TBI Bank

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 2017

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.

TBI Bank

Contents

Annual Management Report
of TBI Bank EAD

TBI Bank EAD (the Bank) is a member of 4Finance Group, which as at 31 December 2017 holds 100% (81,600,000 shares) of the Bank's capital through TBIF Financial Services B.V. TBI Bank EAD, together with its subsidiaries TBI IFN S.A. and TBI Leasing IFN S.A., 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 1,596 employees (2016: 1,474 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.

The bank performs services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). As an investment intermediary, the Bank complies with certain requirements for protection of customers' interests in accordance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38 issued by the Financial Supervision Commission (FSC). The Bank has established and implements a procedure for the conclusion and execution of contracts with clients, collection of customer information, keeping of reporting and safeguarding the clients' assets in compliance with the regulations and in particular, the requirements of Ordinance 38, articles 28 - 31. The Bank has established internal control rules and procedures to ensure compliance with the regulatory framework applicable to its operations.

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 2017, of TBI CREDIT IFN S.A., Romania, and TBI Leasing IFN S.A., Romania (the Group). As at 31 December 2016, TBI Bank EAD was the owner of TBI RENT EAD, Bulgaria, TBI CREDIT IFN S.A., Romania and TBI Leasing IFN S.A. Romania (The Group)

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 2016 and 2017. 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 2017, the Group generated net interest income of BGN 115,672 thousand, or a 36 % increase compared to 2016 thanks to the significant growth in the loan portfolio. The 2017 profit of the Group amounts to BGN 38,903 thousand compared to a profit in the prior year of BGN 32,543 thousand.

Operating revenue (net interest income, net fee and commission income, net foreign exchange gains and other income) has grown by 32.52 % 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 81.33 %, fee and commission income – 11.36 %, and the other types of income represent 7.15 %. The revenue structure is similar to that in the prior year.

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

In 2017, the total assets of the Group increased by 17.65 % compared to the end of 2016 and reached BGN 718,728 thousand (2016: BGN 623,739 thousand). At the end of 2017, the biggest increase was noted in cash on hand and placements with Central banks by BGN 100,284 thousand, followed by loans to customers by BGN 93,707 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 2017 amount to BGN 534,586 thousand (2016: BGN 477,717 thousand), 94.08 % of which, or BGN 502,913 thousand (2016: BGN 444,839 thousand), represent deposits from clients and banks. A 14.57 %, or by BGN 63,953 thousand, increase in deposits from clients and a 100 % decrease in deposits from banks were noted in 2017.

In BGN'000	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
Total assets	718,728	623,739	536,263	480,480	406,209	193,106
Equity	184,142	146,022	110,854	70,255	52,313	32,576

There is an increase in the Group's equity by 26 % as a result of the profit generated during the year.

The key events for the Group in 2017 were as follows:

- On 8 March 2017 the Bank concluded a contract for the sale of 100% of the shares of TBI Rent EAD. The contract was finalised in July of the same year.

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 2017, this indicator was 38.89 % (2016: 38.51 %), 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).

	2017	**2016**	**2015**	**2014**	**2013**	**2012**
Liquidity ratio	38.89	38.51	35.40	40.15	39.46	36.07

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.

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 2017 amounts to BGN 700,949 thousand;
- Liquidity risk – the net difference in liquidity of assets and liabilities as at 31 December 2017 amounts to BGN 184,142 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 2017 profit would amount to + / - BGN 1,110 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.

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.

Research and development

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

Significant events after the annual closing of accounts

No significant events have occurred after 31 December 2017, 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, including offline and online distribution channels. The main focus of the development will be commercial transactions conducted electronically.

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;
Kardan Financial Services B.V., The Netherlands– member of the Board of Directors and Executive Director;
Member without executive powers in the management bodies of subsidiaries that are fully controlled by Kardan N.V., The Netherlands.

- **Nicholas 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 LLC, 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

- **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) 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;
Nero Renewables N.V. -45 %.
Eki'O SPRL – 100%
c) legal entities where he sits on the management or controlling bodies.
Nero Renewables N.V. – Chief Executive Officer
Eki'O SPRL – Director
Stichiting Nero Joint Project – Secretary and Cashier.

- **Valentin Galabov - member of the Management Board and Chief Executive Officer**

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 EAD - 100%;
c) there are no legal entities where she 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.

- **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.

- **Florentina Virdzhiniya Mircha – member of the Management Board and Executive Director**

a) does not hold any interests in commercial entities as unlimited liable partner;
b) 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 – Aviatiq Support S.R.A. Romania -50%, Business Support S.R.A. Romania – 86,36%;
c) legal entities where she sits on the management or controlling bodies.
TBI Leasing IFN S.A. Romania - member of the Board of Directors and Executive Director;
TBI Fleet Management S.A. Romania - member of the Board of Directors and Executive Director.

- **Alexander Dimitrov – 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.

Contracts under art. 240 (b) of the Commercial Act in 2017:

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 2017 amounts to BGN 766 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 2017.

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.

The annual management report was approved for issue by the Management Board of the Bank on 21 March 2018 and signed on its behalf by:

Valentin Galabov
Executive Officer of TBI Bank EAD and
Member of the Management Board

Alexander Dimitrov
Executive Officer of TBI Bank EAD and
Member of the Management Board

TBI Bank EAD
TBI Bank
Ти Би Ай Банк ЕАД

Non-financial declaration pursuant to article 15, item 2 of the Accountancy Act

TBI Bank EAD
TBI Bank EAD (the „bank") is a joint-stock company registered in Bulgaria with scope of activity covering: corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, activities of an investment intermediary, payment services, trading in foreign currency and precious metals on own account or on client's account, guarantee transactions, and any other activities determined by an ordinance of Bulgarian National Bank.

The Bank has a branch operating in Romania and registered in accordance with the domestic law, whose activity overlaps with that of the bank in Bulgaria, except for the investment intermediary activities. Moreover, the bank has two subsidiaries in Romania – TBI Credit IFN S.A. with main field of activity: provision of consumer loans, and TBI Leasing IFN S.A. with main field of activity: leasing.

The main goal of the bank is to develop in the consumer credit market in Bulgaria and Romania by offering offline and online products, focusing mainly on monetary and commodity loans, as well as credit cards. To achieve this goal, the bank implements a strategy that focuses on technological innovation and development of young, talented and diversified teams.

Anti-corruption policies and activities

The Bank brings its activities in line with the requirements of anti-bribery and anti-corruption laws. The Bank's policy is to operate in a fair and ethical manner. All employees are expected to apply the highest standards of business and personal ethics in the performance of their duties.

The main activities in this field are defined in the Code of Conduct of administrators and employees of TBI Bank EAD. The Code is available on the Bank's intranet and applies to all persons hired under an employment contract, as well as to all other persons who carry out different activities for the Bank on any grounds.

A Regulatory Database and Compliance Department ("RDC Department") is responsible for exercising control on any risks of misconduct, bribery and corruption. The heads of the Bank's departments are responsible for implementing the rules and exercising control over the employees' activities, and in the case of established discrepancies, for notifying the Regulatory Database and Compliance Department and the bank's management.

For the purpose of early detection and prevention of improper conduct, the RDC Department encourages bank employees to report in good faith any suspicion to their direct manager and to ensure compliance with internal rules and procedures if unauthorised or unusual activities have been established and investigated. As part of the regular training of the RDC Department, subjects relating to the identification and reporting of cases of unlawful conduct are also covered.

The employees of the bank have the opportunity to send alerts for specific violations of the Code through different communication channels: telephone, e-mail (compliance@tbibank.bg) or a paper letter addressed to the RDC Department.

Third parties have the opportunity to submit alerts for violations via the website of TBI Bank EAD – https://www.tbibank.bg/, or in the form of complaints filed at the bank's headquarters or offices. Alerts shall be sent in case of suspicion of violations of ethical and professional conduct, harm to customers' interests or breach of the requirements for the protection of banking information and data.

When an alert is received, the legal advisor of the RDC Department examines the case in terms of legal justification and prepares an opinion on the level of legal risk of the circumstances described in the alert and their impact on the bank. If, on the grounds of the legal opinion, there is justified suspicion of unacceptable activities or behaviour, actions shall be taken to continue the investigation of the case by gathering additional information and explanations with the assistance of the relevant officer and heads of Internal Audit and Internal Security Department. Employees from other departments of the bank may participate in the investigation as well.

The RDC Department notifies the Management Board, and respectively, the Supervisory Board, of any serious case of violation of the Code of Conduct of administrators and employees, and proposes follow-up actions. :

- defining and implementing specific measures by the relevant officer;
- changing the Bank's internal rules and procedures;
- duly notifying external institutions, such as law enforcement authorities, court, prosecutor's office, etc.

Copies of all reports on verified cases of misconduct, incl. information on measures to improve the internal control system and the measures taken are kept by the RCD Department.

Staff policies and activities and respect for human rights

TBI Bank EAD implements and complies with the provisions of labour laws and regulations on safety and health at work; it is interested in global practices which considers and implements in the management and resolution of employee-related matters. Policies and procedures in the field of human resource management and development provide the necessary clarity and guidance for both managers and staff in the organisation.

Almost 1,600 employees work in the bank and its related structures; the ratio of men:women is about 25% - 75%.

The above number of staff includes also about 170 employees, who at the time of filing this declaration are on parental leave.

The Bank applies no gender pay gap for work generating the same value.

People working in the organisation are the most significant asset and money invested in them is the best investment. This is because the organization's strategy is always linked to change, and this change may take place only by people as it is a function of their competence.

Certain changes have been made in the area of human resource management necessitated by the need for knowledge management, which creates a competitive advantage for faster and more competent decision-making. We use Internet and Internet-based systems for rapid communication between individuals and structures, for the dissemination and exchange of knowledge, sharing of innovations that change societies and economics and strive to be of the first.

As a consequence, human resource management is becoming increasingly strategic, focusing primarily on increasing the human resource potential in the organisation, preparation for continuous change and its most rational use to achieve the bank's objectives.

In its human resource management and development activities, the Bank aims to ensure transparency and equality for employees to take advantage of different opportunities for enhancement of knowledge and skills, and career growth.

An annual training plan is drawn up for staff for the following calendar year. The plan is discussed with the relevant department heads and approved by senior management.

Trainings are consulted with the managers, carried out, and subsequently their effectiveness is assessed, and follow-up actions are developed to improve educational processes.

The average number of hours of training per year per employee is not less than 80 training hours.

In the area of selection, new jobs and functional roles are announced internally and each employee who wishes and meets those requirements has the right and opportunity to apply. Internal rules and procedures have set the application process and subsequent steps. In addition, with recommendations for specific professionals who meet the organization's requirements, employees are helping to form a highly effective and proven professional team.

Newly recruited employees pass through introductory vocational training which complies with the statutory requirements for the relevant positions, as well as other trainings ensuring the quality performance of the tasks assigned. As a result of a thorough analysis of training and development needs, employees have the opportunity to participate in ad hoc or regular trainings, both for improving their professional competencies and for developing the so-called specific skills – related to work with customers, project management, team management, etc.

In human management and development activities, the organization partners with external institutions – universities, staff recruitment companies, training and consultancy teams.

We are actively involved in activities, such as employers' exhibitions, where we present opportunities for work and development in the structures of TBI Bank EAD, and support the professional orientation of young people.

The company also participates in exhibitions abroad, with the aim of providing highly educated Bulgarian young people trained in global universities with information on the opportunities for return and professional development in Bulgaria.

For several years now, we have been actively supporting the One Day Manager initiative of Junior Achievement Bulgaria and enable ambitious young people to become involved in real work processes and projects, and make their first steps towards the choice of a profession.

It is important for us to ensure that our employees feel good and work with pleasure. The company organises team events and various initiatives that support the development of the teams and their sense of belonging.

For us, man is important. Our employees are managed with respect and care. We have provided additional medical care and medical prophylaxis for our people, and preferential conditions for sports.

