TBI Bank

ANNUAL DISCLOSURE OF TBI BANK JSC PER
THE REQUIREMENTS OF ART. 70 OF THE LCI AND PART EIGHT OF REGULATION (EU) №575 / 2013

2016

April 2017
Sofia, Bulgaria

CONTENTS

I. SCOPE AND METHOD OF CONSOLIDATION

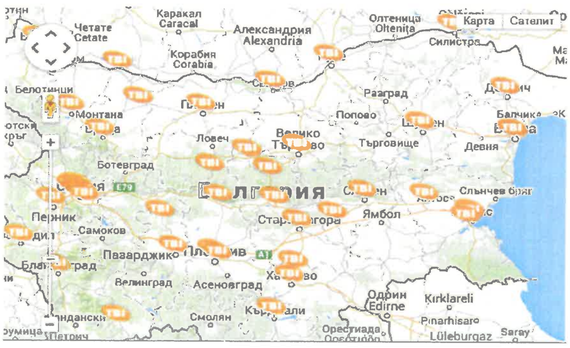
The present disclosure is made on a consolidated basis. All amounts are in thousands leva. The data presented is as of 31/12/2016.

II. OVERVIEW OF INSTITUTION'S PERFORMANCE

TBI Bank JSC (herein after referred to as the "Bank") was founded on the 11th of November, 2002 as a joint-stock company with a two-tier management system, under the name West-East Bank JSC, with the following shareholders: *Activa Holding B.V.*, Slovenia, *Factor Banka d.d.*, Slovenia, and *LB Maxima d.o.o.*, Slovenia. After the obtaining on the 13th of August, 2003 of a Bulgarian National Bank license for the performance of banking services, on the 28th of August, 2003 the Bank was registered in Sofia City Court as a joint-stock company and started its activity on the 1st of October of the same year. In 2006 *Nova Ljubljanska Banka d.d.*, Slovenia acquired 97.01 % of the Bank's share capital (the remaining 2.99 % of the shares being held by *Factor Banka d.d.*, Slovenia). The original name of the Bank was changed to NLB Bank West-East JSC, and latter to NLB Bank Sofia JSC. On the 28th of July 2011 the Bank became part of the Dutch *Kardan N.V.* group (www.kardan.com), which acquired 100 % (38,399,001 shares) of the Bank's capital through its subsidiary *TBIF Financial Services B.V*, Holland (www.tbif.com). In October, 2011 the Bank's capital was increased by 8,001 thousand BGN, and at the end of November, 2011 the Bank's name was changed to TBI Bank JSC. On 11 August 2016 4finance Holding S.A. (www.4finance.com), one of Europe's largest online and mobile consumer lending groups, completed the purchase of TBI Bank JSC through the acquisition of 100% of TBIF Financial Services B.V. from its parent company, Kardan N.V., following receipt of all regulatory approvals. As of 31st of December, 2016 the Bank's capital amounts to 81,600 thousand BGN, and the number of dematerialized shares is 81 600 000 with a nominal value of one BGN each.

The sole shareholder of Dutch TBIF Financial Services B.V. is a group offering fast and convenient loans to customers across 17 countries.

TBI Bank JSC is licensed by the Bulgarian National Bank for the performance of banking operations in Bulgaria and Romania, as well as for the execution of transactions and services as an investment broker under the Securities' Public Offering Act and its related regulations. The Bank offers its local and foreign customers a wide range of banking services through its headquarters in Sofia, 52-54 Dimitar Hadjikotzev Street, and the branch in Bucharest, Romania, which was registered in October, 2012 based on the single European passport right. The Bank's services in Bulgaria and Romania are provided by its offices and remote workplaces, which as of 31.12.2016 number 300 in Bulgaria and Romania, with a total workforce of 1 474 employees.



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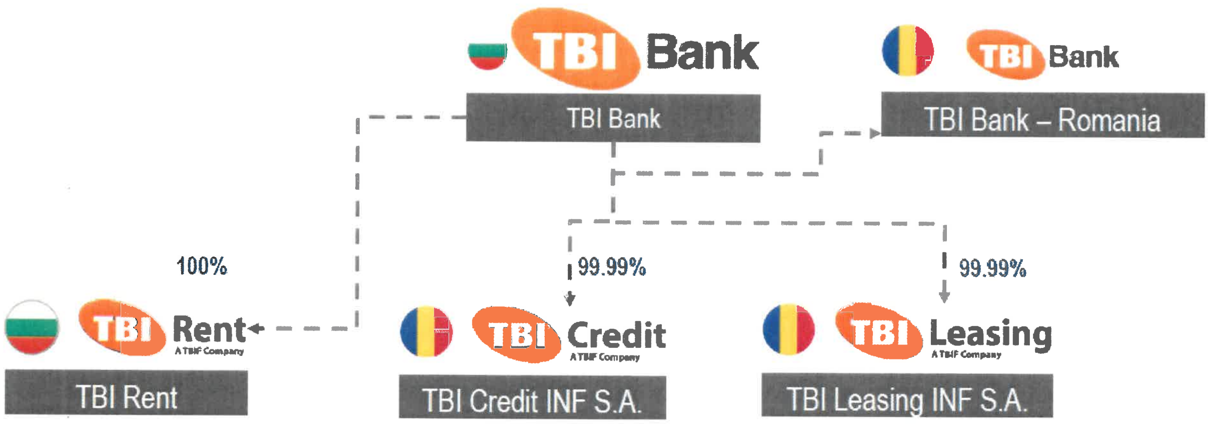
As of 31st of December, 2016TBI Bank JSC has not acquired or transferred any of its own shares. The Bank has 100% stake in TBI Rent JSC, Bulgaria and 99,99% of ahres in TBI Credit, Romania and TBI Leasing, Romania. In March 2017, TBI Rent JSC was sold to a third party, for the finalization of which the approval of the Commission for Protection of Competition is expected.



