial assets (continued)

(d) Available-for-sale financial assets (continued)

Equity investments traded in an active market are measured at fair values. 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 in which the Group becomes entitled to receive them.

h Impairment of financial assets

(a) Assets carried at amortised cost

At each date of financial statements the Group assesses whether there are any objective evidence that a financial asset or a group of financial assets may be impaired. A financial asset or group of financial assets is impaired and impairment loss exists, if and only if objective evidence for impairment exists as a result of one or more events occurring after the asset's initial recognition (impairment loss event) and this event (or events) impacts the estimated future cash flows from the asset or the group of financial assets which can be measured reliably. Objective evidence that a financial asset or group of assets is impaired may include objective data that the Group 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.

The Group initially estimates whether objective evidence for impairment exist separately for individually significant financial assets, and individually or on portfolio basis for financial assets that are not significant individually. If the Group 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 is objective evidence 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.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

h Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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 Group may calculate the impairment based on the fair value of the instrument using observable 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 disposal of collateral, less costs of acquisition or costs to sell.
When consumer loans are extended to individuals the Group 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 Group 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.

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 Group and the historical loss experience on credit risk bearing assets similar to those at the Group. 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.

(b) Available-for-sale financial assets

At each balance sheet date the Group assesses whether objective data 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.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

i Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and are carried at their net amount in the Group's balance sheet, if and only if 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.

j 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 Group has transferred significantly all risks and rewards from the ownership of the transferred asset; or (b) the Group has neither transferred, not retained significantly all risks and rewards from the ownership of the financial asset, but has not retained control over the asset.

Where the Group 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 Group'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 Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group 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 Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 profit or loss.

k Property and equipment

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

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

k Property and equipment (continued)

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 Group and its cost can be measured reliably. All costs for current repair and maintenance are recognised in the statement of comprehensive income 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 periphery	25 %
Leasehold asset improvements	15 %
Other tangible assets	15 %

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 if it is higher than the asset's estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less the costs to make the 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 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.

l 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%

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

m 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. The 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.

n Cash and cash equivalents

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

o 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 2016 is 10 % (2015: 10%), and the tax rate applicable in Romania is 15% (2015: 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.

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 by the Group, 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 the same taxable entity and the same taxation authority.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

p Provisions

Provisions are recognised when the Group 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.

q 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 cost is recognised in profit or loss using the effective interest rate method over the useful life of the liability.

The Group 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.

r Share capital

The Group's share capital is the share capital of the Bank that 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.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made as to whether an arrangement contains a lease after inception of the lease only if one of the following applies:

- There is a change in contractual terms, other than a renewal or extension of the arrangement;
- A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- There is a change in the determination of whether fulfilment is dependent on a specified asset;
- There is a substantial change to the asset.

Where reassessment is made and it is determined that the arrangement contains or does not contain a lease, lease accounting shall commence or cease from:

- the date when the change in the circumstances gave rise to the reassessment for scenarios a), c) or d) above;
- the date of renewal or extension of the period for scenario b).

The Group as a lessor
Finance lease

Lease contracts are classified as finance leases when the Group has transferred to the lessee all material risks and rewards associated with the leased assets. The Group applies its accounting policies for impairment of financial assets when finance lease contracts are impaired.

Notes to the Consolidated financial statements (continued)

1 *General information and accounting policies (continued)*
r Share capital (continued)

Operating lease

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred by the Group in negotiating an operating lease are added to the carrying amount of the leased asset and recognized as an expense over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Group as Lessee

s

Payments made under operating leases are charged in equal portions to the statement of comprehensive income on a straight line basis.

t 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 Group'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 statement of comprehensive income 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.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

u Employee benefits

According to the local legislation the Group 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.

v Dividends

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

w Fiduciary assets in custody

The Group 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 Group's assets.

x Business combinations and goodwill

Business combinations are reported using the acquisition method. The amount of the consideration paid is measured at fair value as at the acquisition date, and the value of the non-controlling interest in the acquiree. For each business combination the acquirer measures the non-controlling interest in the acquiree at fair value or at the proportionate share in the identifiable net assets of the acquiree. Costs related to the acquisition are taken to the profit or loss for the period.

When the Group acquires a business it assesses whether the financial assets and liabilities acquired are classified and presented appropriately in view of the contractual terms and conditions and the economic conditions, and the relevant circumstances at the acquisition date. This involves separation of any embedded derivatives from the host contracts of the acquiree.

If a business combination is realised in stages, the fair value at the acquisition of interests held in the acquiree earlier are remeasured at fair value at the date of the acquisition through the profit or loss for the period.

Contingent consideration that should be transferred by the acquirer is recognised at the fair value at the acquisition date. Subsequent movements in the fair value of the contingent consideration, which is classified as an asset or a liability, are recognised in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, or in the profit or loss, or in the other comprehensive income.

Notes to the Consolidated financial statements (continued)

1 General information and accounting policies (continued)

x Business combinations and goodwill (continued)

If the contingent consideration is classified as an equity instrument, it is not remeasured until it is ultimately settled within the equity.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is carried at cost less any accumulated impairment losses. For impairment testing goodwill acquired in a business combination is allocated, as of the acquisition date, to each of the cash generating units of the Group that are expected to benefit from the combination, regardless of whether other assets and liabilities of the acquiree have been allocated to these units or not.

When goodwill forms part of cash generating unit and some of the operations of this unit are disposed, the goodwill attributable to the disposed portion is included in the carrying amount of the operation in determining the gain or loss on its disposal. Goodwill disposed in this manner is measured based on the relative values of the disposed operation and the retained portion of the cash generating unit.

If the initial accounting for the business combination is not completed by the end of the reporting period during which the combination occurs because the fair values that have to be determined for the acquiree's identifiable assets acquired and liabilities taken over, or the amount of the consideration transferred, or the non-controlling interest can be determined only contingently, the Group reports the combination using these contingent assets and liabilities.

The Group adjusts these contingent assets and liabilities as a result of the finalisation of the initial accounting within twelve months as of the acquisition date and as of this date retrospectively.

y General information

The Bank provides services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). Being an investment intermediary, the Bank is obliged to comply with certain requirements for safeguarding the customers' interests in compliance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38, issued by the Financial Supervision Commission (FSC). The Bank has developed and implements organisation for the conclusion and implementation of the contracts with clients; observing the requirement for information from customers, as well as keeping of the corresponding accounts and preserving the customer's assets in compliance with the statutory legislation and in particular, the requirements of Ordinance 38, articles 28-31l. The Bank has elaborated internal control rules and procedures in order to insure compliance with the above legislation.

Notes to the Consolidated financial statements (continued)

2 Financial risk management

In performing its activities the Group 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 Group's overall risk management programme focuses on the unpredictability of the financial markets and seeks to minimise the potential adverse effects on the Group's financial performance.

The Group'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.

In 2016, the Group updated its Rules and procedures for managing, monitoring, reporting and assessing the capital adequacy, Operational risk management rules, and Credit risk assessment and management rules, and in the previous year, the Rules and procedures for managing the systemic risk linked to financing the activities, and Liquidity risk management rules.

The risk control policy of the Group's management is aimed at ensuring compliance with the principles of hierarchy and centralization, and includes:

- Risk management policy, risk measurement rules and methods, based on both statistical models and international best banking practices, as also on the historical experience of the Group.
- Risk assessment by a specialized unit of the Group in accordance with the established rules, proposed for approval and resolution by the Management Board.

The Supervisory Board passes decisions on the measures to be taken by the Group with respect to its long-term risk management policy and strategy.
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 Group;
- develop and implement approaches to meet the requirements of Basel III and the respective internal rules.