In terms of labour pay, the bank has introduced a time-premium system of labour pay. For posts in the administration and the headquarters office, the payment system is time-based – it is determined according to the length of the working hours, which may be a 4, 6 or 8-hour working day. This system does not measure the amount of work but only the time during which the employee has rendered his/her services. For all sales-related positions, the system applied is a time-premium system. The remuneration is divided into two parts – one part is a guaranteed minimum for the time worked-out and the other part of the premium is defined based on quantitative and qualitative indicators.

In order to ensure the necessary health and safety conditions, the organization has engaged an external occupational health service to serve its structures in Bulgaria and Romania, which provide the necessary support with recommendations, training and elaboration of documents related to the creation and maintenance of personal records on the health status of workers, preparation of an annual analysis of the health status of workers based on the results of preliminary and periodic medical examinations and tests, temporary and permanent disability indicators and their relation with working conditions, data on occupational morbidity and labour traumatism; identification of the necessary health professionals, clinical and instrumental, studies necessary to carry out mandatory, preliminary medical examinations, and in the conduct of periodic preventive medical examinations of workers and the periodicity of the mandatory medical examinations of workers, according to the degree of potential health risk; and drawing-up conclusions on the employability of persons to perform a certain activity based on information from preventive medical examinations carried out; development of rules, norms and instructions for ensuring health and safety at work.

We have built and maintain several indoor communication channels in our organization. In this way, our employees are always informed about important ongoing projects, they can ask questions and receive answers.

A platform has been put in place to share ideas on the part of our staff to optimise work processes – through it, the employees have the opportunity to make their substantiated proposals, including recommendations and ideas, and to elaborate them in detail. A commission examines all so-proposed ideas and takes decisions on follow-up steps, and the employees, in full transparency, receive feedback and are able to participate actively in the process of implementation.

Environmental protection policies and actions

For TBI Bank EAD, sustainable business development is more valuable than short-term profitability and other commercial benefits. We believe that our debt to the nature we are part of is a key element of our care for the well-being of all stakeholders and our whole society. We therefore aim to reduce the negative impact of our activity on the environment and to use every opportunity to contribute to nature conservation.

As each other company, TBI Bank, EAD also leaves its environmental footprint. This is mainly reflected by the consumption of energy and water resources, the use of paper and other materials related to the day-to-day operation of the Bank. The conditions in our offices, the efficiency of the equipment and vehicles used also have an impact.

We, at TBI Bank EAD, have embraced environmental protection as part of our social responsibility. Thanks to our strategic understanding of digitisation in all possible aspects of our business, the changes made to work processes and technological improvements, the results are already visible.

In the last two years, we have made efforts to modernise our offices and our headquarters. We have introduced the use of highly efficient air-conditioning systems and buildings management systems, refurbished thermal insulation and lighting. As a result of all developments, we have reduced the overall energy consumption.

In addition to reducing the overall energy consumption, in a significant part of our internal processes, we use electronic exchange of documents, which is also part of our strategic understanding of the digitisation of business and operational processes. Today, we offer our customers a high level of service and innovative banking services using significantly less resources. In most working processes no paper is used, and in cases where a paperless exchange of information is impossible, it is limited to a minimum. All these optimisations significantly reduced the use of paper within the Bank.

After optimising the processes in the Bank, we want to convey this direction of thinking and work to our customers and partners as well. We encourage them to use innovative technical solutions and reduce consumption of paper and other resources necessary for their activities.

It is important for us to be close to our customers and partners. This requires frequent use of vehicles. Vehicles with low fuel consumption have been used since the start of the bank's operations. As a sequential step to reduce the impact on the environment, in 2018 TBI Bank EAD is in the process of replacing a large part of its car fleet with more cost-effective cars that comply with the highest European motor vehicle exhaust emissions standards.

Our group TBIF, which is part of the financial holding 4Finance, may boast of significant achievements in the field of environmental protection and we are strongly committed to bringing and enriching good practices in the markets in which we operate. In this regard, we are committed to setting ourselves coherent objectives and targets, constantly monitoring, evaluating and improving our environmental performance, and to strictly adhere to all the requirements of local, national and international legislation in the area concerned.

As a socially responsible institution, we are committed to use our influence to contribute to the protection of the planet that we will leave our children. To this end, we will not only stick to a policy of environmental responsibility in our daily routine, but we will gradually extend it to our customers, partners, suppliers and to all our society to help impose environmentally friendly business practices and achieve sustainable economic growth.

Policies and activities dealing with social matters

The customers of TBI Bank EAD are at the heart of all the activities of the bank and a key priority of management is to make their lives simpler, faster and better. As customers are becoming increasingly digital oriented in their daily life, their expectations regarding banking are also evolving and the goal of TBI Bank EAD is to use an increasingly wide range of technologies to meet their needs.

In its relations with customers, the bank has devoted to the presentation of responsible social communications and behavioural models using all its available channels of communication.

TBI Bank EAD is also working on a number of initiatives to support and develop financial awareness of the population in general and of the Bulgarian students in particular, aiming at providing them with better strategies for making informed and effective financial decisions.

In 2017, the Bank actively supported "The Bulgarian Christmas" – an initiative under the patronage of the President of the Republic of Bulgaria; the main purpose of the initiative is to raise funds for the treatment of Bulgarian children, as well as to purchase specialised equipment for the largest paediatric clinics in the country.

The main objective of TBI Bank EAD is also the formation and development of talented and diversified teams to contribute to the achievement of positive business results. A fundamental belief in the culture of the bank is that talent is not dependent on a country, race, sexual orientation, ability, beliefs, generations and experience. The working environment in the bank is based on mutual respect and acceptance through which people can be able to develop as much as possible. Acceptance and diversification allow the bank to strengthen its links with its clients, partners and the community in which it operates.

Non-financial declaration under Articles 48-52 of the Accountancy Act

CORPORATE GOVERNANCE DECLARATION OF
TBI Bank EAD
31 DECEMBER 2017

1. CORPORATE PROFILE AND STRUCTURE

TBI Bank EAD is sole owner joint stock company established in line with the regulations of Republic of Bulgaria, which conducts its business in Bulgaria as well as abroad under license obtained by Bulgarian National Bank.

Capital structure

The share capital of the Bank as of 31 December 2017 amounts to BGN 81,600 thousand, with total amount of dematerialised 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 31 December 2017 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 consists 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 assembly 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 and operations of the Bank.

The annual General assembly takes place up to 6 (six) months after the conclusion of the financial year, unless otherwise provided for by the law. The Management Board of the Bank convenes an extraordinary General assembly if:

- The share capital of the Bank decreases under the set limit by the law
- Such decision is requested by 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 has the right to:

1. Change or supplement the statutes of the Bank;
2. Increase or decrease the share capital;
3. Decide regarding any merger, demerger, transformation or closure of the Bank;
4. Appoint or dismiss members of the Supervisory Board and establishes their remunerations;
5. Appoint or dismiss the auditor of the Bank and sets its remuneration;

6. Approve the financial statement of the Bank and decide 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, except in case of bankruptcy;
11. Decide regarding other questions within the powers of the General Assembly set by the law.

The Supervisory Board (SB) exercises control over the main activity of the Bank and the Management Board. The Supervisory Board sets high corporate culture and business ethics with the established ethical norms and corporate values for business behaviour. SB elects 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 Statutes 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 elected 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 by the law for each damage, caused by violating the requirements of the law or of the Statutes of the Bank, of due to non-performance of their obligations. 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 the latter promptly.

Members of the Supervisory Board elect chairperson of the Supervisory Board among themselves who organizes the work of the SB. Members of the SB may also elect a deputy chairman of the Supervisory Board replacing the chairperson if he / she is absent.

The Management Board (MB) manages 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 Statutes and Rules of procedure of the Board, approved by the Supervisory Board;
- The MB sets the risk policy and establishes the risk management and internal control system;
- The MB provides guidance, approves and oversees 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 a report on the business activity and position of the Bank and shall immediately inform the SB of any significant deterioration of the economic situation of the Bank and other important circumstances regarding the economic activity of the Bank.

Board members are elected by the Supervisory Board for a term of office of five (5) years. The MB 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 jointly only.

The members of the Management Board, with the approval of the Supervisory Board, shall elect among themselves the Executive Directors, Chairperson of the Management Board and / or the Deputy Chairperson of the Management Board, replacing the Chairperson when he / she is absent. As Executive Directors may only be elected individuals who have received appropriate prior approval of the Bulgarian National Bank to manage and represent the Bank under the terms provided for in effective legislation. The Management 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 arises, they should disclose it and should not participate in the discussion and decision making.

<u>Committees and commissions:</u>

- As an institution of public interest, according to the Law on Independent Financial Audit, 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 the choice of the registered auditor to conduct an independent audit of the Bank and monitors its independence in accordance with the law and the Code of Ethics for Professional Accountants. At the date of preparation of the financial statements, the joint auditors have approved by the Audit Committee for negotiated procedures according to the requirements of BNB Ordinance 10 on internal control of banks. 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 supervision systems, and risk management systems, 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 Bank's risk exposures.
- **Lending Committee** (Credit Committee) is the body that is empowered to approve the origination of risk exposures to corporate customers. Credit exposures based on present limits are subject to subsequent approval by the Management Board and / or must be confirmed by the Supervisory Board.
- **Assets and Liabilities Management Committee** is responsible for the overall operation of the balance sheet of the Bank and monitors 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 Service is responsible for the prevention of money laundering and financing of terrorism**, and compliance risk.
- **The Specialized Service for safe working conditions** is responsible for the compliance with the statutory requirements in this area.

2. AUDIT AND INTERNAL CONTROL

- The Bank establishes and improves a reliable and comprehensive framework for internal control, which includes control functions with the necessary powers 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 defence". The control functions are independent from the operational business units, which they supervise and control. They are also organisationally independent from each other due to their different functions.
- External auditor – The external auditor is elected by the General Assembly of the shareholders. The external auditor performs an independent financial audit, the purpose of which is to express an independent audit opinion as to the fair presentation in all material respects in the financial statements of the financial position, financial result, cash flows and equity of the Bank. The external auditor is an audit firm independent from the Bank.

3. INFORMATION SYSTEMS

The Bank is dependent on complex information systems, including management information system, and possible crash, ineffectiveness or failure of these systems may have significant unfavourable 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 of an interruption in the normal functioning of the information systems of the Bank, even for short period of time, the Bank may possibly become incapable for certain time to service its clients and lose them as clients. Temporary interruption of the functioning of the information systems may also result in extraordinary expenses for recovery and confirmation of the information. Furthermore, any failure of the Bank to update and develop the existing information systems as effectively as its competitors, might lead to loss of its market share. Although the

Bank's management believes that adequate security program and program for work in crisis situations are in place, including fully equipped information centre duplicate, there is no certainty 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 information systems of the Bank, might have significant negative effect on the Bank activities, its performance and financial position.

4. REMUNERATION POLICY

Bank remuneration principles are structured in a way so as to contribute to the sensible corporate governance and risk management. TBI Bank EAD applies Remuneration Policy in accordance with the Credit Institutions Act and BNB Ordinance 4 on the requirements on the remuneration in banks, 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 incentivises risk taking behaviour, exceeding the levels acceptable for the Bank.

The main objective 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 interests of the Bank and its shareholders. It is based on the transparency, conflict of interest prevention and equal treatment of employees, documentation, objectivity, reliable risk management principles.

The policy establishes the main principles for forming of remuneration – fixed and variable, in accordance with the objective of the Bank to stick to the optimal proportion between the fixed and variable remuneration at sufficiently high share of the fixed one and depending on personnel categories, so as to ensure higher flexibility to the variable one, including possibility for non-payment. Upon the definition of the remuneration not only the financial results, but the ethical norms and corporate values underlying the Bank's Code of Ethics, as well as the reliable and efficient risk management are taken into account.

5. DISCLOSURE OF INFORMATION

The transparency and the timely disclosure of information is a key principle in corporate governance. The Bank maintains a system of disclosure of information in accordance with effective regulations, which is aimed at providing timely, accurate and understandable information about significant events, allows for objective and informed decisions, and ensures 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.