TBI Bank JSC has a two-tier management structure. All members of the Supervisory and Management Boards meet the requirements of the Credit Institutions Act and the provisions of Bulgarian National Bank Ordinance № 20.

The Supervisory Board consists of at least 3 (three) but not more than seven (7) members. Members of the Supervisory Board are appointed and dismissed by the General Assembly of Shareholders. Members of the Supervisory Board are elected for a term of five (5) years. The composition of the Supervisory Board of "TBI Bank" JSC shall be persons with appropriate qualifications and experience corresponding to the ongoing activities of the Bank and the main risks to which it is or may be exposed.

Management Board members are elected by the Supervisory Board for a term of office of five (5) years. The Management Board consists of at least three (3) members but not more than seven (7) members. At least 2 (two) members of the Board are Executive Director (executive members), the Bank is only represented by two Executive Directors together. The members of the Board, with the approval of the General Assembly, elect one of them for CEO, and Vice Chairman of the Board. Only those individuals who have received appropriate prior approval of the Bulgarian National Bank to manage and represent the Bank under the terms provided for in current legislation acn be appointed as MB members. The composition of the Management Board of "TBI Bank" JSC shall be persons with proven leadership qualities are prerequisites for achieving the objectives of the Bank.

The activity of the Branch is administrated by two (2) Managers, acting in capacity of legal representatives of the Branch, in accordance with the applicable legal provisions, with the Articles of Incorporation of TBI Bank JSC, the Articles of Incorporation of the Branch, the internal rules of TBI Bank JSC and with the resolutions of the Management Board of TBI Bank JSC.

III. BUSINESS MODEL AND STRATEGY

The Management Board of the Bank expects the economic environment in Bulgaria to continue its stabilization and gradual transition to economic growth.

Macroeconomic and financial stability will contribute to the growing market for financial services offered by a viable, efficient and competitive banking system. The process of integrating the Bulgarian economic and financial system into the European area is expected to accelerate. This will result in the implementation and expansion of both new and existing banking products and services. The Bank will continue to maintain adequate financial, managerial and technical capacity, serving as basis for the achievement of effective and prosperous banking.

TBI Bank JSC will continue its growth in key segments of the banking market - small and medium enterprises, and primarily individuals – by providing products with competitive terms on customers' consumer loans, deposits and current accounts, developing project and trade financing, folowing the market trand. The future development of the Bank is expressed in the creation of an even wider customer base and strong financial services distribution network.

The Bank will continue to strive to maintain high corporate management standards, and will actively work for the development of banking security, by using a flexible and efficient organizational structure with clear allocation of responsibilities and duties. The Bank will continue to create opportunities for synergy between the various units, will control and stimulate activity aimed at the ongoing improvement of employees' qualification, and will implement an ambitious policy on recruitment, training and upgrading of human resources.

In view of the Group strategy (i) to diversify the portfolio of TBI Bank by exploring inside Group subsidiaries opportunities; (ii) to increase profitability by applying the asset origination capabilities of 4Finance affiliate companies with successful track record in trading similar to Bank's products , (iii) by taking advantage of the Bulgarian beneficial lowest corporate income tax from most of the EU countries, and (iv) to improve the overall performance by inserting high quality loan portfolios, the Bank intends to further develop the activity of purchase of loan portfolios from well-established counterparties within the Group and on markets bearing lower risk than its domicile market. The process of portfolios acquisition has been successfully applied for the Romanian market and consequently, the Management has designated EU Member States with potential for sustainable profitability combined with low risk.

Based on its expertise in risk management in retail lending, as well as on the in-depth analysis, TBI Bank plans to set foot on one of the largest and most economically developed markets, namely the market of the Kingdom of Sweden, Kingdom of Denmark and Federal Republic of Germany.

The Bank will maintain high risk awareness and manage arising risk in line with applicable regulations and best banking practices.

The personnel employed by the Bank is highly skilled, sharing the following core values:

- motivation and professional ambition;
- open and free communication;

- assuming personal responsibility;
- commitment to organization's standards and goals.

The major objectives and tasks of TBI Bank JSC are related to the:
- provision of maximum security for Bank's customers and depositors ;
- maintenance of good quality assets at stable liquidity and yield ;
- keeping of sufficient capital adequacy, meeting the Bank's risk profile, and proper management of currency, interest rate and other risks inherent to the banking business;
- efficient cost control;
- good return on shareholder's equity.

In the future, TBI Bank JSC will continue seeking to be a bank that provides banking services of good quality and offers market oriented products, by establishing itself as a good bank partner for its clients.

The TBI Bank JSC financial report is prepared in compliance with the international standards on financial reporting applicable in the European Union. The items included in the Bank's financial report are calculated and presented in the national currency of the Republic of Bulgaria – Bulgarian Leva (BGN) – which is the Bank's functional and reporting currency. Under the terms and conditions of the Bulgarian National Bank Act of 1997, as of the 1st of January, 1999 the Leva is pegged to the Euro at an exchange rate of 1.95583 Leva per Euro.