At present, the Group assesses the risk by applying the standardised risk assessment methods.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk

The Group is exposed to credit risk, which is the risk that 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 Group's portfolio could result in losses other than the losses for which impairment loss allowances are identified by the Group's management as at the balance sheet date. Management manages carefully the Group's exposure to credit risk.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of acceptable risk in relation to its exposure to one borrower or a group of borrowers, as also by geographical regions 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 Group considers the following components:
- international ratings awarded by recognised rating agencies;
- assessment of the financial position of the individual debtor;
- ability of the debtor to secure sufficient funds for regular repayment of its future payables to the Group;
- servicing of past liabilities of the debtor to the Group and/or to other institutions;
- type and amount of providing for the balance sheet and contingent liabilities of the customer.

The Group 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 extended to individuals are measured and classified completely based on the defaults on any amounts due.

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

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

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 Group 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.

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 Group and to other creditors, as well as where weaknesses have been found with the distinct possibility that the Group 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 recovery 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 Group but it has not been collected;
- other conditions providing grounds to consider that the risk exposure is jeopardised by non-repayment.

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

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The following types of collateral are considered by the Group 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-ranking mortgage on a real estate in a residential, commercial, administrative or hotel building insured against loss in favour of the Group; first-ranking mortgage on regulated land property. The value of highly liquid collaterals is determined in accordance with the internal policy of the Group, taking into account evaluations and analyses prepared by independent appraisers and / or internal experts of the Group. Such values are reviewed regularly to ensure adequacy of the respective valuation. Placements with other banks are not secured.

The table below shows the total gross amount of loans to customers by type of collateral:

As of 31 December	Loans to customers			
	2016		2015	
	Gross amount of loans	Collateral	Gross amount of loans	Collateral
Loans, collateralized by mortgages	75,391	73,918	80,385	69,036
Loans with cash collateral	80	30	319	245
Loans with other collateral	22,001	19,015	12,288	12,597
Unsecured loans	278,766	-	260,412	-
Total	**376,238**	**92,963**	**353,404**	**81,878**

The table below shows the level of coverage of credit risk by collateral provided as a percentage of the carrying amount of the loans, by types of collateral as of 31 December 2016 and 31 December 2015. The amount of collateral is considered up to the amount of exposures it relates to, thus eliminating the effect of collateral exceeding the exposure. Exposures secured by mortgage are 98 % covered for credit risk, and those secured by cash – 38 %, which illustrates the level of the Group's exposure to risk of credit losses.

	2016	2015
Loans, collateralized by mortgages	98%	86%
Loans with cash collateral	38%	77%
Loans with other collateral	86%	82%

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Contingent liabilities and irrevocable commitments

Guarantees and letters of credit which represent irrevocable commitment by the Group 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 Group 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.

Maximum exposure to credit risk before collaterals

The table below presents the worst case scenario of exposure to credit risk of the Group as at 31 December 2016 and 31 December 2015 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 of 31 December		**Maximum exposure**
	2016	**2015**
Cash on hand and balances with central banks	54,943	100,310
Placements with other banks	107,341	40,266
Held-for-trading financial assets	1,019	-
Loans to customers:		
Corporate clients	91,280	126,976
Individuals	258,388	204,116
Finance lease	30,261	-
Available-for-sale investments	10,764	11,878
Held-to-maturity investments	8,081	-
Other receivables	3,920	5,560
Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows:		
Guarantees	950	1,787
Undrawn loans commitments	16,228	15,118
Total maximum exposure to credit risk	**583,175**	**506,011**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers are summarised as follows :

As of 31 December 2016

	Loans to customers	**Financial leases**
Neither past due, nor impaired individually	274,240	15,754
Past due but not impaired individually	89,121	12,100
Impaired individually	12,877	3,836
Gross amount	**376,238**	**31,690**
Less: allowance for impairment losses	(26,570)	(1,429)
Carrying amount	**349,668**	**30,261**

As of 31 December 2015

	Loans to customers	**Financial leases**
Neither past due, nor impaired individually	262,119	-
Past due but not impaired individually	70,001	-
Impaired individually	21,283	-
Gross amount	**353,403**	**-**
Less: allowance for impairment losses	(22,311)	-
Carrying amount	**331,092**	**-**

The total allowance for impairment losses of loans and advances at 31 December 2016 is BGN 26,570 thousand (2015: BGN 22,311 thousand). Allowances accrued on individually assessed financial assets amount to BGN 2,800 thousand (2015: BGN 2,774 thousand), and allowances based on collective impairment assessment amount to BGN 23,770 thousand (2015: BGN 19,537 thousand).

In 2016 loans to customers granted by the Group before impairment increased by 6.46% YoY. For the purpose of the effective credit risk management, the Group 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.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are neither past due, nor impaired individually

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

As of 31 December 2016	**Corporate clients**	**Individuals**	**Financial leases**	**Total**
Total	**59,859**	**214,381**	**15,754**	**289,994**
Including				
Standard risk loans	59,748	214,354	15,754	289,856
Higher risk loans	111	27	-	138

Higher risk loans are loans which have had some breaches in the last six months as of the date of the financial statements are neither past due nor impaired.

As of 31 December 2015	**Corporate clients**	**Individuals**	**Financial leases**	**Total**
Total	**85,003**	**177,116**	**-**	**262,119**
Including				
Standard risk loans	85,003	177,013	-	262,049
Higher risk loans	-	103	-	70

The consumer loan portfolio, which represents more than 78.20% (2015: 67.56%) of all receivables that are neither past due nor individually impaired, is strongly diversified both in terms of number and of amount. The latter comprises many small exposures without geographic and sector concentrations, characterised with its short-term nature and high quality based on past experience. With respect to loans to enterprises, these are primarily SMEs of acceptable quality and within the Bank's risk appetite. The loan portfolio comprises loans secured mainly by mortgages and loans financed under joint schemes with SFA and NGF.

Loans to customers that are neither past due nor individually impaired are divided on the basis of historical analysis of non-performance of the customers' obligations. The group bearing higher risk includes exposures past due for more than 90 days over the last six months as at the date of the financial statements. All other exposures are included in the group of standard quality of credit risk.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are past due, but are not impaired individually

31 December 2016	Corporate clients	Individuals	Financial leases	Total
Past due up to 30 days	6,069	38,597	3,495	**48,161**
Past due from 31 to 60 days	6,594	7,504	4,148	**18,246**
Past due from 61 to 90 days	1,723	2,534	1,456	**5,713**
Past due more than 90 days	7,909	18,191	3,001	**29,101**
Total gross amount	**22,295**	**66,826**	**12,100**	**101,221**
Less: allowance for impairment losses	(841)	(22,929)	(306)	**(24,076)**
Carrying amount	**21,454**	**43,897**	**11,794**	**77,145**

31 December 2015	Corporate clients	Individuals	Financial leases	Total
Past due up to 30 days	9,488	20,880	-	**30,368**
Past due from 31 to 60 days	3,571	4,667	-	**8,238**
Past due from 61 to 90 days	826	1,346	-	**2,172**
Past due more than 90 days	9,281	19,942	-	**29,223**
Total gross amount	**23,166**	**46,835**	-	**70,001**
Less: allowance for impairment losses	-	(19,537)	-	**(19,537)**
Carrying amount	**23,166**	**27,298**	-	**50,464**

Loans to customers impaired individually

31 December 2016	Corporate clients	Individuals	Financial leases	Total
Gross amount	12,877	-	**3,836**	**16,713**
Less: allowance for impairment losses	(2,800)	-	**(1,123)**	**(3,923)**
Carrying amount	**10,077**	-	**2,713**	**12,790**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Loans to customers that are impaired individually (continued)

31 December 2015	Corporate clients	Individuals	Financial leases	Total
Gross amount	21,283	-	-	**21,283**
Less: allowance for impairment losses	(2,774)	-	-	**(2,774)**
Carrying amount	**18,509**	**-**	**-**	**18,509**