On the Bank's website information is published on:
- Data about the Bank;
- Data on the shareholder structure;
- Data on management bodies and structure of the Bank;
- Financial statements for the last 3 financial years at the least;
- 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 stakeholders include persons who are not shareholders but have an interest in the economic development of the Bank, such as creditors, customers, employees, the society and others.

7. INFORMATION ON COMPLIANCE IN SUBSTANCE OF THE CORPORATE GOVERNANCE CODE APPROVED BY THE DEPUTY CHAIRPERSON OF FINANCIAL SUPERVISION COMMISSION IN ART. 100N, PARAGRAPH 8 OF LOW ON PUBLIC OFFERING OF SECURITIES

TBI Bank (hereinafter referred to as "the 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 Chairperson of the Bulgarian Stock Exchange – Sofia. However the corporate policy of TBI Bank EAD is based on professional and transparent governance in accordance with internationally recognized standards, good banking practice and where appropriate with the principles underlying the NCGC. Since the Bank is a sole owner joint stock company, the requirements on the protection of shareholders' rights, publishing and disclosure of information concerning the shareholders are not applicable.

The Corporate Governance Policy of TBI Bank EAD (the "Policy") is the overall document containing the recognized standards of good and responsible governance and setting the rules, criteria and mechanisms for the corporate governance function of the Bank.

The principles are established based on the following internal documents of the Bank:
- Statutes of TBI Bank EAD;
- Corporate Governance Policy;
- Organizational structure;
- Code of Ethics of the administrators and employees of TBI Bank EAD;
- Remuneration Policy.

The objective of the policy is to regulate the corporate governance process as one of the key business functions and to outline the fundamental principles and requirements for maintaining and improving the organization and governance methods of TBI Bank EAD. The policy also aims to structure the basic components, functions and responsibilities comprising the corporate governance system of 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 in the country and abroad, and to facilitate the 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 corporate governance process;
- Identification of key business objectives within the business line "Planning and reporting".

As part of the objectives set the Bank's Management Board determines the key indicators for their performance such as growth, return on equity, provisions level, market share etc., providing a basis for the development of concrete business plans, and for the governance bodies - a possibility to control these plans in accordance with the Policy.

8. Internal control includes the following components:

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

(b) the risk assessment process - 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) the information system, including the related business processes relevant to the financial reporting, and communication - a description of the information system of the Bank can be found in section "IT Systems" of the Corporate Governance Declaration;

(d) control activities - description of the 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) current monitoring of controls - a description of the current 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.

Valentin Galabov
Executive Officer and
Member of the MB
29 March 2018

Alexander Dimitrov
Executive Officer and
Member of the MB
29 March 2018

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AUDIT FINANCE ACCOUNTING TAX LAW

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1124 Sofia, Bulgaria

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1504 Sofia, Bulgaria

Independent auditors' report

To the shareholders 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 statement of financial position as at 31 December 2017, 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 2017, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans to customers	
The Group's disclosures about impairment of loans to customers are included in Note 2a Credit risk, Note 16 Loans to customers and Note 18 Impairment allowances on loans to the consolidated financial statements.	
Loans to customers represent a significant part (62%) from the total assets of the Group as at 31 December 2016. As disclosed in Note 2a Credit risk, Note 16 Loans to customers and Note 18 Impairment allowances on loans to the consolidated financial statements the Group's management determines impairment loss estimate on loans for which there is identified objective evidence of impairment on an individual basis for Corporate portfolio and on collective basis for the Retail portfolio. The gross value of such loans as at 31 December 2017 is BGN 168,808 thousand and the accumulated loan loss allowance for loans is BGN 41,121 thousand. For the loans assessed for impairment on an individual and collective basis significant management judgement is required to determine the timing and amount of the expected cash flows.	In this area, our key audit procedures included, amongst others: • Assessment and tests of the design and operating effectiveness of controls over impairment monitoring processes of the Group. We have used our IT experts to assess and test the IT general controls of the Group's internal system used for the impairment monitoring and calculation process. • Performance of analytical procedures on a disaggregated data to evaluate if the trends in the impairment expense and allowance follow the development of the loan portfolios. • For loans to customers for which the Group has not identified any objective evidence of impairment, we tested a sample of exposures to assess their proper risk category classification. • For a risk-based sample of corporate loans to customers that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the consolidated financial statements, we specifically assessed the Group's assumptions on the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information. We have involved internal valuation experts to assist us in assessing

Due to the significance of the loans for which there is identified objective evidence of impairment and the related estimation uncertainty, we have considered this matter as a key audit matter.	the realizable value of collaterals on a sample basis. • Performance of subsequent events procedures focused on the development of the sampled loans from the corporate portfolio post balance sheet date to assess the Group's assumptions on the expected future cash flows. • For the Retail portfolio of the Group, which is assessed for impairment on a collective basis, review and analysis of the assumptions and the parameters of Management applied in the approved assessment model for retail loans (e.g. definition of overdue days' time bands, loss given default). Execution of tests of controls for a sample of loans over the key inputs of the model such as recovery rates on loans used in the calculations and appropriate allocations in the respective time bands. • Involvement of our internal valuation specialists to test the correctness of the formulas used the Group's collective impairment loss calculations as well as the consistency with the approved model. • Performance of a back-testing analysis for servicing of the retail loan portfolio in order to assess the adequacy of the key assumptions used in the collective impairment model. • Assessment of the adequacy and relevance of the consolidated financial statement disclosures related to the Group's exposure to credit risk and the impairment losses on the loans to customers.

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Management is responsible for the preparation and 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly and severally responsible for the performance of our audit and for the expressed by us audit opinion as per the requirements of the IFAA applicable in Bulgaria. In accepting and executing the joint audit engagement, in connection with which we report hereby, we also have followed the Guidance on Performing a Joint Audit issued on 13 June 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of Statutory Auditors in Bulgaria.

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 the corporate governance statement of the Group and the consolidated non-financial declaration , we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act 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.

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d) The consolidated non-financial declaration referring to the financial year for which the consolidated financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Ernst & Young Audit OOD and AFA OOD were was appointed as statutory auditors of the consolidated financial statements of TBI Group for the year ended 31 December 2017 by the general meeting of shareholders held on 07 November 2017 for a period of one year.
- The audit of the consolidated financial statements of the Group for the year ended 31 December 2017 represents second total uninterrupted statutory audit engagement for that entity carried out by Ernst & Young Audit OOD and first total uninterrupted statutory audit engagement for that entity carried by AFA OOD.
- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the audit committee of TBI Group, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- We hereby confirm that in conducting the audit we have remained independent of the Group.

Audit Firm Ernst & Young Audit OOD:

Nikolay Garnev
Legal Representative and
Registered Auditor in charge of the audit

Audit Firm AFA OOD:

Renny Iordanova
Legal Representative

Valia Iordanova
Registered Auditor in charge of the audit

Sofia, Bulgaria

30 March 2018

Translation in English of the official Auditor's report issued in Bulgarian.

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

Consolidated statement of comprehensive income for the year ended 31 December 2017

	Notes	2017	2016
Continuing operations			
Interest income	4	123,115	91,535
Interest expense	4	(7,443)	(6,372)
Net interest income		**115,672**	**85,163**
Fee and commission income	5	24,568	16,896
Fee and commission expense	5	(8,416)	(6,261)
Net fee and commission income		**16,152**	**10,635**
Net trading income	6	235	776
Other operating income/ (expenses), net	7	10,164	10,750
Total operating income		**142,223**	**107,324**
Loss on impairment of financial assets	18	(25,278)	(11,516)
Loss on impairment of other assets		(15)	(82)
Net operating income		**116,930**	**95,726**
Personnel expenses	9	(43,502)	(32,004)
Depreciation / amortisation expenses		(3,759)	(5,501)
Administrative and other expenses	8	(25,874)	(21,519)
Total administrative expenses		**(73,135)**	**(59,024)**
Profit before tax from continuing operations	10	**43,795**	**36,702**
Income tax expense	10	(4,892)	(4,159)
Profit for the year from continuing operations		**38,903**	**32,543**
Profit for the year		**38,903**	**32,543**
Attributable to:			
The owners of the parent		38,903	32,543
Non-controlling interest		-	-

(continued on the following page)

The notes on pages 14 to 88 form an integral part to the accompanying consolidated financial statements.

Financial statements on which an auditors' report is issued dated: 26 March 2018

Audit firm "Ernst & Young Audit" OOD:	Audit firm "AFA" OOD:

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

Consolidated statement of comprehensive income for the year ended 31 December 2017 (continued)

	Notes	2017	2016
Profit for the year		**38,903**	**32,543**
Other components of comprehensive income			
Components to be reclassified to the profit or loss:			
Foreign exchange differences from translation of the financial statements of foreign operation	30	(705)	(142)
Net gain/(loss) on available for sale financial assets remeasured at fair value	30	169	141
Current tax relating to unrealised gains on available-for-sale financial assets		(26)	-
Other comprehensive income, net of taxes		**(562)**	**(1)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**38,341**	**32,542**
Attributable to:			
The owners of the parent company		38,341	32,542

Valentin Galabov
Executive Officer and
Member of MB

Alexander Dimitrov
Executive Director and
Member of MB

Yordan Stoyanov
Preparer

TBI Bank EAD
TBI Bank
Ти Би Ай Банк ЕАД

The Consolidated Financial Statement was approved for issue by the Board of Directors on March 29, 2018.
The notes on pages 14 to 88 form an integral part to the accompanying consolidated financial statements.

Financial statements on which an auditors' report is issued dated: 26 March 2018

Audit firm "Ernst & Young Audit" OOD:	Audit firm "AFA" OOD:

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

TBI Bank

Consolidated Statement of Financial Position
as at 31 December 2017

	Notes	As at 31 December 2017	2016
ASSETS			
Cash on hand and balances with central banks	11	166,686	66,402
Placements with other banks	12	21,174	107,341
Held-for-trading financial assets	13	-	1,019
Derivatives		10	-
Available-for-sale financial assets	14	26,519	10,764
Loans to customers	16	443,375	349,668
Finance lease	17	23,648	30,261
Held-to-maturity investments	15	-	8,081
Other assets	23	5,452	5,428
Current tax assets	10	1,823	254
Intangible assets	21	3,541	1,629
Property and equipment	22	11,475	12,742
Deferred tax assets	10	467	-
Assets held for sale	20	14,558	30,150
Total assets		**718,728**	**623,739**
LIABILITIES			
Derivatives	26	224	31
Deposits from banks	24	-	5,879
Deposits from customers	25	502,913	438,960
Other borrowings	26	502	924
Deferred tax liabilities		34	128
Other liabilities	27	30,913	22,522
Held-for-sale liabilities	20	-	9,273
Total liabilities		**534,586**	**477,717**
EQUITY			
Share capital	30	81,600	81,600
Statutory reserves	30	8,392	7,187
Revaluation reserve	30	231	99
Foreign currency translation reserve	30	(896)	(191)
Retained earnings		94,815	57,327
Equity attributable to the owners of the parent		**184,142**	**146,022**
Non-controlling interest		-	-
Total equity		**184,142**	**146,022**
Total equity and liabilities		**718,728**	**623,739**

Valentin Galabov
Executive Officer and
Member of MB

Alexander Dimitrov
Executive Director and
Member of MB

Yordan Stoyanov
Preparer

TBI Bank EAD
TBI Bank
Ти Би Ай Банк ЕАД

The notes on pages 14 to 88 form an integral part to the accompanying consolidated financial statements.