The distribution of Balance sheet items per individual and consolidated basis is as follows:

in '000 BGN

	Individual		Consolidated	
PROFIT AND LOSS STATEMENT	**2016**	**2015**	**2016**	**2015**
Interest income	64 618	53 514	91 535	66 396
Interest expenses	-5 978	-8 689	-6 372	-9 252
Net interest income	**58 640**	**44 825**	**85 163**	**57 144**
Fees and commissions income	12 170	17 122	16 896	19 658
Fees and commissions expenses	-2 244	-3 073	-3 270	-3 639
Net fees and commissions income	**9 926**	**14 049**	**13 626**	**16 019**
Net trading gain	851	9 180	3 961	9 126
Other operating expenses	-36 203	-30 880	-62 015	-45 225
Loss on impairment of financial assets	-6 448	-6 470	-11 516	-8 182
Impairment of other assets	-27	-	-82	-177
Loss on derivatives	-885	-767	-885	-767
Other operating income	571	751	8 450	8 053
Profit before tax	**26 425**	**30 688**	**36 702**	**35 991**
Income tax expense	-2 507	-2 585	-4 159	-3 485
Profit for the year	**23 918**	**28 103**	**32 543**	**32 506**
Other comprehensive income for the year	**135**	**-38**	**-1**	**-107**
Total comprehensive income for the year	**24 053**	**28 065**	**32 542**	**32 399**

The distribution of P&L items per individual and consolidated basis is as follows:

The net interest income per main business line is presented below, which matches the business strategy of the Bank focused on retail consumer lending and SME financing.

Business line In `000 BGN	Interest income	Interest expenses	Net interest income	Fees income	Fees expenses	Net fees income
Banks	12	(457)	(445)	16 896	(3 270)	13 626
Financial institutions	-	(347)	(347)			
Corporate clients	14 422	(338)	14 084			
Retail clients	76 918	(4 954)	71 964			
SFA	-	(26)	(26)			
Subdebt	-	(144)	(144)			
Total	**91 352**	**(6 266)**	**85 086**	**16 896**	**(3 270)**	**13 626**

IV. RISK MANAGEMENT ORGANIZATION IN TBI BANK JSC

1. Trends, events or risks impacting the performance

The financial and economic conditions in the country, as well as strong competition in the banking sector, are the main factors affecting the development prospects. TBI Bank JSC passed the real stress test following last year independent external review – the Assets Quality Review of the banking system, and it came out successful from the simulation (a stress test) conducted by the Central bank, which measured credit institutions' degree of resistance to different scenarios of basic risks' severity. The results of the Assets Quality Review and followed stress test over the capital adequacy, conducted in 2016, also outlined the financial stability of the Bank and the optimal mix of products assisting the trend of growing profitablity with low risk level. The adverse scenario of the AQR showed no need for additional adjustments and high Capital Adequacy Ratio at 22.10%. (As per the Basic scenario, he bank is ranked the first place within all private banks in Bulgaria). The excess of available capital after the AQR stress test is assessed at BGN 23.563 million.

The economic growth in both Bulgaria and elsewhere around the world calls for a profound and efficient analysis and complex monitoring of risk. General expectations are for a reasonable assets' growth in line with the risk profile of the Bank– mainly of loans – and an increase in borrowed funds.

In an environment of limited economic growth, the Bank is working for the efficient management of risk, and its efforts are focused on the improvement of the processes in the area of lending, settlements, customer service and maintenance of loan portfolios' quality. Emphasis is placed on the timely measures undertaken for the collection of problematic receivables. Overall, the Bank's future development trends are associated with ongoing assets' growth, mainly in loans, and the increase in borrowed funds, with a moderate approach to risk appetite.

The underlying risks related to TBI Bank JSC activity and the banking industry as a whole are as follows:

- Business risk, which includes credit, market, interest rate, liquidity, operational, strategic, reputational and other risks.

- Credit risk: current and potential risk to earnings and capital, resulting from debtor's failure to comply with the requirements of a contract concluded with the Bank, or from debtor's inability to act in observance of contractual terms and conditions. Included here are also residual risk, credit risk upon securitization, and cross-border (transfer) risk.

- Concentration risk: as part of the credit risk, the concentration risk includes large exposures to related parties and counterpart groups with similar characteristics, whose likelihood of defaulting depends on common factors, such as: industry, economy, geographical location, type of financial instruments.

- Residual risk: a subcategory of the credit risk – this is the risk that emerges when recognized risk measurement and reduction techniques, used by the Bank, prove less effective than expected.

- Settlement risk: the risk of not receiving cash or assets purchased from a counterpart under a certain transaction, in which the Bank has delivered the respective asset, or has provided the agreed upon cash funds. This definition is also applicable to credit and liquidity risks.

- Liquidity risk: earnings' and capital's current or potential risk, arising from the Bank's inability to meet its obligations on maturity dates.

- Systematic risk – risk linked to funding risks and encumbered assets;

- Market risk: the current or potential risk to earnings and capital, arising from adverse changes in exchange rates or prices of bonds, stocks or commodities in the commercial portfolio. This type of risk can occur in transactions that are related to the marketing, trading or taking of a particular position on bonds, stocks, currencies, commodities, or derivatives (on bonds, shares, currencies or commodities). The risk includes the threat of exchange rate fluctuations, and it is defined as the current or potential risk to earnings and capital, arising from adverse changes in exchange rates.

- Interest rate risk – the risk of posting a loss as a result of unfavorable change in interest rates' levels;

- Operational risk: operational risk is the risk of recording a loss as a result of inadequate or ineffective implementation of internal processes, of human actions, system operations or of external factors' impact. Operational risk also includes information technology risk that has arisen from inappropriate information technologies and processing, mainly in terms of management, access, integrity, control and continuity. It also covers legal risk, which is the risk of loss generated by unsuitable adherence to the law, to secondary legislation, instructions, recommendations, contracts, good banking practice, or ethical norms.