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

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

Geographic sectors

Financial assets	2016	2015
Bulgaria	227,617	254,950
Romania	324,684	227,482
Latvia	9,100	-
Other countries	4,596	6,674
Total financial assets	**565,997**	**489,106**
Exposures to credit risk related to contingent liabilities and irrevocable commitments:		
Bulgaria	12,873	11,760
Romania	4,305	5,142
Other countries	-	3
Total financial assets and contingent liabilities and irrevocable commitments	**583,175**	**506,011**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The table below presents an analysis of deposits with other banks at 31 December 2016 and 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 2016			31 December 2015
Rating	**Available for sale financial assets**	**Placements with other banks**	**Rating**	**Available for sale financial assets**	**Placements with other banks**
BBB+ (Fitch)	-	86	BBB+ (Fitch)	-	5,970
Baa1 (Moody's)	-	536	Baa1 (Moody's)	-	-
BBB (Fitch)	-	78,665	BBB (Fitch)	-	8,095
Baa2 (Moody's)	-	2,427	Baa2 (Moody's)	-	-
BBB- (Fitch)	10,675	43	BBB- (Fitch)	11,789	4,346
BBB- (BCRA)	-	946	BBB- (BCRA)	-	-
BB+ (Fitch)	-	21	BB+ (Fitch)	-	-
BB+ (BCRA)	-	1	BB+ (BCRA)	-	1
Ba1 (Moody's)	-	-	Ba1 (Moody's)		97
BB (Fitch)	-	629	BB (Fitch)	-	999
BB- (Fitch)	-	23,847	BB- (Fitch)	-	20,731
Ba3 (Moody's)	-	4	Ba3 (Moody's)	-	-
B- (Fitch)	-	129	B- (Fitch)	-	9
CCC+ (Fitch)	-	-	CCC+ (Fitch)	-	2
Caa3 (Moody's)	-	-	Caa3 (Moody's)	-	16
RD (Fitch)		7	RD (Fitch)	-	-
Unrated	89	-	Unrated	89	-
Total	**10,764**	**107,341**	**Total**	**11,878**	**40,266**

At 31 December 2016 and 31 December 2015 other receivables were neither past due nor impaired. Other receivables are settled within 30 days after the date of occurrence and therefore, they are considered not past due. Other receivables were fully paid at the date of issue of the financial statements.

As of 31 December 2016 the rating of held-for-trading and held-to-maturity financial assets is B3 (Moody's).

As of 31 December 2016 the rating of cash balances on accounts with central banks was BBB- (2015: BBB-).

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk

The Group is exposed to market risk. Market risk is the risk that the fair value or future cash flows of a financial instrument 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.

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 – impacts the complete operations of the Group – 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 Group's market risk policy is developed by the Risk Management Units and is approved by the Management Board of the Bank. The market risk 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 Group 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 Group 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.

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 Group assesses the risk as immaterial.

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

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

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 Group'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 Group pays a fixed amount in certain currency and receives a fixed amount in another currency.

The Group 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 of 31 December 2016 and 31 December 2015.

	Assets 2016	Liabilities 2016	Nominal amount 2016
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	-	31	64,572

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

As of 31 December 2016 the Group had two active derivatives. The effect of the concluded derivative contracts on the profit and loss in the reporting period is a loss of BGN 885 thousand (2015: BGN 767 thousand).

Foreign currency risk

Fluctuations in the foreign exchange rates have impact on the financial position and cash flows of the Group 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 Group does not maintain material open positions in currencies other than the Bulgarian lev and Euro. The Group does not measure sensitivity to foreign currency risk since as at 31 December 2016 the Bulgarian lev is pegged to the Euro. The open FX position in RON, which amounted to BGN 83,359 thousand as at 31 December 2016 (2015: BGN 55,206 thousand), is hedged by means of FX swap with a nominal amount of BGN 64,572 thousand (2015: BGN 39,073 thousand).

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

b Market risk (continued)

Currency risk (continued)

The sensitivity to changes in exchange rates has been calculated directly on the basis of the total net open FX position of the Group in all foreign currencies (other than EUR) as a 10% amortisation of the value of the local currency compared to all foreign currencies (other than EUR). The exchange rate BGN/EUR is fixed at a ratio BGN 1.95583: EUR 1 as part of the Currency Board parameters.

As of 31 December 2016

Exchange rates	Direct effect on profit/loss
- 10% devaluation of local currency	(7,090)
+ 10% enhancement of local currency	7,090

As of 31 December 2015

Exchange rates	Direct effect on profit/loss
- 10% impairment of local currency	(3,389)
+ 10% impairment of local currency	3,389

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 Group 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.

As of 31 December 2016

Interest rates	Effect of changes in interest rates on profit/loss
+100 bpchange	295
-100 bp change	(295)

As of 31 December 2015

Interest rates	Effect of changes in interest rates on profit/loss
+100 bp change	227
-100 bp change	(227)

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

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 Group.

Fair value of an asset or liability is measured making 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 Group 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.

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 Group'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 Group'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.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

	Carrying amount		Fair value	
	2016	**2015**	**2016**	**2015**
Financial assets				
Cash on hand and balances with central banks	66,402	109,620	66,402	109,620
Placements with other banks	107,341	40,266	107,341	40,266
Held-for-trading financial assets	1,019	-	1,019	-
Loans to customers:				
Corporate clients	*91,390*	*126,976*	*93,228*	*131,316*
Individuals	*258,278*	*204,116*	*261,566*	*203,923*
Finance lease	*30,261*	-	*29,731*	-
Available-for-sale investments	10,764	11,878	10,764	11,878
Held-to-maturity investments	8,152	-	8,152	-
Other receivables	3,920	5,560	3,920	5,560
Financial liabilities				
Deposits from banks	5,879	24,675	5,764	24,675
Derivatives	31	17	31	17
Deposits from customers	438,960	371,461	439,927	371,310
Other borrowings	924	12,195	924	12,195
Held-for-sale non-current liabilities	9,273	-	9,273	-
Other liabilities	12,663	12,393	12,663	12,393

(a) Financial assets and liabilities carried at fair value

Financial assets and liabilities are carried at fair value by using quoted market prices in an active market at the date of the reporting period. In case of lack of quoted prices, the fair values used are the historical amounts, less any impairment losses.

(b) Financial assets and liabilities not carried at fair value

Placements with other banks

Placements with other banks include inter-banking 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.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

(b) Financial assets and liabilities not carried at fair value (continued)

- *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 inflows by applying interest rate statistical data published by the relevant 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 2016 the Bank extended consumer loans mainly bearing 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 2016 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 Group 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.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

For the purpose of fair value disclosures, the Group 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.

Fair value hierarchy

The tables below present the fair value hierarchy of the Group's assets and liabilities measured as at 31 December 2016 and 31 December 2015.

Quantitative disclosures of the fair value hierarchy as at 31 December 2016

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair value				
Available-for-sale financial assets	**10,764**	10,675	-	89
Held-for-trading financial assets	**1,019**	1,019	-	-
Assets not measured at fair value				
Loans to customers:				
Corporate clients	**93,228**	-	93,228	-
Individuals	**261,566**	-	261,566	-
Finance lease	**29,731**		29,731	
Held-to-maturity investments	**8,081**	8,152	-	-
Liabilities measured at fair value				
Derivatives	**31**	-	31	-
Liabilities not measured at fair value				
Deposits from customers	**439,927**	-	439,927	-
Other borrowings	**924**	-	924	-

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Group's management believes that their fair value approximates their carrying amounts as at 31 December 2016.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Management believes that no significant changes occurred at 31 December 2016 in the market at which the assets subject to the transaction have been originated and that its parameters reflect the acceptable yield level for the respective type of financial instrument and risk to the Group.