Financial statements on which an auditors' report is issued dated: 26 March 2018

Audit firm "Ernst & Young Audit" OOD:	Audit firm "AFA" OOD:

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

Consolidated statement of changes in equity for the year ended 31 December 2017

	Share capital (Note 30)	Statutory reserves (Note 30)	Revaluation reserve - financial assets (Note 30)	Reserve from translation of financial statements in foreign currency (Note 30)	Retained earnings	Attributable to the parent company's equity owners	Non-controlling interest	Total equity
As 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)
Profit distribution		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**
Profit for the year	-	-	-	-	38,903	38,903		38,903
Other comprehensive income	-	-	132	(705)	11	(562)		(562)
Total comprehensive income for the year	-	-	**132**	**(705)**	**38,914**	**38,341**	-	**38,341**
Profit distribution	-	1,205	-	-	(1,205)	-	-	-
Other movements	-	-	-	-	(221)	(221)	-	(221)
As at 31 December 2017	**81,600**	**8,392**	**231**	**(896)**	**94,815**	**184,142**	-	**184,142**

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Financial statements on which an auditors' report is issued dated: 26 March 2018

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TBI Bank

Consolidated statement of cash flows for the year ended 31 December 2017

	Notes	2017	2016
Cash flows from operating activities			
Profit for the year		38,903	32,543
Ajdustments:			
Non-monetary			
Tax expense / (benefit) accrued		5,113	3,871
Deferred tax expense/(benefit) accrued		(220)	-
Impairment of financial assets	18	25,278	11,516
Impairment of assets held for sale	20	15	82
Impairment of property and equipment, and intangible assets	21,22	3,759	5,501
Taxes paid		(6,708)	(4,125)
Gain on disposal of property and equipment		-	(76)
Net losses on transactions with assets held for sale		(403)	-
Net gains or losses from financial assets and liabilities held for trading		554	-
Unused leaves provisions	27	5,339	65
Negative goodwill recognised in profit or loss		-	(178)
Unrealised foreign exchange losses		(572)	363
Cash flows from in operating activities before changes in operating assets and liabilities		**69,950**	**49,562**
Changes in operating assets and liabilities			
Net increase in the statutory reserves with Central banks	11	(4,710)	(8,807)
Net decrease / (increase) in loans to banks < 3 months	12	493	(9,188)
Net increase in loans to customers	16	(116,485)	(36,196)
Net decrease / (increase) in finance lease	17	6,613	(30,356)
Net (increase) / decrease in available-for-sale financial assets	14	(3,375)	1,114
Net increase in assets held for sale	20	(1,579	(1,322)
Net increase /(decrease) in liabilities held for sale		468	-
Net decrease / (increase) in derivatives		183	(14)
Net increase in financial assets and liabilities carried at fair value	13	-	(1,007)
Net increase in financial assets held for trading		(2,330)	-
Net increase in financial assets held to maturity		(397)	-
Net increase in other assets	23	(24)	(5,393)
Net decrease in deposits from banks	24	(5,879)	(8,078)
Net increase in deposits from customers	25	63,953	70,617
Net increase in other liabilities	27	2,739	4,426
Net cash flows from operating activities		**9,620**	**25,358**

(continued on the following page)

The notes on pages 14 to 88 form an integral part to the accompanying consolidated financial statements.

Financial statements on which an auditors' report is issued dated: 26 March 2018

Audit firm "Ernst & Young Audit" OOD:	Audit firm "AFA" OOD:

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

Consolidated statement of cash flows
for the year ended 31 December 2017 (continued)

	Notes	2017	2016
Cash flows from investing activities			
Purchases in held-to-maturity financial assets	15	-	(8,081)
Cash proceeds from sale of investments in subsidiaries		3,745	-
Purchase of intangible assets	21	(2,665)	(108)
Proceeds from disposal of property and equipment	22	613	2,669
Purchase of property and equipment	22	(991)	(6,001)
Net cash flows used in investing activities		**702**	**(11,521)**
Cash flows from financing activities			
Payments made on other borrowings	26	(422)	(10,975)
Share capital increase	30	-	3,000
Net cash flows used in financing activities		**(422)**	**(7,975)**
Net increase in cash and cash equivalents		**9,900**	**5,862**
Cash and cash equivalents at the beginning of the period	31	124,223	118,361
Cash and cash equivalents at the end of the period	31	**134,123**	**124,223**

Cash flows related to interest and dividends	**2017**	**2016**
Interest paid	(7,454)	(7,049)
Interest received	119,481	93,797
Dividends received	21	(947)

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The notes on pages 14 to 86 form an integral part to the accompanying consolidated financial statements.

Financial statements on which an auditors' report is issued dated: 26 March 2018

Audit firm "Ernst & Young Audit" OOD:	Audit firm "AFA" OOD:

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 2017 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, Inita Hane and Dmitry Kislyakov) and the Supervisory Board (Ariel Hason, Kieran Donnelly, Nicholas John Philpott and Gauthier Van Weddingen) of the Bank.

As at 31 December 2017, the Bank held the controlling interest of TBI CREDIT IFN S.A., with place of business and country of incorporation Romania, and of 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 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 29 March 2018.

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, financial 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 2017:

The Bank presents its statement of financial position as a priority by degree of liquidity. An analysis of the asset recovery or settlement of liabilities within twelve months after the statement of financial position (current) and after a 12-month period after the statement of financial position (non-current) is presented in notes

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

b Changes in accounting policies and disclosures applicable to reporting periods ending 31 December 2017

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, as follows:

- reclassification from other administrative expenses to fee and commission expenses amounting to BGN 4,772 thousand (2016: BGN 2,991 thousand);
- other operating expenses are presented in the financial statements in detail – personnel expenses, depreciation / amortisation expenses and other administrative expenses of BGN 21,519 thousand (2016: administrative expenses of BGN 19,816 thousand, operating leases of BGN 2,994 thousand, materials of BGN 1,700 thousand, reclassification of administrative expenses of BGN 2,991 thousand);
- net trading gains (2016: BGN 3,961 thousand)and losses on transactions with derivatives (2016: BGN 885 thousand) are presented in the financial statements as net trading gain/loss and other operating expenses, net;
- the net trading income in note 6 is presented by types of operations: income from sale of financial assets held for trading (2016: BGN 30 thousand) and profit from foreign exchange operations (2016: BGN 746 thousand);Note 7 includes net gains on financial assets (2016: BGN 172 thousand), other operating income (2016: BGN 1,670 thousand).

IAS 12 Income taxes (Amendments): Recognition of Deferred Tax Assets for Unrealised Losses
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 to combined versus separate assessment. The amendments have no effect on the financial position or performance of the Group.

IAS 7 Statement of Cash Flows (Amendments): Disclosure Initiative
The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments affect presentation only and have no impact on the Group's 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

Standards issued but not yet effective and not early adopted up to the date of issuance of the Group`s financial statements are listed below. It is disclosed how it could be reasonably expected that they will impact disclosures, financial position or performance when adopted by the Group for the first time. It is expected that they will be adopted when they become effective.

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. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application of the standard is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.
The Group plans to adopt the new standard on the required effective date – 1 January 2018, and will not restate comparative information.

The effects of the first-time adoption of IFRS 9 will be reflected in the balance of retained earnings on 1 January 2018 and will be disclosed in the financial statements for the year ended 31 December 2018.

During 2017, the Group has conducted an impact assessment of all three aspects of IFRS 9. As at 01 January 2018, based on the Group's preliminary calculations, there will be a correction of the opening balance of the Group's equity within the range from BGN 4,500 thousand to BGN 4,800 thousand. This correction is due to:

- the increase in impairment of consumer loans within the range from BGN 3,800 thousand to BGN 3,950 thousand;
- the increase in impairment of corporate lending within the range from BGN 610 thousand to BGN 620 thousand;
- the increase in impairment of other financial assets within the range from BGN 110 thousand to BGN 120 thousand.

This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Bank in 2018 when the Bank will adopt IFRS 9.

The Group expects no significant impact on its statement of financial position and equity as a result of the initial application of IFRS 9 to the following areas.

- Classification and measurement of equity instruments classified as available-for-sale under IAS 39
- Impairment of other receivables – updating percentages used for the purposes of impairment (according to the provisioning matrix) with forward looking input data;

According to the Rules on the Financial Assets Classification and Impairment, adopted in January 2018, the sub-portfolio that should be assessed collectively and the exposures that should to be assessed individually are determined by a written decision of the Impairment Committee of TBI Bank EAD.

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

IFRS 9 *Financial Instruments: Classification and Measurement* (continued)

Phase 1 exposures classification

The following criteria will be met at the same time for exposures falling within the classification of Phase 1:
• Exposures in arrears - up to 30 days past due;
• Exposures with no proof of financial difficulties;
• Exposures not defined as forborne.

Risk exposures on phase 1 are exposures that are services regularly and information on the borrower's financial performance provide no grounds to assume that the borrower will not be able to pay off the liability in full.

Phase 2 exposures classification

The following criteria will be met at the same time for exposures falling within the classification of Phase 2:

• Exposures in arrears – from 31 to 90 days
• Exposures with no proof of financial difficulties;
• Exposures defined as forborne in accordance with Commission Implementing Regulation (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions.
• Forborne exposure for which one of the following conditions has been met:
a) this extension has not resulted in classifying the exposure in the non-performing category;
b) the exposure was not considered a non-preforming exposure as at the date of implementation of the forbearance measures.

On-balance sheet exposures that have occurred as a result of the implementation of off-balance sheet engagements are classified at least as exposures of phase 2.

Phase 2 exposures classification

Risk exposures where there are significant weaknesses in their service or there is a serious deterioration in the financial situation of the borrower, which may cast doubts as to the full repayment of the liability.

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

IFRS 9 *Financial Instruments: Classification and Measurement* (continued)

All of the following criteria must be met for exposures falling within the classification of Phase 3:

• Exposures that meet the recognition criteria of Phase 3, corresponding to the exiting initial mechanisms of impairment under FRS 9 that are considered to be causing a loss for the Group;
• all non-performing exposures (NPL) as per the definition of the Group – non-performed for more than 90 days after their maturity date;
• A material loan liability of the debtor to the Group has been past due for more than 90 days;
- with respect to exposures to individuals – BGN 5 or their equivalent in other currency;
- with respect to exposures to legal entities – BGN 100 or their equivalent in other currency;

The baseline scenario shows that it is unlikely that the debtor will fully repay its loan liabilities to the Group without recourse to actions such as collateral foreclosure;

All forborne exposures that meet the conditions described herein below in any case should be classified as non-performing:

• They have an inappropriate repayment plan (both initial and subsequent) which includes, among other factors, repeated failure to comply with the repayment schedule, changes in the repayment schedule or a repayment schedule relying on expectations that are not supported by macroeconomic forecasts or realistic assumptions about the debtor's ability or willingness to pay;
• Inclusion of contractual terms which postpone the term of the regular repayment instalments of the transaction in such a way as to conceal the assessment of an appropriate classification by providing a grace repayment period of the principal of 2 years or more;
• Inclusion of write-offs exceeding the accumulated credit risk losses for non-performing exposures of a similar risk profile;
• Additional forbearance measures are applied to a serviced forborne exposure within a probationary period, which has been reclassified outside the category of non-performing or defaulted for more than 30 days after maturity.

The Group has filed a claim for declaring the debtor in bankruptcy, the debtor has been declared bankrupt or is in liquidation proceedings and there is a risk of unsatisfied creditors without probability of reorganisation.

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

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*
The standard is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. IFRS 15 was issued in May 2014, and amended in April 2016, including standard clarifications. 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). Under IFRS 15 revenue is recognized to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. 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 new revenue standard will supersede all current revenue recognition requirements under IFRS – IAS 11 Construction contracts and IAS 18 Revenue, as well as related interpretations. The standard requires either a full retrospective application or a modified retrospective application.
The Group plans to adopt the new standard on the required effective date 1 January 2018. During 2017, the Bank started an assessment of the effects from adoption of IFRS 15, and at the date of issuing its 2017 financial statements is in the process of finalizing this analysis. As such, the disclosed below information on the possible impact that application of IFRS 15 will have on the Group's financial statements in the period of initial application may be subject to further changes in 2018.

The preliminary conclusions from the ongoing assessment indicated that there will be no significant impact on Group's equity as of 31 December 2017 and 1 January 2017 as a result of the implementation of the standard.

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 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)

IFRS 17*: Insurance Contracts*
The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. It is not applicable for the Group.

Amendments to* 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.

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. 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. They are not relevant for 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)

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 Bank is in the process of assessing the impact of the new interpretation on its financial position or performance.

IFRIC 23 *Uncertainty over Income Tax Treatments*

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This 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. It is not expected that these amendments would impact the financial position or performance of the Group.