- Reputational risk: the current or probable risk to earnings and capital, emerging from the clients, counterparties, shareholders, investors and regulators having a negative view on the Bank's image.

- Strategic risk: the current or future risk to earnings and capital, arising from changes in business environment, unfavorable management decisions, improper implementation of approved solutions or the lack of responsiveness to fluctuations in the business milieu.

- Compliance risk: the risk of legal sanctions, material financial loss, or loss to reputation the Bank may suffer as a result of its failure to comply with laws, its own regulations, code of conduct, and standards of best/good practice.

In view of the economic circumstances, the Bank's activity is impacted by all typical risks, especially the credit one. In response to these challenges, the Bank's management has developed a policy, integrated and applicable throughout the entire institution, on the assuming of risks, based on the good knowledge and management of threats, to which the

Bank is exposed, and taking into account its own risk appetite and clear development strategy. Management and control of risks at TBI Bank JSC is explicitly defined in internal documents, policies and work rules, which secure adequate, timely and continuous identification, measurement and assessment, monitoring, reduction and reporting of risks, to which the institution is exposed through activities carried out at unit and organizational levels.

2. Structure and organization of risk management

The Risk Committee, etsablished in the Bank, in accordance to Ordinance 7 of BNB and the Management Board has overall responsibility for the establishment and oversight of the TBI Bank`s Group's risk management framework. Risk management is been overseen by the Supervisory Board following the requirements of Ordinance 7 of the Bulgarian national bank on organization and risk management of banks. The Risk Commitee established in the Bank advises the Management Board and the Supervisory Board on the Group's overall current and future risk appetite and strategy and assists the Management Board and the Supervisory Board in overseeing the implementation of that strategy by senior management. Other committees, namely the Asset and Liability Committee (ALCO), Credit Committee are responsible for developing and monitoring Group risk management policies in their specified areas. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The TBI Bank Group, through its management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations. The organization and definition of risk management competencies at TBI Bank JSC support the principles of certainty, consistency, communication and cooperation, which have been designed to prevent conflicts of interest and to ensure a transparent and documented process of decision taking.

Responsible for the management of Bank's overall risks in its transactions is above all the Management Board, which:

- sets goals in view of strategy outlined by the Supervisory Board
- establishes the infrastructure in terms of risks' assessment and management
- has objectives related to the risk profile and
- implements the the risk management policy approved by the Risk Committee

TBI Bank JSC has functioning also an Audit Committee, which plays an important role in the risk management process.

The Bank's Management Board and its commissions/committees may, in line with their powers, assign certain risk management operational duties to lower management units. The commissions, committees and work groups set up by the Bank include administrators that are related to the risk management through regular meetings, results analysis, etc:

- The Committee for the Management of Assets and Liabilities is responsible for the overall management of the Bank's balance sheet. It monitors interest rates and liquidity in accordance with its competence and the committee's organizational structure stipulated in the institution's internal rules;

- The Credit Granting Commission (Credit Committee) is a body, which has the power to approve the emergence of risk exposure to corporate (SME) clients. Credit exposures based on preset limits are subject to subsequent approval by the Management Board and/or confirmed by the Supervisory Financial Committee or the Supervisory Board.

- The Impairments Committee is a specialized internal body for the evaluation and classification of risk exposures under the Bulgarian legislation.

- Specialized Unit for the prevention of money laundering and financing of terrorism as well as compliance risk;

The Bank departments involved in the process of risk management aim to optimize the risk profile of the portfolios managed by them in any of the risk categories defined herein above. Their main tasks are linked to the development, definition and implementation of tools and methodologies for the analysis of risks that accompany the activities performed by the institution. The most important duties and responsibilities exercised by the various risk management departments are as follows:

- Preparation and monitoring of compliance with the respective risk management policy;

- Development, establishment and implementation of methods and processes for risk management;

- They make sure the risk management standards, policy and methodology are followed by all business units and departments;

- They are in charge of determining and observing the limits set for the different business units, as well as for the approval of restrictions imposed by the competent authorities;

- They actively participate in the process of new products' endorsement;

- They provide opinions and suggestions on specific business solutions and their related risks;

- They perform active risk management (portfolio management, reduction of risk, diversification and analysis of risk portfolio) subject to the institution's pre-defined appetite for risk;

- They carry out regular monitoring and reporting of the Bank's risk profile;

3. TBI Bank JSC risk strategy and risk appetite

Risk strategy described in the Budget and approved by the Supervisory Board and Management Board, sets the Bank's planned business structure and strategic development from risk's point of view and in coordination with the institution's set strategic goals. It defines specific risk policies, creates a general acceptance of the objectives in the management of banking risks and presents a basis for the management and control of risk.

The parameters of risk appetite are determined during the annual budgeting process, and they are fixed by TBI Bank JSC Supervisory Board, Management Board and the relevant expert commissions/committees of the Bank. Risk appetite sets the amount of risk the Bank is willing to take (assets' size, risk-weighted assets, volume of external financing), as well as the amount of available venture capital (owner's equity, provisions for credit losses, profit). The budget also determines the portion of available venture capital, which the institution is ready to allocate to cover quantifiable risks (risk buffers, capital ratios). This venture capital is then distributed among the business lines within the organization and monitored on monthly basis.