In consumer loan measurements classified as Level 3 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 2016	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the income statement	-
Total profit/(loss) for the period recognised in the statement of comprehensive income	-
Newly acquired assets/(sales) of assets	-
Balance at 31 December 2016	**89**

In general, the fair value of unquoted equity instruments available for sale is calculated by: 1) using valuation reports of third parties based on the investee's net assets and management makes no further adjustments, and 2) assessment of net assets adjusted, if necessary.

Transfers were not made in 2016 between the fair value hierarchy levels, nor any changes in the valuation techniques used during the period.

Description of valuation techniques and significant inputs to fair value measurement as at 31 December 2016:

	Valuation technique	**Significant observable inputs**	**Range (weighted average)**	**Sensitivity analysis**
Loans to customers	DCFM	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	3.20% - 39.8% (21.5 %)	Increase (decrease) in interest rates by 5 % would result in a change in the fair value
Deposits from customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 2.77% (1.44 %)	Increase (decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2%	

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated 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 2015

	Total	Quoted prices in 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				
Loans to customers:				
Corporate clients	**131,316**	-	131,316	-
Individuals	**203,923**	-	203,923	-
Held-to-maturity investments	**-**	-	-	-
Liabilities measured at fair value				
Derivatives	**17**	-	17	-
Liabilities not measured at fair value				
Deposits from customers	**371,310**	-	371,310	-
Other borrowings	**12,195**	-	12,195	-

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

Reconciliation of Level 3 fair value measurement

Balance at 1 January 2015	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the income statement	-
Total profit/(loss) for the period recognised in the statement of comprehensive income	-
Newly acquired assets/(sales) of assets	-
Balance at 31 December 2015	**89**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

B Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

Neither transfers between fair value hierarchy levels, nor there were any changes in the valuation techniques used during the period were made in 2015.

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	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	3.75% - 19.3% (11.53 %)	Increase (decrease) in interest rates by 5 % would result in a change in the fair value
Deposits from customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 4.25% (2.18 %)	Increase (decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2% - 7.55% (4.78 %)	

d Liquidity risk

Liquidity risk is the risk that the available cash resources of the Group 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 Group 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;
- that the liquidity position is monitored on a daily basis and in the course of dealing operations.

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

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

The Asset and Liabilities Management Committee manages:

- the Group's assets and liabilities to ensure regular and timely meeting of current and future obligations;
- the Group'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 competent regulatory authority.

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

The table below presents the financial liabilities of the Group, payables to personnel and taxes, other than income tax, 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 of 31 December 2016	**Gross outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**
Deposits from banks	6,148	9	18	1,242	4,879
Derivatives	31	31	-	-	-
Deposits from customers	443,515	124,735	56,354	235,278	27,148
Other borrowings	957	75	79	271	532
Held-for-sale non-current liabilities	11,160	-	11,160	-	-
Other liabilities	22,522	16,645	4,385	1,492	-
Total liabilities (contractual maturity dates)	**484,333**	**141,495**	**71,996**	**238,283**	**32,559**

As of 31 December 2015	**Gross outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**
Deposits from banks	24,680	22,712	-	1,968	-
Derivatives	17	17	-	-	-
Deposits from customers	372,959	164,175	54,585	154,158	41
Other borrowings	12,824	192	214	8,584	3,834
Other liabilities	17,104	1,486	15,365	253	-
Total liabilities (contractual maturity dates)	**427,584**	**188,582**	**70,164**	**164,963**	**3,875**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

Contingent liabilities and irrevocable commitments

The terms of the agreed amounts of contingent liabilities and irrevocable commitments, to which the Group is committed with respect to extension of the term of loans to customers and other terms and conditions, are presented in the following table.

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

As of 31 December 2016	Within 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	159	35	-	**194**
- good performance guarantees	625	131	-	**756**
Commitments:				
- undrawn loan commitments	5,733	8,404	2,091	**16,228**
Total contingent liabilities and irrevocable commitments	**6,517**	**8,570**	**2,091**	**17,178**

As of 31 December 2015	Within 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	604	-	-	**604**
- good performance guarantees	1,183	-	-	**1,183**
Commitments:				
- undrawn loan commitments	5,820	7,816	1,482	**15,118**
Total contingent liabilities and irrevocable commitments	**7,607**	**7,816**	**1,482**	**16,905**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

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

As of 31 December 2016	On 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	66,402	-	-	-	-	66,402
Placements with other banks	107,341	-	-	-	-	107,341
Held-for-trading financial assets	1,019	-	-	-	-	1,019
Non-current assets held for sale	-	-	30,150	-	-	30,150
Loans to customers	21,622	165,425	99,085	54,299	9,237	349,668
Finance lease	2,862	1,026	5,731	20,642	-	30,261
Available-for-sale investments	-	-	1,009	9,666	89	10,764
Held-to-maturity investments	-	-	-	8,081	-	8,081
Other assets	3,426	745	1,257	-	-	5,428
Current tax assets	254	-	-	-	-	254
Tangible and intangible assets	-	-	-	-	14,371	14,371
Total assets	**202,926**	**167,196**	**137,232**	**92,688**	**23,697**	**623,739**
Liabilities						
Deposits from banks	-	-	1,184	4,695	-	5,879
Derivatives	31	-	-	-	-	31
Deposits from customers	123,340	56,269	233,484	25,867	-	438,960
Other borrowings	-	-	406	518	-	924
Deferred tax liabilities	128	-	-	-	-	128
Held-for-sale non-current liabilities	-	9,273	-	-	-	9,273
Other liabilities	16,645	4,385	1,492	-	-	22,522
Total liabilities	**140,144**	**69,927**	**236,566**	**31,080**	**-**	**477,717**
Net liquidity gap	**62,782**	**97,269**	**(99,334)**	**61,608**	**23,697**	**146,022**
Cumulative cash flows	**62,782**	**160,051**	**60,717**	**122,325**	**146,022**	**-**

The Group monitors on a daily basis the liquidity assets and liabilities by type of currency, amount and interest rates. With respect to a large portion of liabilities, comprising term deposits from individuals and legal entities, proper measures are taken to encourage the customers to renew their deposits. Deposits of legal entities are primarily in large amounts and the historical experience shows that usually the terms and conditions are re-reviewed and agreed immediately prior their maturity.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

d Liquidity risk(continued)

As of 31 December 2015	On 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	109,620	-	-	-	-	109,620
Placements with other banks	40,266	-	-	-	-	40,266
Non-current assets held for sale	-	-	8,955	-	-	8,955
Loans to customers	17,048	12,028	86,049	168,740	47,227	331,092
Available-for-sale financial assets	-	-	-	11,878	-	11,878
Other assets	-	-	7,360	-	-	7,360
Current tax assets	242	-	-	-	-	242
Tangible and intangible assets	-	-	-	-	26,850	26,850
Total assets	**167,176**	**12,028**	**102,364**	**180,618**	**74,077**	**536,263**
Liabilities						
Deposits from banks	22,712	-	1,963	-	-	24,675
Derivatives	17	-	-	-	-	17
Deposits from customers	163,866	54,472	152,712	253	-	371,303
Other borrowings	24	76	7,876	4,219	-	12,195
Other liabilities	115	-	-	-	-	115
	1,486	15,365	253	-	-	17,104
Total liabilities	**188,220**	**69,913**	**162,804**	**4,472**	**-**	**425,409**
Net liquidity gap	**(21,044)**	**(57,885)**	**(60,440)**	**176,146**	**74,077**	**110,854**
Cumulative cash flows	**(21,044)**	**(78,929)**	**(139,369)**	**36,777**	**110,854**	**-**

Fiduciary assets in custody

The Group is registered as investment intermediary and performs transactions on behalf of its customers in compliance with the requirements of the Financial Supervision Commission. The Group has approved rules and procedures regulating its fiduciary transactions for customers.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management

The objectives of the Group'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 Group operates;
- ensuring the Group'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 Group's activity.