IFRS 9 *Financial Instruments: Classification and Measurement (Amendments): Prepayment Features with Negative Compensation*

The Amendments, effective for annual periods beginning on or after 1 January 2019 with earlier application permitted, propose a change to IFRS 9 for particular financial assets that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a negative prepayment feature. Specifically, for a financial asset that contains a prepayment option that may result in the payment of a reasonable negative compensation amount, the Amendments require the financial asset to be measured at amortised cost or at fair value through other comprehensive income, subject to the assessment of the business model in which it is held. 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.

IAS 28 *Investments in associates (Amendments): Long-term Interests in Associates and Joint Ventures*

The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. 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)

IAS 19 *Employee Benefits (Amendments): Plan Amendment, Curtailment or Settlement*
The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These amendments have not yet been endorsed by the EU. The Group is in the process of assessing the impact of these amendments on its financial position or performance.

Annual Improvements to IFRSs 2014-2016 Cycle
In the 2014-2016 annual improvements cycle, the IASB issued amendments to standards which are effective for annual periods beginning on or after 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;
- IFRS 12 Disclosure of Interests in Other Entities - clarification of the scope of the Standard (IASB effective date: 1 January 2017, however the EU endorsement is after that date)
- IAS 28 Investments in Associates and Joint Ventures - measuring an associate or joint venture at fair value.

The Group is in the process of assessing the impact of the amendments on its financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle
In the 2015-2017 annual improvements cycle, the IASB issued amendments to standards which are effective for annual periods beginning on or after 1 January 2019. Summary of amendments and related standards are provided below:

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – clarifying previously held interest in a joint operation;
- IAS 12 Income taxes - clarifying income tax consequences of payments on financial instruments classified as equity;
- IAS 23 Borrowing costs - clarifying borrowing costs eligible for capitalization.

The improvements to IFRSs 2015 – 2017 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 2017, 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. 63081 = USD 1 and BGN 0.419841 = RON 1 (31 December 2016: BGN 1.95583 = EUR 1, BGN 1.85545 = USD 1, BGN 0.430894 = RON 1).

The Group's foreign operation assets and liabilities, through its branchand its subsidiaries in Romania, were translated into Bulgarian lev at the closing exchange rate quoted by BNB, valid for the new Romanian leu as at 31 December 2017. The foreign operation income and expenses were translated at the average exchange rate for the reporting period, which amounted to BGN 0.4281345 = RON 1 in 2017 (2016: 0.435557). 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)

(a) Held-for-trading financial assets

Held-for-trading investments at fair value through the statement of income and expenses comprise those financial assets that the Bank acquires for generating a profit due to 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. Interest income earned on financial assets held for trading is reported as interest income.

(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 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, with the exception of: a) those designed by the Bank on their initial recognition as carried at fair value through profit or loss; b) those designed by the Bank as available for sale; and c) those that meet the definition of loans and receivables. 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.

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)

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.

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)

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)

l 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.

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

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.

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 Assets held for sale

Assets classified as held for sale are assets acquired as a result of the realisation of collaterals on non-performing loans. The comprise buildings and land. In the initial measurement, the assets are measured at cost, which is their fair value at the acquisition date. 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 difference is recorded as impairment.

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, cash in nostro accounts held with other banks, as well as deposits with banks with original maturity of less than three months. Cash and cash equivalents do not include encumbered assets.

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 2017 is 10 % (2016: 10%), and the tax rate applicable in Romania is 16% (2016: 15 %). 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.

s Lease

The Group as a lessor

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:

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

Notes to the consolidated financial statements (continued)

1 General information and accounting policies (continued)

s Lease (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.

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. Finance lease receivables are recognised as Loans to customers in the balance sheet. The Group applies its accounting policies for impairment of financial assets when finance lease contracts are impaired.

The Group as Lessee

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 28-31I. 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 September 2017, Methodology for conducting an internal capital adequacy analysis (ICAAP) and stress test of the exposure of TBI Bank RAD to risk and Methodology for conducting an internal liquidity adequacy analysis of TBI Bank EAD were elaborated, and in January 2018, the Group updated its Rules for financial asset classification and impairment in accordance with the requirements of International Financial Reporting Standard 9 (IFRS 9) and the Emergency Preparedness and Business Continuity Plan of TBI Bank EAD.

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 management units are responsible for risk mitigation – mitigation of potential and probable losses by means of definition of acceptable risk levels, outsourcing, monitoring and other risk mitigation methods;
- 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.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

The 2017 Group's risk exposures are classified in four groups based on the criteria of credit risk level, as follows:

Standard exposures - standard risk exposures are those, which are serviced and the information on the debtor's financial position casts no doubts that the debtor will be capable to repay the debt in full. A risk exposure is classified as a standard exposure if all of the conditions listed below are met simultaneously:
- the principal and the interest are repaid currently in accordance with the contractual terms or repayments on them have been past due up to 30 days, provided the delay is accidental;
- the debtor uses the loan for the purposes stipulated in the agreement;
- the 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.

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

a Credit risk (continued)

Risk mitigation and risk limit control policies

The Group manages limits and controls the concentration of credit risk in respect of counterparties, groups and industries in each particular case of risk identification.

The Group has set credit approval levels with the relevant approval units in order to manage credit risk. Depending on the loan amount applied for, the credits shall be referred to the appropriate level for approval. The Group assesses financial, market and business risks, and structures adequately the transactions. Credit risk is measured using a detailed analysis of the borrower's / guarantor's financial statements based on a system of indicators measuring their creditworthiness.

The exposure to each borrower, including banks and intermediaries, is further limited by: sub-limits covering on-balance sheet exposures and contingent liabilities and irrevocable commitments; limits on day-to-day risks relating to trading positions, such as forward contracts. Actual exposures to the relevant limits are monitored on an ongoing basis. The exposure to credit risk is managed through a constant analysis of the ability of borrowers and potential borrowers to cover their liabilities and, where appropriate, by changing credit limits.

Collateral

The group uses a set of credit risk mitigation policies and practices. A requirement of the Group to borrowers is to provide liquid collateral before the approved credits are granted, for all loans other than consumer loans for individuals. The main types of collateral on the loans provided to customers are as follows:
- cash in Bulgarian leva and foreign currency;
- real estate mortgages;
- pledges on business assets, such as receivables, inventories, plant and equipment;
- pledged on financial instruments; and
- guarantees issued in favour of the Bank.

For the purpose of minimising credit losses, the Group requires additional collateral from counterparties if there are any indications of impairment of the individual receivables on the loans granted. Collateral held as pledge on financial assets other than loans and advances is designated depending on the nature of the financial instrument.

Given the specifics of the Group's business and the growing portfolio of small consumer loans, the share of unsecured loans in the banking portfolio is growing. This type of loans is mostly short-term (average maturity of the portfolio of about 20 months) and with very low limits (average amount of receivables around BGN 1 thousand) and therefore, the Bank does not require collateralisation of its receivable.

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 at 31 December	**Loans to customers**			
	2017		**2016**	
	Gross amount of loans	**Collateral**	**Gross amount of loans**	**Collateral**
Loans, collateralized by mortgages	74,641	71,341	75,391	73,918
Loans with cash collateral	925	921	80	30
Loans with other collateral	8,437	1,820	22,001	19,015
Unsecured loans	400,493	-	278,766	-
Total	**484,496**	**74,082**	**376,238**	**92,963**

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 2017 and 31 December 2016. 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 96 % covered for credit risk, and those secured by cash – 100 %, which illustrates the level of the Group's exposure to risk of credit losses.

	2017	**2016**
Loans, collateralized by mortgages	96%	98%
Loans with cash collateral	100%	38%
Loans with other collateral	22%	87%

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 Group 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 2017 and 31 December 2016 without taking into account any collateral. Exposures for balance sheet assets are based on the net book values reported at the balance sheet date.

As at 31 December	**Maximum exposure**	
	2017	**2016**
Cash on hand and balances with central banks	157,448	54,943
Placements with other banks	21,174	107,341
Financial assets held for trading	-	1,019
Derivatives	10	-
Loans to customers:		
Corporate clients	87,404	91,280
Individuals	355,971	258,388
Finance lease	23,648	30,261
Available-for-sale investments	26,519	10,764
Held-to-maturity investments	-	8,081
Other receivables	6,066	3,920
Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows:		
Guarantees	1,285	950
Undrawn loans commitments	21,424	16,228
Total maximum exposure to credit risk	**700,949**	**583,175**

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 at 31 December 2017	**Loans to customers**	**Financial leases**
Neither past due, nor impaired individually	315,688	8,807
Past due but not impaired individually	159,716	14,528
Impaired individually	9,092	1,310
Gross amount	**484,496**	**24,645**
Less: allowance for impairment losses	**(41,121)**	**(997)**
Carrying amount	**443,375**	**23,648**

As of 31 December 2015	**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**

The total allowance for impairment losses of loans and advances at 31 December 2017 is BGN 42,118 thousand (2016: BGN 27,999 thousand). Allowances accrued on individually assessed financial assets amount to BGN 2,843 thousand (2016: BGN 3,923 thousand), and allowances based on collective impairment assessment amount to BGN 39,275 thousand (2016: BGN 24,076 thousand).

In 2017, loans to customers granted by the Group before impairment increased by 30% 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:

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As at 31 December 2017	Corporate clients	Individuals	Financial leases	Total
Total	**51,696**	**263,992**	**8,807**	**324,495**
Including				
Standard risk loans	46,129	262,461	8,068	**316,658**
Higher risk loans	5,567	1,531	739	**7,837**

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 at 31 December 2016	Corporate clients	Individuals	Financial leases	Total
Total	**59,859**	**214,381**	**15,754**	**289,119**
Including				
Standard risk loans	59,748	214,354	15,754	289,856
Higher risk loans	**111**	27	-	138

The consumer loan portfolio, which represents more than 81.35 % (2016: 78.20%) 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 for corporate, small and medium-sized enterprises comprises loans secured mainly by mortgages and loans financed under joint schemes with SF Agriculture and National Guarantee Fund (NGF).

Loans granted to customers that are overdue, but not impaired individually

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 2017	Corporate clients	Individuals	Financial leases	Total
Past due up to 30 days	14,234	68,827	4,140	**87,201**
Past due from 31 to 60 days	5,613	18,659	783	**25,055**
Past due from 61 to 90 days	2,555	6,738	103	**9,396**
Past due more than 90 days	8,740	34,350	9,502	**52,592**
Total gross amount	**31,142**	**128,574**	**14,528**	**174,244**
Less: allowance for impairment losses	(2,000)	(36,595)	(680)	**(39,275)**
Carrying amount	**29,142**	**91,979**	**13,848**	**134,969**

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**

According to internal policies and policies, the Group assesses individually the corporate loans in its portfolio and calculates a provision for impairment in the presence of objective evidence of impairment. Consumer loans and retail loans are considered to have portfolio impairment indicators, with credit quality being determined on a

Loans to customers impaired individually

31 December 2017	Corporate clients	Individuals	Financial leases	Total
Gross amount	9,092	-	1,310	**10,402**
Less: allowance for impairment losses	**(2,526)**	-	**(317)**	**(2,843)**
Carrying amount	**6,566**	-	**993**	**7,559**

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 impaired individually (continued)

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**

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	2017	2016
Bulgaria	296,913	227,617
Romania	360,526	324,684
Luxembourg	9,837	9,100
Netherlands	5,378	-
Other countries	5,586	4,596
Total financial assets	**678,240**	**565,997**
Exposures to credit risk related to contingent liabilities and irrevocable commitments:		
Bulgaria	14,207	12,873
Romania	8,502	4,305
Total financial assets and contingent liabilities and irrevocable commitments	**700,949**	**583,175**

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 2017 and 31 December 2016 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 2017			31 December 2016	
Rating	**Available for sale financial assets**	**Placements with other banks**	**Rating**	**Available for sale financial assets**	**Placements with other banks**
Aa3 (Moody's)	-	5,379	Aa3 (Moody's)	-	-
BBB+ (Fitch)	-	128	BBB+ (Fitch)	-	86
Baa1 (Moody's)	-	2,811	Baa1 (Moody's)	-	536
B- (Fitch)	-	139	B- (Fitch)	-	129
BBB (Fitch)	-	9,909	BBB (Fitch)	-	78,665
Baa2 (Moody's)	-	-	Baa2 (Moody's)	-	2,427
Baa3 (Moody's)	-	748	Baa3 (Moody's)	-	-
BBB- (Fitch)	16,593	10	BBB- (Fitch)	10,675	43
BBB- (BCRA)	-	1,200	BBB- (BCRA)	-	946
BB+ (BCRA)	-	-	BB+ (BCRA)	-	1
BB+ (Fitch)	-	29	BB+ (Fitch)	-	21
BB (Fitch)	-	800	BB (Fitch)	-	629
BB- (Fitch)	-	21	BB- (Fitch)	-	23,847
Ba3 (Moody's)	-	-	Ba3 (Moody's)	-	4
B2 (Moody's)	9,837	-	B2 (Moody's)	-	-
RD (Fitch)		-	RD (Fitch)		7
Unrated	89	-	Unrated	89	-
Total	**26,519**	**21,174**	**Total**	**10,764**	**107,341**

At 31 December 2017 and 31 December 2016, 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 2017, the rating of available-for-sale financial assets was B3 (Moody's).