Risk appetite parameters evaluated on annual basis and established by the Supervisory and Management Boards and Risk Committee of TBI Bank JSC through the budget, ICAAP and ILAAP, as well as by the relevant expert commissions/committees of the Bank, which employ the following approaches:

- Setting the Bank's strategic orientations and official strategies;
- Assistance in the preparation and approval of annual business plans;
- Definition of key risks and management parameters;
- Risk management methodology - review and approval of different policies and rules on risk management;
- Ensuring data quality;
- Monitoring and reporting;
- Follow-up and evaluation of results

Risk appetite parameters could also be expressed in a quantified manner. The values of the following indicators are used as reference points in the formation of the institution's objectives:

- Scores of international rating agencies – the ratings display the expected/desired level of bank solvency in different calculations of the capital;

- Capital adequacy - risk appetite is associated with the desired level of capital adequacy ratio, as well as with the creation of regulatory capital.

- Level of loan coverage with provisions – these are ratios that measure the share of impairment provisions in the entire portfolio, or the coverage of bad loans with provisions, as well as the absolute and comparable annual impairment.

- Target parameters of non-credit risks – these include average annual value at risk (VaR), extension of debt securities, interest rate gaps, etc.

The risk appetite quantitative parameters, determined in a clear and consistent way (size of the capital and amount of established impairments), as well as the qualitative aspects of risk appetite, set by strategic orientations, business plans, and internal policies and regulations related to risk management, are important input data in the management and planning of the Bank's capital.

In order to achieve strategic objectives, special attention is paid to all types of credit, non-credit (currency, interest rate, liquidity and market) and operational risks. The Bank's general strategy and internal policy framework, set by the Supervisory Board through Risk Committee and implemented by the Management Board and structural units of TBI Bank JSC, defines in detail the approaches and methodologies for the monitoring, measurement and management of all types of risk. The daily process of effective risk management and the internal control system are aimed at reducing the probability of deviating from set targets and regulatory requirements, to reduce the cases of losses due to operational risks and to optimize the use of capital.

Major types of risk

TBI Bank JSC secures and applies risk management methods and processes, which correspond to its structure, size and aggregate of activities performed. The level of management techniques and control is selected depending on the importance of each type of risk.

A. Credit risk

In order to manage the credit risk, the Bank has developed strict procedures for analysis and assessment of potential borrowers, including scoring techniques and detailed verification of submitted data. According to the Bank's internal rules, it performs a preliminary analysis and a subsequent monthly industry-by-industry monitoring for the presence of related parties' concentration.

Credit risk includes sub-categories that are monitored and managed by TBI Bank JSC, and its terms, procedure and tracking are regulated by the Bank's "Credit Risk Assessment and Management Rules" and "Lending policy and procedure for legal entities, freelancers and orther entities assimilated as legal entities in TBI Bank EAD - Bucharest branch", and namely:

a) Default risk – it is defined as the borrower not being capable of performing on his contractual financial duties due to an emerging default manifested as non-payment or compulsory change of contractually agreed payments on the part of the borrower. The economic loss in the case of default is dependent on several factors, which include product type, subordination, existence of guarantees, collateral value, etc.

Concentration risk – encountered in financings other than retail banking. This is the risk of loss in the case of excessive exposure to individual objects, group of related parties, or groups of borrowers with similar business characteristics or belonging to similar industries. In retail banking, risk concentrations can be differentiated by product type, common product characteristics, and other homogeneous characteristics of the natural persons.

In order for the concentration risk to be controlled, the Bank observes the following internal limits:

Limits applicable to customers other than banks :

- Total exposure to a client or a group of related parties should not exceed the regulatory authorized and internally approved limit of 25% of the Bank's capital base;
- Total exposure to EU and OECD member-states is subject to risk evaluation;
- Total exposure to other countries (except Romania) should not exceed 20 % of the Bank's credit portfolio on consolidated level;
- All large exposures exceeding 10% of T1 of the Capital Base are subject to approval by the MB.

In 2016 the Bank has not violated the applied limits.

Loans granted to customers BGN `000	2016	2015
Bank loans extended to:		
Corporate clients	95 031	129 452
Natural persons	279 538	223 010
Employees	1 669	941
Total loans granted to customers	**376 238**	**353 403**
Provisions for impairment losses	(26 570)	(22 311)
Total net loans granted to customers	**349 668**	**331 092**

The structure of the credit portfolio by industries in thousand BGN as of 31.12.2016 is as follows:

Economic sector	2016		2015	
BGN `000	Balance value	%	Balance value	%
Commerce	14 482	4%	25 520	7%
Agriculture	13 638	4%	10 991	3%
Construction and Real Estate	39 047	10%	42 913	12%
Services	10 089	3%	25 813	7%
Manufacturing	5 501	1%	5 025	1%
Tourism	12 193	3%	19 001	5%
Other financial institutions	81	0%	189	0%
Natural persons	279 538	74%	223 010	63%
Employees	1 669	0%	941	0%
Total loans extended to custome	**376 238**	**100%**	**353 403**	**100%**

Risk concentration by geographical sector Total financial assets with exposure to concentration risk (thousand BGN)				
Year	**2016**	**share**	**2015**	**share**
Bulgaria	227 617	40%	254 950	52%
Romania	324 684	57%	227 482	47%
Other countries	13 696	2%	6 674	1%
Total	**565 997**	**100%**	**489 106**	**100%**

The inter-bank limits conform to the individual limits approved by the Bank's management, and comply with applicable legislation.

Concentration risk may exist with issuers of collaterals, suppliers of credit protection with guarantees, or with basic assets. These cases are analyzed and evaluated so that regulatory and internal requirements are not exceeded.