The capital adequacy and the use of equity are monitored by the Group'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 Group'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 Group 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 capital only if the following conditions are met:

- the maximum amount of expected dividend payments and other deductions is set;
- the profits and taxes due are confirmed by the specialised audit firm employed by the Group;
- a notice 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.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

The tier-one capital is reduced by:

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

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

- revaluation reserves on the real estates occupied by the Group;

- the amounts attracted by the Group 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 Group in any form;
-- in case of liquidation or insolvency of the Group 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 Group has attracted these funds entitle the Group 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 Group 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 Group their payment is admissible after the claims of all other creditors are satisfied in full.
Instruments attracted as a 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.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

Tier-two capital includes the elements described above, in case they meet the following requirements:
- the funds are entirely available to the Group to cover ordinary bank risks, when the losses of revenue or capital are not yet established;
- their availability is shown in the Group's accounting ledgers;
- their amounts is determined by the competent managing body of the Group and confirmed by an independent external auditor;
- the Regulatory Authority is acquainted with and may exercise supervision over the funds existence and utilisation.

The Group 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 Group;
- unrealised gain on investment properties and available-for-sale financial instruments.

The equity is reduced by:
- the carrying amount of investments in shares or other forms of shareholdings of 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 Group holds more than 10 percent of the paid-in capital, for each individual case, where they are not consolidated in the Group'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 Group'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.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

2 Financial risk management (continued)

e Capital management (continued)

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 Groups ratios as at 31 December of the respective reporting years. During these two years the Group has complied with the capital requirements to lending institutions.

	As of 31 December	
	2016	**2015**
Tier-one capital		
Share capital	81,600	78,600
Reserves and accumulated profit/(loss) from prior years	31,971	(161)
Less:		
Intangible assets	(1,629)	(1,808)
Other deductions	(89)	(435)
Total tier-one capital	**111,853**	**76,196**
Tier-two capital		
Subordinated term debt	-	535
Total tier-two capital	-	**535**
Risk-weighted assets		
Balance sheet items	361,630	291,803
Off-balance sheet items	761	21
Total risk-weighted assets	**362,391**	**291,824**
Capital adequacy ratio	**22.34%**	**19.48%**

3 Significant accounting estimates and judgements in applying the accounting policies

Impairment of financial assets

The Group 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 Group reviews its loan and lease portfolios to assess the need for impairment at least on a monthly basis. In determining whether the impairment loss should be recorded in the statement of comprehensive income the Group 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

Notes to the Consolidated financial statements (continued)

3 Significant accounting estimates and judgements in applying the accounting policies (continued)

in the respective portfolio, or their national or local economic conditions that correlate with defaults on the repayments of the loans to the Group. 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 with 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 Group 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 Group'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.

Deferred Tax Asset

The carrying amount of deferred tax assets is reviewed by the Group at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be recovered. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The most significant assumptions are disclosed in Note 2 and Note 17.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

4 Net interest income

	2016	2015
Interest income		
Loans to customers	86,901	65,598
Incl. Impaired loans to customers	*17,101*	*12,235*
Finance lease	4,439	-
Placements with other banks and financial institutions	12	753
Available-for-sale investments	98	43
Held-to-maturity investments	76	-
Held-for-trading investments	9	2
Total interest income	**91,535**	**66,396**
Interest expenses		
Deposits from banks and financial institutions	910	1,431
Deposits from customers	5,292	7,549
Other borrowings	170	272
Total interest expenses	**6,372**	**9,252**
Net interest income	**85,163**	**57,144**

5 Net fee and commission income

	2016	2015
Fee and commission income		
Guarantees and letters of credit	32	306
Transfers and transactions	3,934	8,287
Agent's commissions	12,472	8,769
Other	458	2,296
Total fee and commission income	**16,896**	**19,658**
Fee and commission expense		
Bank transactions	1,550	685
Agents' commissions	1,633	1,283
Other	87	1,671
Total fee and commission expense	**3,270**	**3,639**
Net fee and commission income	**13,626**	**16,019**

Agent's commission income originates from an insurance agency contract. Costs of agent's commissions relate to a credit brokerage contract.
The reduction in fee and commission income is due to the Bank's curtailing its electronic payment facilitation services during the year in line with its strategy to focus on core banking activities.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

6 Net trading gains

	2016	2015
Net foreign currency transaction (loss)	(363)	(327)
Net foreign translation gain	776	9,497
Net gain/(loss) on financial assets	3,456	(35)
Net gain/(loss) on dealings with non-current assets held for sale	92	(9)
Total net trading gains	**3,961**	**9,126**

7 Other operating expenses

	2016	2015
Administrative expenses	19,816	17,638
Staff costs (Note 8)	32,004	21,277
Depreciation and amortisation (Notes 21 and 22)	5,501	4,182
Operating lease rentals and other related costs	2,994	1,330
Materials	1,700	798
Total other operating expenses	**62,015**	**45,225**

Administrative expenses	**2016**	**2015**
Other admiistrative expenses	2,954	5,661
Consultancy, legal and other professional services	5,288	1,287
IT services	1,057	533
Advertising expenses	1,587	1006
Tax expenses	2,103	2,540
Annual contribution to DGF и FOBR	1,556	1,760
Other	5,271	4,851
Total administrative expenses	**19,816**	**17,638**

Tax expenses item consists of withholding tax on interest income received from Romania. The withholding tax at 31 December 2016 amounts to BGN 966 thousand (2015: BGN 1,015 thousand).

The amounts charged throughout the year for the services provided by the registered auditor of the Bank are as follows: for independent financial audit: BGN 148 thousand (2015: BGN 223 thousand), for advisory services: BGN 6 thousand (2015: 37 thousand), and for other non-audit services: BGN 64 thousand (2015: BGN 52 thousand).

8 Staff costs

	2016	2015
Wages and salaries	26,836	18,004
Social security contributions	5,168	3,273
- incl. Pension Fund	*3,483*	*2,218*

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Total staff costs	**32,004**	**21,277**

The number of the Group's employees at the end of 2016 was 1,474 (2015: 1,415 employees).

Notes to the Consolidated financial statements (continued)

9 Other operating income	2016	2015
Dividend income	8	5
Rental income	6,772	4,945
Bargain purchase recognised as profit	178	747
Gain on sale of property	283	17
Income from administration of receivables	-	236
Other income	1,209	2,103
Other operating income	**8,450**	**8,053**

10 Tax expenses

	2016	2015
Current tax	(3,871)	(3,485)
Deferred tax	(288)	-
Total tax expenses	**(4,159)**	**(3,485)**

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

	2016	2015
Pre-tax profit	36,702	35,991
Estimated corporate tax at a statutory rate of 10 %	(4,321)	(3,599)
Tax effect of expense not deductible for tax purposes	14	(26)
Tax effect of withholding tax	(32)	(101)
Tax effect of unrecognized deferred tax	(41)	(54)
Current tax paid abroad	-	295
Other tax movements	221	-
Tax expense	**(4,159)**	**(3,485)**

The total tax loss, which may be carried forward in future periods, amounted to BGN 1,444 thousand as at 31 December 2016 (2015: BGN 1,473 thousand). The Bank has the right to carry forward the accumulated losses over the next 5 years, until fully utilised.