As of 31 December 2017, the rating of cash balances in accounts with central banks was BBB- (2016: 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 minimum or no initial amount. 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 economic hedges for 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 2017 and 31 December 2016.

	Assets 2017	Liabilities 2017	Nominal amount 2017
Derivatives aimed to hedge changes in interest rates/currency risk			
FX swaps	10	224	90,392

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

As of 31 December 2017, the Group had four active derivatives. The effect of the concluded derivative contracts on the profit and loss in the reporting period is a loss of BGN 952 thousand (2016: BGN 885 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 2017 the Bulgarian lev is pegged to the Euro. The open FX position in RON, which amounted to BGN 136,759 thousand as at 31 December 2017 (2016: BGN 83,359 thousand), is hedged by means of FX swap with a nominal amount of BGN 88,243 thousand (2016: BGN 64,572 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)

Foreign 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% change 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 at 31 December 2017

Exchange rates	Direct effect on profit/loss
- 10% change of local currency	(10,128)
+ 10% change of local currency	10,128

As at 31 December 2016

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

The Group considers that there is no significant sensitivity and material effect on capital, since the change in exchange rates does not have a significant impact on the revaluation of securities available for sale revalued in other comprehensive income.

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 at 31 December 2017

Interest rates	Effect of changes in interest rates on profit/loss
+100 bp change	1,110
-100 bp change	(1,110)

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

Interest rate risk (continued)

As at 31 December 2016

Interest rates	Effect of changes in interest rates on profit/loss
+100 bp change	172
-100 bp change	(172)

The Bank considers that there is no significant effect on capital, since the change in interest rates does not have a significant impact on the revaluation of securities available for sale as the bigger part thereof bear fixed interest rates.

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	
	2017	**2016**	**2017**	**2016**
Financial assets				
Cash on hand and balances with central banks	166,686	66,402	166,686	66,402
Placements with other banks	21,174	107,341	21,174	107,341
Financial assets held for trading	-	1,019	-	1,019
Derivatives	10		10	
Loans to customers:				
Corporate clients	*87,404*	*91,390*	*91,827*	*93,228*
Individuals	*355,971*	*258,278*	*361,538*	*261,566*
Finance lease	*23,648*	*30,261*	*23,209*	*29,731*
Available-for-sale assets	26,519	10,764	26,519	10,764
Held-to-maturity investments	-	8,081	-	8,152
Other receivables	4,031	3,920	4,031	3,920
Financial liabilities				
Deposits from banks	-	5,879	-	5,764
Derivatives	224	31	224	31
Deposits from customers	502,913	438,960	502,842	439,927
Other borrowings	502	924	502	924
Held-for-sale liabilities	-	9,273	-	9,273
Other liabilities	24,720	19,132	24,720	19,132

(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)

(б) 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. In 2017 and 2016, the Group extended consumer loans mainly bearing fixed interest rates.

- *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.

- *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 2017 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.

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.

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

Notes to the consolidated financial statements (continued)

2 Financial risk management (continued)

Fair value hierarchy

The tables below present the fair value hierarchy of the Group's assets and liabilities measured as at 31 December 2017 and 31 December 2016.

Quantitative disclosures of the fair value hierarchy as at 31 December 2017

	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	**26,519**	16,593	9,837	89
Held-for-trading financial assets	**-**	-	-	-
Derivatives	**10**	10		
Assets not measured at fair value				
Loans to customers:				
Corporate clients	**91,827**	-	91,827	-
Individuals (retail)	**361,538**	-	361,538	-
Finance lease	**23,209**	-	23,209	-
Held-to-maturity investments	-	-	-	-
Liabilities measured at fair value				
Derivatives	**224**	-	224	-
Liabilities not measured at fair value				
Deposits from customers	**502,842**	-	502,842	-
Other borrowings	**502**	-	502	-

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 2017.

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)

In assessing consumer loans classified in Level 3, the management makes market-adjusted returns for the type of financial instrument that it considers to reflect the risk profile of the ceded receivables.

Reconciliation of Level 3 fair value measurement

Balance as at 1 January 2017	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the statement of comprehensive income (trough profit or loss)	-
Total profit/(loss) for the period recognised in the statement of comprehensive income (through other components)	-
Newly acquired assets/(sales) of assets	-
Balance at 31 December 2017	**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 2017 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 2017:

	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% - 2.99% (1.55 %)	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)

B Fair value of financial assets and liabilities (continued)

Fair value hierarchy (continued)

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 (retail)	**261,566**	-	261,566	-
Finance lease	**29,731**		29,731	
Held-to-maturity investments	**8,152**	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.

Reconciliation of Level 3 fair value measurement

Balance as at 1 January 2016	**89**
Transfers to Level 3	-
Total profit/(loss) for the period recognised in the statement of comprehensive income (trough profit or loss)	-
Total profit/(loss) for the period recognised in the statement of comprehensive income (through other components)	-
Newly acquired assets/(sales) of assets	-
Balance at 31 December 2016	**89**

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)

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%	

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 at 31 December 2017	**Gross outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**
Deposits from banks	-	-	-	-	-
Derivatives	224	-	224	-	-
Deposits from customers	506,413	132,348	76,187	242,199	55,679
Other borrowings	511	61	58	160	232
Deferred tax liabilities	34	34	-	-	-
Other liabilities	30,393	22,412	7,101	868	12
Total liabilities (contractual maturity dates)	**537,575**	**154,855**	**83,570**	**243,227**	**55,923**

As at 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**

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 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 at 31 December 2017	Within 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- financial	220	511	-	**731**
- good performance guarantees	534	20	-	**554**
Commitments:				
- undrawn loan commitments	8,429	12,995	-	**21,424**
Total contingent liabilities and irrevocable commitments	**9,183**	**13,526**	**-**	**22,709**

As at 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**

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".

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 at 31 December 2017	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	166,686	-	-	-	-	**166,686**
Placements with other banks	12,862	8,312	-	-	-	**21,174**
Derivatives	-	10	-	-	-	**10**
Financial assets available for sale	26,430	-	-	-	89	**26,519**
Current tax assets	1,823	-	-	-	-	**1,823**
Loans to customers	26,532	45,622	145,139	224,655	1,427	**443,375**
Other assets	3,563	741	1139	9		**1,823**
Finance lease	3,947	1,320	4,365	10,459	3,557	**23,648**
Tangible and intangible assets	-	-	-	-	15,016	**15,016**
Deferred tax assets	-	-	467	-	-	**467**
Held-for-sale assets	621	13,937	-	-	-	**14,558**
Total assets	**242,464**	**69,942**	**151,110**	**235,123**	**20,089**	**718,728**
Liabilities						
Derivatives	-	224	-	-	-	**224**
Deposits from customers	132,257	75,984	240,156	54,516	-	**502,913**
Other borrowings	61	58	160	223	-	**502**
Deferred tax liabilities	34	-	-	-	-	**34**
Other liabilities	21,958	7,711	1232	12	-	30,913
Total liabilities	**154,310**	**83,977**	**241,548**	**54,751**	**-**	**534,586**
Net liquidity gap	**88,154**	**(14,035)**	**(90,438)**	**180,372**	**20,089**	**184,142**
Cumulative cash flows	**88,154**	**74,119**	**(16,319)**	**164,053**	**184,142**	

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 at 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	-	-	1,009	9,666	89	**10,764**
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				8,081		**8,081**
Held-to-maturity investments	2,862	1,026	5,731	20,642	-	**30,261**
Other assets	3,426	745	1,257	-	-	**5,428**
Current tax assets	254	-	-	-	-	**254**
Available-for-sale assets	-	-	30,150	-	-	**30,150**
Total assets	**202,926**	**167,196**	**137,232**	**92,688**	**23,697**	**623,739**
Liabilities						
Deposits from banks	31	-	-	-	-	**31**
Derivatives	-	-	1,184	4,695	-	**5,879**
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	16,645	4,385	1,492	-	-	**22,522**
Other liabilities	-	9,273	-	-	-	**9,273**
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**	**-**

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 the 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 at 31 December

	2017	2016
Tier-one capital		
Share capital	81,600	81,600
Reserves and accumulated profit/(loss) from prior years	63,886	31,971
Less:		
Intangible assets	(3,541)	(1,629)
Other adjustments of tier-one capital	(5,230)	(89)
Total tier-one capital	**136,715**	**111,853**
Tier-two capital		
Subordinated term debt	-	-
Total tier-two capital	-	-
Total risk-weighted assets	**588,874**	**500,654**
Capital adequacy ratio	**23.22%**	**22.34%**

F Operational Risk

With respect to operational risk in capital reporting, the Group uses the basic indicator approach for calculating Minimum Capital Requirement for regulatory purposes under First Pillar, which averages net interest income for the last three audited, annual, accounting periods.

Net Income	Net Income	Net Income	Capital Requirements	Total amount of exposure to operational risk (x12.5)
2014	2015	2016		
44,816	87,072	108,481	12,018	150,225

The value of the actual operating losses incurred in January-December 2017 for the TBI Bank was BGN 154,397, of which BGN 60,297 was recovered, representing 39% of the operational damage occurring in 2017

Notes to the consolidated financial statements (continued)

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 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 held-for-sale assets. 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.

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

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

Impairment of I assets, held for sale

Determining the fair value of financial assets requires the use of estimates such as future cash flows from assets and discounted rates applicable to those assets. These estimates are based on local market conditions existing at the valuation date. The most significant assumptions are presented in Note 2 and Note 20.
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 assets

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.

4 Net interest income

	2017	2016
Interest income		
Loans to customers	117,879	86,901
Incl. Impaired loans to customers	*17,015*	*17,101*
Finance lease	4,071	4,439
Placements with other banks and financial institutions	10	12
Available-for-sale investments	530	98
Held-to-maturity investments	462	76
Held-for-trading investments	163	9
Total interest income	**123,115**	**91,535**
Interest expenses		
Deposits from banks and financial institutions	1,124	910
Deposits from customers	6,305	5,292
Other borrowings	14	170
Total interest expenses	**7,443**	**6,372**
Net interest income	**115,672**	**85,163**

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

Notes to the consolidated financial statements (continued)

5 Net fee and commission income

	2017	2016
Fee and commission income		
Agent's commissions	20,643	12,472
Transfers and transactions	2,761	3,934
Guarantees and letters of credit	32	32
Other	1,132	458
Total fee and commission income	**24,568**	**16,896**
Fee and commission expenses		
Agents' commissions	6,239	4,179
Bank transactions	2,109	1,995
Other	68	87
Total fee and commission expense	**8,416**	**6,261**
Net fee and commission income	**16,152**	**10,635**

Agent's commission income originates from an insurance agency contract. Costs of agent's commissions relate to a credit brokerage contract.