Assessing parties' relatedness is both right and obligation of the Bank, for this connectivity could be based not only on legal relatedness, but on close economic ties that cannot be replaced in a short period of time, as for example:

- When the receivables or liabilities to a particular company exceed or equal 50 % of total receivables;
- When a company provides some sort of guarantee under a credit obligation to another company, including co-borrowing;
- When a contractual commercial financing is more than 10% of the value of the assets of either companies.

When calculating the exposure, all balance sheet and off-balance sheet items that need to be referred to a different person or group are considered. The elements of the Bank's balance sheet cover all short- and long-term loans, bond investments, long-term capital investments, exchangeable discount policies, interest, compensations and fees, as well as losses linked to the refunding of guarantees, and other assumed liabilities, deposits in other banks and other items assigned to the respective debtor. The off-balance sheet elements cover issued pledges, guarantees, uncovered letters of credit, irrevocable commitments under approved loans, unused limits of frame credits and other assumed liabilities, on the basis of which a certain payment obligation is created for the Bank. Risk exposing the Bank to a particular person or group of related parties must not exceed 25 % of the capital.

Where the Bank exceeds the maximum admissible limits for risk exposure due to reasons beyond its control (merge of two legal units, change in the quality of the collateral), the administrators in charge shall promptly report to the Bank's managers and will notify Bulgarian National Bank, providing detailed description of the measures the Bank has undertaken or is about to undertake with the purpose of reducing the risk exposure to the various persons. Currently, the Bank has no large exposure on consolidated level to an external single loans debtor or group of related parties.

Credit risk management at TBI Bank JSC is implemented at two levels - individual client and credit portfolio:

Individual customers' ranking is based on the assessment and evaluation of their ability to fulfill their obligations to the Bank at maturity date, and it is conducted in accordance with, but not limited to, the following:

- Customer's business background;
- Industry analyses – the development of this particular sector over the last periods; trends and others. TBI Bank JSC classifies the economic sectors as preferred ones (agriculture, commerce, manufacturing, services); non-preferred ones (construction, hotels and restaurants) and forbidden ones (e.g. firearms, illegal activities, etc.);
- Information about related parties/persons – group risk exposure;
- Total exposure of borrower's group of related persons, percentage of total exposure of Bank's capital base, as well as classification group;
- Financial analyses of the borrower – turnover, assets' and liabilities' structure, debt ratio, etc.;
- The ability of the borrower to generate sufficient cash flow for the regular performance of his obligations towards the Bank and his future partners;
- Customers' performance on their obligations to the Bank and other creditors in the past;
- Checking the loan applicant, his owners, management and related persons in the Commercial Register, Central Loan Register, Property Register, etc.;
- Client's position as employer in the National Revenue Agency;
- Follow-up of customer's record in TBI Bank JSC;
- Information about submitted documents;
- Customer's market position in terms of market share and competition, additional deliveries, elasticity of requirements, payment terms applicable to sales and purchases, etc.
- Customer's relationship with the Bank and fulfillment of duties towards all business partners in the past;
- Collateral - type, quality, liquidity, depreciation, location, etc.
- Collateral's ratio;
- Fraud combat at request level – non-compliance or inaccurate information supplied by the client;
- Checking the Bank' blacklist;
- Customer assessment made by the Bank's risk-analyst.

Credit risk management includes also a subsequent evaluation of all exposure above 100 thousand BGN , with all of the aforementioned elements being checked at least once a year.

In order to manage the credit risk, the Bank has established approval levels for the generation of risk exposures, along with relevant approving units. Loans are submitted for approval to the respective level or levels depending on the general exposure (present or future one). The exposure to each client/loan applicant, including banks and intermediaries, is further restricted by sub-limits (covering balance exposures, conditional liabilities and irrevocable commitment) and limits on daily risks related to commercial positions, such as forward contracts. Real exposures to the respective limits is monitored daily. Exposure to credit risk is managed through a continuous analysis of the ability of borrowers and/or potential borrowers to meet their obligations, and, if appropriate, through a change in the credit limits.

The so created Bank's risk exposures are classified into four groups based on the following credit risk criteria levels:

- **Regular exposures** – these are risk exposures that are serviced, and data on borrower's financial status raises no doubt as to him completely repaying his obligations. A risk exposure is defined as a regular one, if the following conditions are simultaneously applicable to it:
- Principal and interest are repaid in accordance with the terms of the contract, or are overdue up to 30 days, but the delay is admitted as an accidental one;
- Borrower uses the loan as provided for in the contract;
- The Bank has sufficient updated information on borrower's financial situation, the documents related to his activity and the resources for the repayment of his obligations.

- **Exposures under watch** – these are risk exposures, whereby there are present minor infringements on their servicing, or where there is a chance for the debtor to deteriorate his financial condition, which might question his full repayment of the obligation. A risk exposure is classified as one under supervision, if it meets one of the following requirements:
- There are accumulated late payments of both principal and interest, which have been overdue for a period of 31 up to 90 days;
- Debtor is using the loan for purposes other than the one provided for in the contract;
- The deadline for a loan repaid in a single installment and granted to a newly incorporated company or to a business with poor credit record, has been renegotiated.

- **Non-performing exposures** – these are risk exposures, in which there are present substantial violations of their servicing, or there is information that borrower's financial condition is not stable; his current and expected proceeds are not enough to cover the full repayment of his obligations to the Bank and other creditors, or there have been established weaknesses, clearly indicating that the Bank might suffer a loss. A risk exposure is ranked a non-serviced one, if it meets one of the following conditions:
- There are accumulated late payments of both principal and interest, which have been overdue for a period of 91 up to 180 days;
- Debtor's financial state has seriously deteriorated and could threaten his ability to repay his dues.