Year	Tax loss for the year	Remaining tax loss as at 31 December 2016	Unrecognised deferred tax asset	Year of expiration
2015	-	1,473	147	2020
2016	-	1,444	144	2021

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

10 Tax expense (continued)

Deferred tax assets of BGN 144 thousand as at 31 December 2016 (2015: BGN 147 thousand) were not recognised.

The tax administration authorities have the right to examine the accounting books and transactions of the Bank within a 5-year period from the date of the reporting tax year, and could assess additional taxes and penalties. However, there are no circumstances known to management that would result in a potential tax liability in this connection.

11 Cash on hand and balances with central banks

	2016	2015
Cash on hand	11,459	9,310(
Cash at central banks other than the minimum statutory reserve	14,611	68,785
Cash and cash equivalents for the purposes of the cash flow (Note 31)	**26,070**	**78,095**
Minimum statutory reserve	40,332	31,525
Total cash on hand and cash at central banks	**66,402**	**109,620**

As at 31 December 2016 the statutory minimum reserves held with the Bulgarian National Bank (BNB) amount to 10 % (2015: 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 2016 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 Group's day-to-day operations. BNB may charge interest on the minimum statutory reserves and excess reserves, whereas the interest charged could be a negative figure; the reserves in NBR are interest bearing with positive interest rates.

12 Placements with other banks

	2016	2015
Deposits with foreign banks with original maturity of up to three months	9,188	5,266
Current accounts with foreign banks	97,202	5,530
Current accounts with local banks	951	29,470
Included in cash and cash equivalents for the purpose of the cash flows (Note 31)	**98,153**	**40,266**
Total placements with other banks	**107,341**	**40,266**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

13 Held-for-trading financial assets

	2016	2015
Debt securities	1,019	-
Total held-for-trading financial assets	**1,019**	**-**

As of 31 December 2016 held-for-trading debt securities consist of foreign corporate securities with coupon of 11.25% per annum. Debt securities are stated at fair value based on quoted market prices as of the date of the financial statements. Interest accumulated at 31 December 2016 amounts to BGN 12 thousand.

14 Available-for-sale financial assets

	2016	2015
Securities available for sale:		
- unlisted equity securities	89	89
- debt securities traded in an official market	10,675	11,789
Total available-for-sale financial assets	**10,764**	**11,878**

Debt securities at 31 December 2016 represent two types of issued Romanian government bonds: in EUR with a maturity on 21 January 2019 and coupon of 3.40 % per annum; in RON with a maturity on 11 May 2017 and coupon of 6.75 % per annum. Interest accumulated as at 31 December 2016 amounts to BGN 319 thousand. Debt securities are carried at fair value based on listed market prices as at the date of the financial statements.

15 Held-to-maturity investments

	2016	2015
Debt securities	8,081	-
Total held-to-maturity investments	**8,081**	**-**

As of 31 December 2016 debt securities consist of foreign corporate securities with coupon of 11.25% per annum. Debt securities are stated at amortised value using the effective interest rate method. Interest accumulated at 31 December 2016 amounts to BGN 92 thousand.

16 Loans to customers

	2016	2015
Loans extended by the Group to:		
Corporate clients	95,031	129,452
Individuals	279,538	223,010
Staff	1,669	941
Total loans to customers	**376,238**	**353,403**
Impairment allowance (Note 18)	(26,570)	(22,311)
Total net loans to customers	**349,668**	**331,092**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

16 Loans to customers (continued)

Loans to customers include accrued interest of BGN 6,251 thousand (2015: BGN 5,706 thousand). Loans to customers bearing floating interest rates amount to BGN 80,918 thousand (2015: BGN 112,656 thousand), and loans to customers bearing fixed interest rate amount to BGN 295,320 thousand (2015: BGN 240,747 thousand).

17 Finance lease

	2016	2015
Within 1 year	13,950	23
From 1 to 5 years	20,221	79
Over 5 years	7,007	-
Gross investment in lease contracts	**41,178**	**102**
Unrealised finance income	(9,488)	(18)
Gross amount before provisions	**31,690**	**84**
Less: allowance for impairment losses	(1,429)	-
Net amount of lease payments	**30,261**	**84**

18 Impairment loss allowances

The movement in impairment loss allowances is as follows:

Specific allowance for individually assessed financial assets	**2016**	**2015**
At 1 January	**2,776**	**10,189**
Impairment loss allowance charged	2,900	6,470
Reversed allowance	(1,085)	(4,556)
Loans written off against the allowance	(1,277)	(9,330)
Foreign currency differences	76	3
As of 31 December	**3,390**	**2,776**

Specific allowance for individually assessed financial assets	**2016**	**2015**
At 1 January	**19,535**	**11,091**
Impairment loss allowance charged	17,090	5,769
Reversed allowance	(8,375)	(1,683)
Loans written off against provision	(5,545)	-
Foreign currency differences	(67)	(6)
As of 31 December	**24,610**	**19,535**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

19 Structure of the loan portfolio by economic sectors

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

	2016	2016	2015	2015
Commerce	14,482	3.85%	25,520	7.22%
Agriculture	13,638	3.62%	10,991	3.11%
Construction and real estate	39,047	10.38%	42,913	12.14%
Services	10,089	2.68%	25,813	7.30%
Manufacturing	5,501	1.46%	5,025	1.42%
Tourism	12,193	3.24%	19,001	5.38%
Other financial institutions	81	0.02%	189	0.05%
Individuals	279,538	74.30%	223,010	63.10%
Staff	1,669	0.44%	941	0.27%
Total loans to customers	**376,238**	**100.00%**	**353,403**	**100.00%**

The ten largest loans to customers as of 31 December 2016 represent 7.88% of the Group's portfolio, net of provisions (2015: 10.10%).

20 Non-current assets and liabilities held for sale

	2016	2015
Assets		
Repossessed assets	14,658	8,955
Tangible assets	13,045	
Other assets	2,447	-
Total non-current assets held for sale	**30,150**	**8,955**
Liabilities		
Other borrowings	(7,820)	-
Other liabilities	(1,453)	-
Total non-current liabilities held for sale	**(9,273)**	**-**
Net assets	**20,877**	**8,955**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

20 Non-current assets held for sale (continued)

As at 31 December 2016 the Group repossessed assets under terminated or overdue loan agreements of BGN 14,658 thousand (2015: BGN 8,955 thousand), net of impairment. As at 31 December 2016 the Group accrued impairment of BGN 96 thousand (2015: BGN 221 thousand), and the forfeited assets item is presented net of the impairment charged.

In 2015 the Group sold assets classified in this category of BGN 1,260 thousand (2015: BGN 241 thousand). Impairment written off in relation to these assets amounted to BGN 0 (2015: BGN 188 thousand). In 2016 the Group acquired assets of BGN 6,524 thousand (2015: BGN 8,126 thousand) classified as held for sale.

As of 31 December 2016 the Group classified the assets and liabilities of its subsidiary TBI Rent as held for sale.

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

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

	Total
As of 1 January 2015	**409**
Impairment charged	-
Impairment written off	(188)
As of 31 December 2015	**221**
Impairment charged	1,439
Impairment written off	(385)
As of 31 December 2016	**1,275**

Information about the fair value of non-current assets held for sale, depending on the property's function, is disclosed in the following table:

	2016	2015
Type of repossessed assets		
Commercial (buildings and land)	11,224	6,867
Land	3,896	2,660
Plant and equipment	348	-
Total repossessed assets	**15,468**	**9,527**

In 2016 and 2015 there were no transfers into or from a fair value hierarchy level.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

20 Non-current assets held for sale (continued)

Quantitative information about fair value measurement of held-for-sale non-current assets by using significant non-observable inputs (Level 3):

Type of assets for sale	Valuation technique	Significant unobservable inputs	Range (weighted average) for 2016	Range (weighted average) for 2015	Significant unobservable Inputs
Land	MVM	Price per sq. m.	€10.17 - €341.25 (€38.00)	€9.25 - €310.23 (€34.55)	Significant increase in the price per sq. m. will result in a higher fair value.
	RAM	Price per sq. m.			Significant increase in the price per sq. m. will result in a higher fair value.
Commercial (buildings and land)	RVM	Price per sq. m.	€412.74 - €547.55 (€552.18)	€375.22 - €547.55 (€501.98)	Significant increase in the price per sq. m. will result in a higher fair value.
	MCFCF	Price per sq. m.			Significant increase in the price per sq. m. will result in a higher fair value.