6 Net trading gains/ (losses)

	2017	2016
Net gains on held-for-trading financial assets	-	30
Net gains on foreign currency transactions	235	746
Net trading gains	**235**	**776**

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

Notes to the consolidated financial statements (continued)

7 Other operating income / (expenses), net	2017	2016
Net foreign currency translation (loss)/gain	(976)	(363)
Operational Leasing income	3,102	6,772
Net (loss)/gain on derivatives	(952)	(885)
Net gain on sale of loans	6,387	3,292
Net gain on sale of financial assets available for sale	554	-
Net (loss)/ gain on transactions with held-for-sale assets	763	92
Net gain/(loss) on other assets	1,286	1,842
Other operating income	**10,164**	**10,750**

8 Other administrative expenses	2017	2016
Expenses on IT services	4,919	1,057
Operating lease rents	3,652	2,994
Costs of advertising	2,629	1,587
Costs of hired services	2,603	2,954
Consulting, legal and other professional services	2,588	2,742
Tax expenses	2,465	2,103
Materials	1,434	1,700
Annual contribution to FOBR and DGF	1,392	1,556
Other expenses	4,192	4,826
Total other administrative expenses	**25,874**	**21,519**

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 277 thousand (2016: BGN 148 thousand), for advisory services: BGN 63 thousand (2016: 6 thousand), and for other non-audit services: BGN 22 thousand (2016: BGN 64 thousand).

9 Staff costs	2017	2016
Wages and salaries	37,087	26,836
Social security contributions	6,415	5,168
- incl. Pension Fund	*4,040*	*3,483*
Total staff costs	**43,502**	**32,004**

The number of the Group's employees at the end of 2017 is 1,596 (2016: 1,474 employees).

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

Notes to the consolidated financial statements (continued)

10 Tax expenses

	2017	2016
Current income tax expense	5,112	3,871
Deferred tax benefit relating to the origination and reversal of temporary differences	(220)	288
Income tax recognised in profit or loss	**4,892**	**4,159**

The applicable income tax rate is 10% in 2017 and 2016.

The movement in the current income tax receivables is as follows:

	2017	2016
Receivable / (liability) as at 1 January	254	-
Current tax recognised in profit or loss	(5,113)	(3,871)
Current tax recognised in other comprehensive income (Note 29)	(26)	-
Amounts paid during the year	6,708	4,125
Receivable at 31 December	**1,823**	**254**

The reconciliation between the income tax expense and the accounting profit multiplied by the tax rate applicable for the years ending 31 December 2017 and 2016 is presented below:

	2017	2016
Profit before tax	43,795	36,702
Nominal tax rate	*10%*	*10%*
Tax on the basis of the nominal tax rate	4,801	4,321
Tax effect of non-deductible income, net	91	(162)
Tax expenses	**4,892**	**4,159**
Effective tax rate	11.17%	11.33%

The movement of deferred taxes is related to the following temporary differences:

	2017	2016
Increase in unused leaves provision	(63)	-
Increase in bonus provision	(263)	-
Decrease in differences to IFRS	106	288
	(220)	**288**

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

Notes to the consolidated financial statements (continued)

10 Tax expense (continued)

The movement of taxes recognized in other comprehensive income relates to the following temporary differences:

Revaluation of available-for-sale financial assets	26	-
Tax benefit recognised in other comprehensive income	**26**	**-**

At 31 December 2017 and 2016 deferred taxes were as follows:

	2017	2016
Deferred tax assets		
Unused leaves provision	63	-
Bonus accrual	403	344
Total deferred tax assets	**467**	**344**
Deferred tax liabilities		
IFRS adoption	34	128
Total deferred tax liabilities	**34**	**128**

11 Cash on hand and cash in accounts with Central banks

	2017	2016
Cash on hand	9,238	11,459
cash in accounts with Central banks, other than Minimum statutory reserve	112,406	14,611
Cash and cash equivalents for the purposes of cash flows (Note 31)	**121,644**	**26,070**
Minimum statutory reserve	45,042	40,332
Total cash on hand and cash in accounts with Central banks	**166,686**	**66,402**

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

Notes to the consolidated financial statements (continued)

11 Cash on hand and cash in accounts with Central banks (continued)

As at 31 December 2017, the statutory minimum reserves held with the Bulgarian National Bank (BNB) amounted to 10 % (2016: 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 2017, the statutory minimum reserves held at the National Bank of Romania (NBR) amounted to 8% of the funds attracted in new Romanian Lei and 8% of the funds attracted in currencies other than new Romanian lei, except of funds attracted from other local banks and funds attracted with residual maturity of less than two years without early termination clauses. The statutory minimum reserves are not available for use in the Bank's day-to-day operations up to 50% of the required reserves by observing the required minimum statutory reserve on a monthly basis. BNB charges interest on excess reserves and the interest charged at present is a negative figure (-0.60%), while NBR charges a zero interest rate.

12 Placements with other banks

	2017	2016
Deposits with foreign banks with original maturity of up to three months	8,695	9,188
Deposits with local banks with original maturity of up to three months	5,000	-
Current accounts with foreign banks	5,531	97,202
Current accounts with local banks	1,948	951
Included in cash and cash equivalents for the purpose of the cash flows (Note 31)	**12,479**	**98,153**
Total placements with other banks	**21,174**	**107,341**

Deposits serving as collateral on derivatives, as disclosed in Note 29, are included in *Deposits with foreign banks with original maturity of up to three months.*

13 Held-for-trading financial assets

	2017	2016
Debt securities	-	1,019
Total held-for-trading financial assets	**-**	**1,019**

14 Available-for-sale financial assets

	2017	2016
Securities available for sale:		
- unlisted equity securities	89	89
- debt securities traded in an official market	26,430	10,675
Total available-for-sale financial assets	**26,519**	**10,764**

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

Notes to the consolidated financial statements (continued)

14 Financial assets available for sale (continued)

Debt securities as of 31 December 2017 consist of corporate and government securities. Government debt securities consist of three types of Romanian bonds issued in EUR: maturing on 28 October 2024 with coupon of 2.875 %, maturing on 29 October 2025 with coupon of 2.75%, maturing on 21 January 2019 with coupon of 3.4 %. Interest accumulated as at 31 December 2017 amounts to BGN 314 thousand. Corporate securities consist of two types of bonds; the first type is part of an USD issue maturing on 01 May 2022 with annual coupon of 10.75 %; the second type consists of EUR bonds maturing on 23 May 2021 with annual coupon of 11.25 %. Interest accumulated as at 31 December 2017 amounts to BGN 123 thousand. Debt securities are measured at fair value based on quoted market prices at the date of the financial statements.

On 18 September 2017, the Chief Executive Officer of TBI Financial Services B.V., the sole owner of 100% of the capital of the Bank, was appointed as a member of the Executive Committee of 4Finance S.A. Subsequently, the Bank was included in the list of persons closely associated with 4Finance S.A. (Regulation (EU) 596/2014). For the purpose of avoiding any potential risk of inside information trading, a decision was taken to cease any trade in instruments issued by 4Finance S.A. As a result, the Bank decided that circumstances described in paragraph 50B of IAS 39 existed and in November 2017, it reclassified the corporate bonds of 4Finance denominated in USD and maturing in 2022, from held-for-trading financial assets into available-for-sale financial assets. As at 31 December 2017, income from revaluation amounted to BGN 188 thousand; the revaluation in comprehensive income amounted to BGN 31 thousand. At the date of this reclassification, the effective interest rate was 10.55 %. The Bank expects to collect cash flows from this instrument amounting to BGN 3,328 thousand.

15 Held-to-maturity investments

	2017	2016
Debt securities	-	8,081
Total held-to-maturity investments	**-**	**8,081**

As at 31 December 2017, there were no positions reported as held-to-maturity investments.

16 Loans to customers

	2017	2016
Loans extended by the Group to:		
Corporate clients	91,930	95,031
Individuals	390,997	279,538
Staff	1,569	1,669
Total loans to customers	**484,496**	**376,238**
Impairment allowance (Note 18)	(41,121)	(26,570)
Total net loans to customers	**443,375**	**349,668**

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 9,413 thousand (2016: BGN 6,251 thousand). Loans to customers bearing floating interest rates amount to BGN 73,585 thousand (2016: BGN 80,918 thousand), and loans to customers bearing fixed interest rate amount to BGN 410,911 thousand (2016: BGN 295,320 thousand).

17 Finance lease

	2017	**2016**
Within 1 year	12,573	13,950
From 1 to 5 years	13,979	20,221
Over 5 years	4,070	7,007
Gross investment in lease contracts	**30,622**	**41,178**
Unrealised finance income	(5,977)	(9,488)
Gross amount before provisions	**24,645**	**31,690**
Less: allowance for impairment losses	(997)	(1,429)
Net amount of lease payments	**23,648**	**30,261**

As at 31 December 2017, the Group had no revocable sub-lease contracts.

18 Impairment loss allowances

The movement in impairment loss allowances is as follows:

Specific allowance for individually assessed financial assets	**2017**	**2016**
As at 1 January	**3,390**	**2,776**
Impairment loss allowance charged	405	2,900
Reversed allowance	(818)	(1,085)
Total impairment reported in the statement of comprehensive income	(413)	1,815
Loans written off against the allowance	(108)	(1,277)
Foreign currency differences	(26)	76
As of 31 December	**2,843**	**3,390**

Specific allowance for individually assessed financial assets	**2017**	**2016**
As at 1 January	**24,610**	**19,535**
Impairment loss allowance charged	35,105	17,090
Reversed allowance	(9,414)	(8,375)
Total impairment reported in the statement of comprehensive income	25,961	8,715
Loans written off against provision	(11,491)	(5,545)
Foreign currency differences	464	(67)
As of 31 December	**39,275**	**24,610**

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:

	2017	2017	2016	2016
Commerce	13,209	2.73%	14,482	3.85%
Agriculture	13,213	2.73%	13,638	3.62%
Construction and real estate	41,421	8.55%	39,047	10.38%
Services	11,981	2.47%	10,089	2.68%
Manufacturing	7,236	1.49%	5,501	1.46%
Tourism	4,795	0.99%	12,193	3.24%
Other financial institutions	75	0.02%	81	0.02%
Individuals	390,997	80.70%	279,538	74.30%
Staff	1,569	0.32%	1,669	0.44%
Total loans to customers	**484,496**	**100.00%**	**376,238**	**100.00%**

The ten largest loans to customers as of 31 December 2017 represent 8.40% of the Group's portfolio, net of provisions (2016: 7.88%).

20 Assets and liabilities held for sale

	2017	2016
Assets		
Repossessed assets	14,558	14,658
Tangible assets	-	13,045
Other assets	-	2,447
Total assets held for sale	**14,558**	**30,150**
Liabilities		
Other borrowings	-	(7,820)
Other liabilities	-	(1,453)
Total liabilities held for sale	**-**	**(9,273)**
Net assets	**14,558**	**20,877**

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

20 Assets and liabilities held for sale (continued)

As at 31 December 2017, the Group repossessed assets under terminated or overdue loan agreements of BGN 14,558 thousand (2016: BGN 14,658 thousand), net of impairment. As at 31 December 2017, the Group accrued impairment of BGN 899 thousand (2016: BGN 1,275 thousand), and the forfeited assets item is presented net of the impairment charged.

In 2017, the Group sold assets classified in this category amounting to BGN 599 thousand (2016: BGN 1,260 thousand). Impairment written off in relation to these assets amounted to BGN 442 thousand (2016: BGN 385 thousand). In 2017, the Group acquired assets of BGN 84 thousand (2016: BGN 6,524 thousand) to be classified as held for sale.

As of 31 December 2017, the investment in the subsidiary TBI Rent was sold in accordance with a sale contract signed on 08 March 2017. The Group has lost control of the Company on July 1, 2017.