- **Loss** – defined as a loss are risk exposures, whereby as a result of borrower's poor financial status, his obligations are expected to become uncollectible, even though they have a partial recovery value that could be utilized in the future. A risk exposure is said to be a loss, if it meets one of the following conditions:
- There are accumulated late payments of both principal and interest, which have been overdue for more than 180 days;
- Debtor experiences a permanent shortage of cash;
- Debtor has been declared insolvent, or is in the process of being wound up, and there is a risk of the creditors being left in dissent;
- The receivable, included as an item in the balance sheet, is subject to court proceedings, or it has been awarded by the court to the Bank, but was not collected;
- Other circumstances leading to the conclusion that there is a chance the risk exposure might not to be repaid.

Table – Distribution of the loan portfolio as per working (<90 DPD) and non-working (>90 DPD) portfolio as per FINREP reporting:

Exposures BGN `000	Working portfolio	Non working portfolio	TOTAL
Central banks	54 943	-	54 943
Credit institutions	107 341	-	107 341
Other financial entities	168	-	168
Non financial entities	103 321	23 407	126 728
Individuals	257 727	24 515	282 242
TOTAL	**523 500**	**47 922**	**571 422**

As shown in the table above, the loan portfolio of the bank is mainly working, or the proportion is 92% to 8% in favor of the working portfolio. Further it should be noticed that 22% of the non-working portfolio is due to the large investment projects inherited from the previous shareholders. Currently, all necessary legal measures for the collection of the legacy portfolio have been taken. The new company credit portfolio complies with the Bank's conservative risk policy and moderate risk appetite.

The total amount of the provision for impairment losses on loans, advances and leases at December 31, 2016 was 28 000 thousand Lev (2015: 22 311 thousand leva). Accrued impairment for individually assessed financial assets amounted to 3 589 thousand Lev (2015: 2 775 thousand leva), and the calculated collective provisions for impairment amounted to 24 411 thousand leva (2015: 19 537 thousand leva).

	Gross Balance-sheet exposure				Accumulated impairment, accumulated changes in fair value resulting from credit risk and provisions		
		Performing	Non-performing	Incl: impaired		For Performing	For Non-performing
Loans and Advances	**570 213**	**522 287**	**47 926**	**33 565**	**-28 000**	**-2 771**	**-25 229**
Central banks	54 943	54 943	0	0	0	0	0
Government	0	0	0	0	0	0	0
Credit institutions	107 341	107 341	0	0	0	0	0
Other financial institutions	168	168	0	0	0	0	0
Non-financial enterprises	126 292	102 883	23 409	16 331	-5 003	-462	-4 541
Incl. SME	126 292	102 883	23 409	16 331	-5 003	-462	-4 541
Incl. Mortgage loans	31 605	28 860	2 745	1 604	-39	0	-39
Households	281 469	256 952	24 517	17 234	-22 997	-2 309	-20 688
Incl. Mortgage loans	193	193	0	0	0	0	0
Incl. Customer loans	281 276	256 759	24 517	17 234	-22 997	-2 309	-20 688

Adjustments for credit risk as per economic sectors (excl. individuals):

TBGN

Adjustments for credit risk by sector	Gross balance-sheet exposure	Incl: Non-performing	Accumulated impairment, accumulated changes in fair value resulting from credit risk and provisions
A AGRICULTURE, FORESTRY AND FISHING	14 664	2 259	-360
B MINING AND QUARRYING	107	0	0
C MANUFACTURING	7 280	381	-370
D PRODUCTION AND DISTRIBUTION OF ELECTRICITY, HEAT AND GASEOUS FUELS	0	0	0
E WATER SUPPLY	2 046	1 520	-495
F CONSTRUCTION	27 138	7 951	-769
G WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHI..	19 639	2 626	-718
H TRANSPORTATION AND STORAGE	3 179	34	-49
I ACCOMMODATION AND FOOD SERVICE ACTIVITIES	20 589	3 927	-88
J INFORMATION AND COMMUNICATION	1 671	2	-9
L REAL ESTATE ACTIVITIES	17 975	2 697	-1 715
M PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES	3 806	326	-11
N ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES	4 167	610	-267
O PUBLIC ADMINISTRATION AND DEFENSE; COMPULSORY SOCIAL SECURITY	18	15	-15
P EDUCATION	0	0	0
Q HUMAN HEALTH AND SOCIAL WORK ACTIVITIES	324	1	-1
R ARTS, ENTERTAINMENT AND RECREATION	1 253	25	-57
S OTHER SERVICE ACTIVITIES	2 436	1 035	-79
LOANS AND ADVANCES	126 292	23 409	-5 003

Collective and specific adjustments for credit risk:

	Balance sheet value of impaired assets	Specific provisions on individually assessed financial assets	Specific provisions on collectively assessed financial assets	Collective provisions for incurred but not reported losses	Accumulated write-offs
Loans and Advances	**171 714**	**-3 589**	**-21 640**	**-2 771**	**-59 468**
Central banks	0	0	0	0	0
Government	0	0		0	0
Credit institutions	0	0	0	0	0
Other financial institutions	0	0	0	0	0
Non-financial enterprises	14 192	-3 589	-952	-462	-39 984
Households	157 522	0	-20 688	-2 309	-19 484
TOTAL	**171 714**	**-3 589**	**-21 640**	**-2 771**	**-59 468**

In 2016, loans and advances granted by the Group before impairment grew by 6.46% y-o-y. In order to effectively manage credit risk, the Group continues to be actively engaged in renegotiating, restructuring and closure of existing risk exposures.