In 2016 and 2015 there were no transfers into or from a fair value hierarchy level.

Residual amount method (RAM) is used for determining the market value of regulated land property when there is data about building-up indicators in accordance with an effective spatial plan. The residual amount is derived from the market value of a completed building (subject to future construction), less any types of expenses relating to the entrepreneurial initiative and entrepreneur's profit, and the risk inherent to this type of business. In this case, the market value is the updated amount of the net result at the end of the entrepreneurial cycle.

Notes to the Consolidated financial statements (continued)

20 Non-current assets held for sale (continued)

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, a 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.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

21 Intangible assets

	Software	Other	Total
Balance at 1 January 2015			
Book value	2,869	26	2,895
Accumulated amortisation	(1,568)	-	(1,568)
Carrying amount at the period-end	**1,301**	**26**	**1,327**
Year ending 31 December 2015			
Carrying amount at the beginning of the period	1,301	26	1,327
Additions	947	567	1,514
Disposals	(17)	-	(17)
Transfers	(16)	-	(16)
Foreign currency differences	(558)	(7)	(565)
Amortisation	**1,657**	**586**	**2,243**
Carrying amount at the period-end			
As of 31 December 2015			
Book value	4,303	604	4,907
Accumulated amortisation	(2,646)	(18)	(2,664)
Carrying amount at the period-end	**1,657**	**586**	**2,243**
Year ending 31 December 2016			
Carrying amount at the beginning of the period	1,657	586	2,243
Additions	448	106	554
Disposals	-	(435)	(435)
Transfers	124	(140)	(16)
Foreign currency differences	(1)	-	(1)
Amortisation	(716)	-	(716)
Carrying amount at the period-end	**1,512**	**117**	**1,629**
Book value	5,304	117	5,421
Accumulated amortisation	(3,792)	-	(3,792)
Carrying amount	**1,512**	**117**	**1,629**

Intangible assets with book value of BGN 3 thousand and accumulated amortisation of BGN 3 thousand were written off in 2016. Assets with book value of BGN 315 thousand and accumulated amortisation of BGN 308 thousand were written off in 2015.

At the end of 2016 the book value of intangible assets, fully amortised, but still in use, amounted to BGN 1,094 thousand (2015: BGN 601 thousand).

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

22 Property and equipment

	Buildings	Equipment	Motor vehicles	Leasehold improvements	Total
As of 1 January 2015					
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	-	1,171	15,888	7	17,066
Disposals	-	-	(798)	-	(798)
Foreign currency differences	(72)	(2)	-	1	(73)
Depreciation	(332)	(571)	(2,625)	(89)	(3,617)
Carrying amount at the period-end	**9,999**	**1,861**	**12,465**	**282**	**24,607**
As of 31 December 2015					
Book value	10,759	6,411	19,693	581	37,444
Accumulated depreciation	(760)	(4,550)	(7,228)	(299)	(12,837)
Carrying amount	**9,999**	**1,861**	**12,465**	**282**	**24,607**
Year ended 31 December 2016					
Carrying amount at the beginning of the period	9,999	1,861	12,465	282	24,607
Additions	1,492	1,160	6,326	9	8,987
Disposals	(1,164)	(467)	(1,412)	(13)	(3,056)
Impairment	35	-	-	-	35
Transfers	-	(44)	(13,000)	-	(13,044)
Foreign currency differences	(3)	(2)	3	-	(2)
Depreciation	(365)	(721)	(3,623)	(76)	(4,785)
Carrying amount at the period-end	**9,994**	**1,787**	**759**	**202**	**12,742**
As of 31 December 2016					
Book value	11,114	7,049	3,050	553	21,766
Accumulated depreciation	(1,120)	(5,262)	(2,291)	(351)	(9,024)
Carrying amount	**9,994**	**1,787**	**759**	**202**	**12,742**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

22 Property and equipment (continued)

Equipment with book value of BGN 497 thousand and accumulated depreciation thereon of BGN 30 thousand were written off in 2016. No equipment was written off in 2015. A building with book value of BGN 1,282 thousand and accumulated depreciation thereon of BGN 118 thousand were written off in 2016. In 2016 cars with book value of BGN 4,312 thousand and accumulated depreciation thereon of BGN 2,900 thousand were written off. In 2015 cars with book value of BGN 1,898 thousand and accumulated depreciation thereon of BGN 1,102 thousand were written off. Leasehold improvements with book value of BGN 37 thousand and accumulated depreciation thereon of BGN 23 thousand were written off in 2016.

At the end of 2016 the book value of property and equipment, fully depreciated, but still in use, amounted to BGN 1,003 thousand (2015: BGN 881 thousand).

23 Other assets

	2016	**2015**
Prepayments	497	1,075
Receivables from suppliers	1,173	725
Collateral MasterCard	955	215
VAT receivables	417	104
Other taxes and government agencies	518	377
Rental deposits	193	174
Legal fees	240	202
Insurance receivables	139	27
Other receivables	1,296	4,461
Total other assets	**5,428**	**7,360**

Management assesses the risk of uncollectability of receivables and as a result, the Group has impaired receivables of high risk included in the line item Other assets. The impairment for 2016 amounts to BGN 82 thousand (2015: BGN 177 thousand). Other financial assets comprise monthly receivables on assignment contracts.

24 Deposits from banks

	2016	**2015**
Deposits from banks	-	24,675
Loans from banks	5,879	-
Total deposits from banks	**5,879**	**24,675**

Deposits from banks at the end of 2016 include accrued interest of BGN 23 thousand (2015: BGN 37 thousand). Loans from other banks bear a fixed interest rate of 1.75% plus a margin of 0.05% per annum and include loans, received by TBI Bank EAD for the purposes of financing the banking activities of the Group.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

25 Deposits from customers

	2016	2015
Corporate clients		
- current/settlement accounts	51,622	97,200
- term deposits	42,941	33,803
Individuals		
- current/settlement accounts	25,262	24,697
- term deposits	319,135	215,603
Total deposits from customers	**438,960**	**371,303**

Deposits from customers at the end of 2016 include interest payable of BGN 1,586 thousand (2015: BGN 2,134 thousand), with an average interest rate of 1.6% (2015 : 2.1%).

26 Other borrowings

	2016	2015
State Fund "Agriculture"	924	1,706
Subordinated term debt from Nova Ljubljanska Banka d.d.	-	2,618
Other financing from banks	-	7,871
Total other borrowings	**924**	**12,195**

At the end of 2016 long-term borrowings included interest of BGN 1 thousand (2015: BGN 77 thousand).

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

In 2016, after obtaining the permit of Bulgarian National Bank, the Bank early repaid its liability to Nova Ljubljanska Banka, Republic of Slovenia.
As at 31st of December 2015, Other financing from banks include revolving credit lines, granted by Alianz Bank to TBI Rent EAD for the purpose of financing the activities of the Group related to operating leases.