The company's assets and liabilities, and the amount from the sale are presented in the following table:

	01.07.2017
Cash and cash equivalents	86
Property and equipment	13,297
Loans to customers	524.00
Goodwill	435
Other assets	1,242
Other borrowings	(10,794)
Other liabilities	(1,448)
Net assets	3,342
Selling price	4,303
incl. Cash and cash equivalents	*4,303*
Sale commissions	(558)
Gain on the sale	**403**

The Group intends to realise the assets held for sale through a sale within the next reporting period.

he movement in the impairment of assets held for sale is as follows:

	Total
As at 1 January 2016	**221**
Impairment charged	1,439
Impairment written off	(385)
As at 31 December 2016	**1,275**
Impairment charged	66
Impairment written off	(442)
As at 31 December 2017	**899**

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

20 Assets and liabilities held for sale (continued)

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

	2017	2016
Type of repossessed assets		
Commercial (buildings and land)	9,639	11,224
Land	5,889	3,896
Plant and equipment	327	348
Total repossessed assets	**15,855**	**15,468**

In 2017 and 2016, there were no transfers into or from a fair value hierarchy level.

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

Type of assets for sale	Valuation technique	Significant unobservable inputs	Range (weighted average) for 2017	Range (weighted average) for 2016	Significant unobservable Inputs
Land	MVM	Price per sq. m.	€9.25 - €850.52 (€171.65)	€10.17 - €341.25 (€38.00)	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.	€352.24 - €806.65 (€540.67)	€412.74 - €547.55 (€552.18)	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 2017 and 2016, 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 Assets and liabilities 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 2016			
Book value	4,303	604	4,907
Accumulated amortisation	(2,646)	(18)	(2,664)
Carrying amount at the year-end	**1,657**	**586**	**2,243**
Year ending 31 December 2016			
Carrying amount at the beginning of the year	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 year-end	**1,512**	**117**	**1,629**
As of 31 December 2016			
Book value	5,304	117	5,421
Accumulated amortisation	(3,792)	-	(3,792)
Carrying amount at the year-end	**1,512**	**117**	**1,629**
Year ending 31 December 2017			
Carrying amount at the beginning of the year	1,512	117	1,629
Additions	1,942	718	2,660
Disposals	-	-	-
Transfers	477	(472)	5
Foreign currency differences	(13)	-	(13)
Amortisation	(740)	-	(740)
Carrying amount at the year-end	**3,178**	**363**	**3,541**
As at 31 December 2017			
Book value	7,630	363	7,993
Accumulated amortisation	(4,452)	-	(4,452)
Carrying amount at the year-end	**3,178**	**363**	**3,541**

Intangible assets were not written off in 2017. Intangible assets with book value of BGN 3 thousand and accumulated amortisation of BGN 3 thousand were written off in 2016.

At the end of 2017, the book value of intangible assets, fully amortised, but still in use, amounted to BGN 2,790 thousand (2016: BGN 1,094 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 at 1 January 2016					
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 year-end	**9,994**	**1,787**	**759**	**202**	**12,742**
As at 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**
Year ended 31 December 2017					
Carrying amount at the beginning of the period	9,994	1,787	759	202	12,742
Additions	61	830	37	63	991
Disposals	(354)	-	(259)	-	(613)
Transfers	-	-	1,543	-	1,543
Foreign currency differences	(146)	(9)	(14)	-	(169)
Depreciation	(338)	(724)	(1,873)	(84)	(3,019)
Carrying amount at the year-end	**9,217**	**1,884**	**193**	**181**	**11,475**
As at 31 December 2017					
Book value	10,661	7,787	1,619	639	20,706
Accumulated depreciation	(1,444)	(5,903)	(1,426)	(458)	(9,231)
Carrying amount	**9,217**	**1,884**	**193**	**181**	**11,475**

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 4 thousand and accumulated depreciation thereon of BGN 4 thousand was written off in 2017. Equipment with book value of BGN 497 thousand and accumulated depreciation thereon of BGN 30 thousand were written off in 2016. A building with book value of BGN 354 thousand and accumulated depreciation thereon of BGN 354 thousand were written off in 2017. A building with book value of BGN 1,282 thousand and accumulated depreciation thereon of BGN 118 thousand were written off in 2016. In 2017, cars with book value of BGN 1,391 thousand and accumulated depreciation thereon of BGN 4,312 thousand were written off. In 2016 cars with book value of BGN 4,312 thousand and accumulated depreciation thereon of BGN 2,900 thousand were written off. Leasehold improvements were not written off in 2017. 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 2017, the book value of property and equipment, fully depreciated, but still in use, amounted to BGN 3,793 thousand (2016: BGN 1,003 thousand).

23 Other assets

	2017	2016
Prepayments	986	497
Receivables from suppliers	435	1,173
Collateral MasterCard	841	955
VAT receivables	216	417
Other taxes and government agencies	787	174
Rental deposits	304	193
Legal fees	82	240
Insurance receivables	9	139
Other receivables	1,792	1,296
Total other assets	**5,452**	**5,084**

Other financial assets comprise monthly receivables on assignment contracts.

24 Deposits from banks

	2017	2016
Loans from banks	-	5,879
Total deposits from banks	**-**	**5,879**

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

Notes to the consolidated financial statements (continued)

25 Deposits from customers

	2017	2016
Corporate clients		
- current/settlement accounts	38,866	51,622
- term deposits	67,094	42,941
Individuals		
- current/settlement accounts	35,601	25,262
- term deposits	361,352	319,135
Total deposits from customers	**502,913**	**438,960**

Deposits from customers at the end of 2017 include interest payable of BGN 2,450 thousand (2016: BGN 1,586 thousand), with an average interest rate of 1.6% (2016 : 1.6%).

26 Other borrowings

	2017	2016
State Fund "Agriculture"	502	924
Total other borrowings	**502**	**924**

As of the end of 2017, interest accrued for BGN 0,3 thousand (2016: 1 thousand) is included in the long-term borrowed funds.
The borrowed funds from the State Fund "Agriculture" are with 2% applicable fixed interest rate.

27 Other liabilities

	2017	2016
Prepaid repayment instalments on loans to individuals	12,819	11,745
Other liabilities	11,900	6,973
Payables to employees	4,283	2,359
Unused leave provisions	1,056	361
Taxes payable, other than income tax	854	670
Tranfers for execution	1	414
Total other liabilities	**30,913**	**22,522**

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 2017 (2016: 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 2017 and 31 December 2016 are as follows:

	2017	2016
Guarantees		
Corporate clients	1,285	950
Undrawn credit commitments		
Corporate clients	6,114	5,715
Individuals	15,310	10,513
Total contingent liabilities and irrevocable commitments	**22,709**	**17,178**

29 Pledged assets

As of 31 December 2017, the Group pledged as collateral deposits placed with foreign banks of BGN 8,695 thousand (2016: BGN 9,188 thousand) against the FX risk hedging transactions. Derivatives are renewed on a quarterly basis and the Bank is not able to dispose of any deposits provided as collateral prior to the expiry of the hedge contract. The outcome of the FX hedging as at 31 December 2017 and 31 December 2016 is disclosed in Note 2b. As at 31 December 2017, the Group had no pledged receivables on loans to customers in favour of Bulgarian Development Bank; the loan agreement was terminated before maturity (2016: BGN 515 thousand). Other assets consist of a guarantee deposit to the benefit of Mastercard of BGN 644 thousand (2016: BGN 733 thousand). As at 31 December 2017, the Group had no pledged fixed assets to the benefit of Allianz Bank pursuant to a loan contract to the sold subsidiary TBI Rent (2016: BGN 10,717 thousand).

	2017	2016
Placements with foreign banks	8,695	9,188
Loans to customers	-	515
Other assets	644	11,450
Total pledged assets	**9,339**	**21,153**

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

Notes to the consolidated financial statements (continued)

30 Equity

The total number of the registered ordinary dematerialised shares at 31 December 2017 is 81,600,000 (2016: 81,600,000), 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 2016.

Share capital

The table below presents the majority shareholders of the Group at the end of 2017 and 2016:

	31 December 2017		31 December 2016	
	BGN	(%)	81,600,000	(%)
TBIF Financial Services B.V.	81,600,000	100.00%	81,600,000	100.00%
Total	**81,600,000**	**100.00%**	**81,600,000**	**100.00%**

Movements in the number of shares

	Numberf of shares
As of 1 January 2015	**78,600,000**
Newly issued and fully paid shares	3,000,000
As of 31 December 2015	**81,600,000**
As of 1 January 2016	**81,600,000**
Newly issued shares	-
As of 31 December 2016	**81,600,000**

Foreign currency translation reserve

The foreign currency translation reserve at 31 December 2017 amounts to BGN (896) thousand (2016: BGN (191) 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 2017, the accumulated revaluation reserve amounted to BGN 231 thousand (2016: BGN 99 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 2017, the Reserves Fund amounted to BGN 8,392 thousand (2016: BGN 7,187 thousand).

31 Cash and cash equivalents

	2017	**2016**
Cash at central banks other than the minimum statutory reserve (Note 11)	121,644	26,070
Deposits with other banks (Note 12)	12,479	98,153
Total cash and cash equivalents	**134,123**	**124,223**

Deposits with foreign banks provided by the Bank as collateral are not included cash and cash equivalents, as disclosed in Note 29.

The following table summarises the changes in the liabilities from financing activity, including cash flows-related changes and non-cash changes, and contains a reconciliation of opening and closing balances of the liabilities originating from financing activity in the statement of financial position for the year ended 31 December 2017.

	1 January 2017	Cash in-flows	Cash out-flows	Effect of changes in 0065change rates	Accrued under the effective interest rate method	New lease contracts	Others	31 December 2017
Current interest-bearing loans and borrowings	924		422	-	-	-	-	**502**
Total liabilities from financing activity	**924**		**422**	**-**	**-**	**-**	**-**	**502**

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

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 Group 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.

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

Assets	**At 01 January 2016**
Cash on hand and placements with banks	3,014
Loans to customers	135
Finance lease	731
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**

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

Notes to the consolidated financial statements (continued)

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 2017, the Group did not set aside provisions for overdue receivables relating to funds provided to related parties (2016: nil). Such evaluation is carried out annually, by conducting an analysis of the financial position and the market in which these related parties operate.

4Finance AB is another related entity of the Bank, as it is under common control of the ultimate parent.

As at 31 December 2076, the Bank is controlled by TBIA 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.

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

31 December 2017	**Parent company**	**Other related parties**	**Total**
Debt securities	9,837	-	9,837
Borrowings	280	-	280
Acquisition of receivables	-	1,789	1,789
Interest income	963	-	963
Fee and commission income	2	-	2

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

Transactions and balances with other related parties in 2017 include transactions with 4Finance AB, Sweden.

The total remuneration paid to the key management staff in 2017 amounts to BGN 766 thousand (2016: BGN 700 thousand). The accrued but not paid remuneration to the directors and the key management staff as at 31 December 2016 amounts to BGN 1,467 thousand (2016: Nil) and are short-term in its nature. Other benefits were not paid to management, including pension plans, share based payments, etc.

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

Notes to the consolidated financial statements (continued)

34 Disclosure under Art. 70 of the Credit Institutions Law

Data presented below are data as at 31 December 2017 and does not include any consolidation eliminations:

Name :	Description of the activity:	Registered address:	Turnover amount*:	Number of employees:	Pre-tax profit:	Tax accrued:	Profitability on assets:
Bulgaria:							
TBI Bank EAD Bulgaria	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, activities of an investment intermediary, payment services, trading in foreign currency and precious metals on own account or on client's account, guarantee transactions, and any other activities determined by an ordinance of Bulgarian National Bank	Sofia	97,494	733	35,158	3,321	5%
Romania:							
TBI Bank – Romania Branch	Corporate and consumer (retail) lending, public attraction of deposits and other refundable funds, payment services, trading in foreign currency and precious metals on own account or on client's account, guarantee transactions, and any other similar activities, determined by an ordinance of Romanian National Bank	Bucharest	12,518	105	(1,287)	0	0%
TBI Credit IFN S.A. Romania	Consumer ledning	Bucharest	48,173	736	7,262	1,370	14%
TBI Leasing IFN S.A. Romania	Provision of assets under finance leases	Bucharest	2,759	19	1,597	201	27%

Notes to the consolidated financial statements (continued)

35 Events after the balance sheet date

No material events have occurred after the balance sheet date, which may require adjustments or disclosures in the financial statements as at 31 December 2017.