27 Other liabilities

	2016	2015
Ordered transfers	414	517
Prepaid repayment instalments on loans to individuals	11,745	8,475
Other liabilities	6,973	5,822
Payables to employees	2,359	1,701
Unused leave provisions	361	296
Taxes payable, other than income tax	670	293
Total other liabilities	**22,522**	**17,104**

Prepaid repayment instalments on loans to individuals represent instalments that have not matured yet. Upon request by a customer, the Group is obliged to repay the amounts to the respective borrower. There is no litigation provisions accrued as of 31 December 2016 (2015: nil). Other financial liabilities comprise payables to traders and suppliers.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

28 Contingent liabilities and irrevocable commitments

The Group'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 Group 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 Group 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 Group.

Guarantees and letters of credit obliged the Group, 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 Group recognises the provision in its financial statements for the period of the occurred change.

The contingent liabilities and irrevocable commitments (except for operating lease commitments) of the Group at 31 December 2016 and 31 December 2015 are as follows:

	2016	2015
Guarantees		
Corporate clients	950	1,787
Undrawn credit commitments		
Corporate clients	5,715	5,856
Individuals	10,513	9,262
Total contingent liabilities and irrevocable commitments	**17,178**	**16,905**

29 Pledged assets

As of 31 December 2016 the Group pledged as collateral deposits placed with foreign banks of BGN 9,188 thousand (2015: BGN 5,266 thousand) against the FX risk hedging transactions. Derivatives are renewed on a monthly basis and the Bank is not able to dispose of any deposits provided as collateral prior to the expiry of the relevant hedge contract. The outcome of the FX hedging as at 31 December 2016 and 31 December 2015 is disclosed in Note 2. The receivables on loans to customers comprise a pledge in favour of Bulgarian Development Bank pursuant to a loan contract. Other assets consist of a guarantee deposit to the benefit of Mastercard of BGN 733 thousand and pledged fixed assets to the benefit of Allianz Bank pursuant to a loan contract.

	2016	2015
Placements with foreign banks	9,188	5,266
Loans to customers	515	-
Other assets	11,450	-
Total pledged assets	**21,153**	**5,266**

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

30 Equity

The total registered ordinary dematerialised shares at 31 December 2016 are 81,600,000 (2015: 78,600,000), with par value of BGN 1 each. All shares are fully paid-in and vest equal voting rights.

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

Share capital

The table below presents the majority shareholders of the Group at the end of 2016 and 2015:

	31 December 2016		31 December 2015	
	BGN	(%)	BGN	(%)
TBIF Financial Services B.V.	81,600,000	100.00%	78,600,000	100.00%
Total	**81,600,000**	**100.00%**	**78,600,000**	**100.00%**

Movements in the number of shares

	Number of shares
As of 1 January 2015	**70,400,000**
Newly issued shares	8,200,000
As of 31 December 2015	**78,600,000**
As of 1 January 2016	**78,600,000**
Newly issued shares	3,000,000
As of 31 December 2016	**81,600,000**

Foreign currency translation reserve

The foreign currency translation reserve at 31 December 2016 amounts to BGN (191) thousand (2015: BGN (42) thousand) and includes the translation of the operations of the branch of the Group in Romania from its functional currency – the new Romanian leu (RON) into the presentation currency of the Group – Bulgarian levs.

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 2016 the accumulated revaluation reserve amounted to BGN 99 thousand (2015: BGN 42 thousand).

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

30 Equity (continued)

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 Group 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 2016 the Reserves Fund amounted to BGN 7,187 thousand (2015: BGN 4,349 thousand).

31 Cash and cash equivalents

	2016	2015
Cash at central banks other than the minimum statutory reserve (Note 11)	26,070	78,095
Deposits with other banks (Note 12)	98,153	40,266
Total cash and cash equivalents	**124,223**	**118,361**

32 Business combinations

In connection with the restructuring of the Group of TBIF Financial Services B.V., to be effected as a result of the transaction in 2016 involving the transfer of the ownership to 4Finance, in January 2016 TBI Bank acquired 100% of the ownership of the shares of TBI Leasing IFN S.A., a company, registered in Romania and specialised in finance lease of assets. The cost of acquiring the shares amounted to BGN 2,934 thousand and was paid in cash. As a result of this transaction, the Bank earned profits amounting to BGN 190 thousand being the positive difference between the remuneration transferred and the net amount of assets acquired and liabilities assumed. The profit is recognized as Other operating income and originates from foreign currency differences between the cost of acquisition (fixed in EUR) and the net assets acquired (denominated in RON).

The amount of the income (including interest income, fee and commission income, and other operating income), recognized in these financial statements in connection with the investment in TBI Leasing IFN S.A., was BGN 2,915 thousand. The amount of the losses, recognized in these financial statements in connection with the investment in TBI Leasing IFN S.A., was BGN 2,791 thousand. For consolidation purposes, the transaction is deemed concluded on the first day of the reporting period and the above amounts cover the entire year of 2016.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

32 Business combinations (continued)

The fair values of identifiable assets and liabilities assumed at the date of acquisition of the company are as follows:

Assets	**As of 01 January 2016**
Cash on hand and placements with banks	3,014
Loans to customers	135
Finance lease	731
Non-current assets held for sale	4,833
Other assets	1,912
Deferred tax assets	393
Fixed assets	2,533
Total assets	**13,551**
Liabilities	
Payables to banks	-
Deferred tax liabilities	26
Other liabilities	10,401
Total liabilities	**10,427**
Fair value of net asses	3,124
Gain on the transaction	(190)
Cost of acquisition	**2,934**

33 Related party transactions

In the ordinary course of business the Group carries out bank transactions with related parties based on the principle of equality and party's independence. These include mostly loans and deposits, as also purchase of receivables with the aim to invest the Group's free cash. As at 31 December 2016 the Group did not set aside provisions for overdue receivables relating to funds provided to related parties (2015: nil). Such evaluation is carried out annually, by conducting an analysis of the financial position and the market in which these related parties operate.

As at 31 December 2016 the Group is controlled by TBIF Financial Services B.V. (registered in the Netherlands), which holds 100% of the ordinary dematerialised shares of the Bank.

The ultimate parent is Tirona Limited, Cyprus.

All amounts are stated in thousands of Bulgarian leva, unless otherwise stated.

Notes to the Consolidated financial statements (continued)

33 Related party transactions (continued)

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

31 December 2016	Parent company	Other related parties	Total
Debt securities	9,100	-	9,100
Borrowings	64	-	64
Interest income	85	-	85
Fee and commission income	14	-	14

31 December 2015	Parent company	Other related parties	Total
Other assets	-	5,057	5,057
Borrowings	16,846	3,680	20,526
Other liabilities	-	127	127
Purchase of receivables	-	24,862	24,862
Sale of receivables	-	22	22
Interest income		203	203
Fee and commission income	1	13	14
Fee and commission expenses	-	(2)	(2)
Other operating income	-	33	33
Other operating expenses	-	(887)	(887)

Transactions and balances with other related parties in 2015 include transactions with TBI CREDIT IFN S.A. (before acquisition) and transactions and balances with TBI LEASING INF S.A. which as at 31 of December was not part of TBI Bank group. The company is fully owned by TBI Bank starting from the beginning of 2016 and any balances and transactions with it are eliminated on consolidation in 2016.

The total remuneration paid to the directors in 2016 amounts to BGN 700 thousand (2015: BGN 744 thousand). The accrued but not paid remuneration to the directors as at 31 December 2016 amounts to Nil (2015: BGN 50 thousand). Other benefits were not paid to management, including pension plans, share based payments, etc.

34 Events after the balance sheet date

On 20 February 2017 Mr Ivan Ivanov was deleted as a member of the Management Board of TBI Bank EAD;

On 08 March 2017 Mrs Florentina Virginia Mircea was elected as a member of the Management Board of TBI Bank EAD;

No material events have occurred after the balance sheet date, which may require adjustments or disclosures in the financial statements as at 31 December 2016.