As of December 2016 the Bank purchased treasury bonds of the Republic of Romania, totaling 10,675 thousand BGN, which increased the commercial portfolio, although it remained small, as compared to the institution's overall activity. The total investment in Romanian government debt is in two issues, one of them with 6.75% annual coupon maturing in June 2017 and the other with 3.40% annual coupon maturing in January 2019.

Securities in the investment portfolio BGN `000	2016	2015	2014
Securities available for sale:			
- equity securities not traded on official market	89	89	89
- debt securities traded on official market	10 675	11 789	1 020
Total securities in the investment portfolio	**10 764**	**11 878**	**1 109**

Techniques for credit risk mitigation

The Bank employs a number of policies and practices that limit the credit risk. For all loans other than consumer loans for individuals, the Bank requires that the borrowers provide adequate collaterals. The main types of collaterals under the loans extended to customers are as follows:

- cash funds in BGN and foreign currency;
- mortgages on real estate;
- pledges on business assets, such as machinery and/or equipment;
- guarantees issued in favor of the Bank.

In order to minimize credit losses, the Bank demands from its counterparties additional collaterals, when it evaluates and analyzes the impairment indicators of the respective individual receivables under the extended loans.

The value of collaterals is determined according to the Bank's internal policy, taking into account the assessments and analyzes prepared by independent appraisers. The values are reviewed regularly so as to ensure adequacy of the respective assessment. Taking into account the specificity of the commercial activity performed by the Bank and the growing portfolio of small consumer loans, the share of unsecured loans in the Bank's portfolio is increasing. These loans are mainly short-term with very low individual limits and therefore the provision of collateral is considered a complex and costly process. The funds allocated to other banks are also not secured.

Residual risk or credit protection risk – it is defined as the risk of the Bank failing to utilize the instruments used for the reduction of credit risk, or the risk of their financial equivalent being smaller than expected as a result of: guarantor's inability to make the payment on time; lower value of accepted collateral, or inefficient documents (other than operational risk).

B) Credit risk management at loan portfolio level

TBI Bank JSC portfolio is controlled on a monthly basis, which includes tracking of the following:

- Classification and rating of clients and projects;
- Concentration by industries and countries;
- Customer's segment (Bulgarian banks, Bulgarian financial institutions, Bulgarian enterprises, sole proprietor, foreign banks, foreign financial institutions, foreign companies, foreign governments, and retail customers);
- Provisions and classification;
- Currency (EUR, RON, etc.)
- Exposure amount;
- Collaterals;

In addition to individual clients, the departments in charge of managing the Bank's risk regularly monitor the entire credit portfolio (balance sheet and off-balance sheet assets risk) and analyze the exposures (depending on risk, segmentation, concentration of elements, risk exposure levels for certain clients, manufacturing, geographical distribution, etc.). All the changes in the loan portfolio are analyzed, and based on the analyses of the time periods, there are established trends in movements, concentrations and risk. The responsible Bank administrators, departments, commissions and committees follow the "front office" principle of separating the management of credit risk from the back office (thus avoiding conflict of interests), and they take decisions, follow the systems, and regularly review the portfolio in terms of appropriate assessment of the due amounts, emphasizing on regularity, customers, settlement of liabilities, indebtedness, collaterals, etc. Furthermore, they are also in charge of:

- Conducting analysis of portfolio's changes and structure (through classification by country, segment, industry, currency, and collateral) and reporting to the Management of the Bank;

- Regularly informing the respective employees and managers of the Bank's business units about the process of taking decisions on exposures and established collaterals with regards to the credit risk.

The amount of loan portfolio devaluations is calculated every month and in compliance with international financial reporting standards and internal policies, rules and procedures, TBI Bank JSC allocates an adequate level of provisions for losses generated by credit risk.

As of 31st of December, 2016	Loans granted to customers
Not overdue and not impaired	274 240
Overdue, but not impaired	89 121
Individually impaired	12 877
Gross value	**376 238**
Reduced by provisions for losses resulting from impairment	(26 570)
Balance value	**349 668**
As of 31st of December, 2015	**Loans granted to customers**
Not overdue and not impaired	262 119
Overdue, but not impaired	70 001
Individually impaired	21 283
Gross value	**353 403**
Reduced by provisions for losses resulting from impairment	(22 311)
Balance value	**331 092**

Next table shows the Bank's exposure to credit risk as of 31st of December 2016 and 31st of December 2015, in thousand BGN, without taking into consideration collaterals, i.e. the worst case scenario. For the balance sheet assets the exposures are based on the net balance values as of the date of the balance sheet.

As of 31st of December	Maximum exposure	
BGN `000	2016	2015
Cash funds deposited to accounts opened in other banks	54 943	100 310
Funds granted to other banks	107 341	40 266
Financial assetets held for trading	1 019	-
Loans extended to clients:		
Corporate	91 280	126 976
Personal individuals	258 388	204 116
Financial leasing	30 261	-
Investments available for sale	10 764	11 878
Investments held to maturity	8 081	-
Exposures to credit risk associated with conditional passive and irrevocable commitments are as follows:		
Financial guarantees	950	1 787
Unutilized loan commitments	16 228	15 118
Total	**583 175**	**506 011**

Guarantees and letters of credit, representing an irrevocable commitment on the part of the Bank to make a required payment in the event of the customer not performing on his obligation towards a third party, carry the same risk as the one generated by loans.

The commitments for the granting of credits represent the unused portion of the authorized amount of loans, guarantees or letters of credit. The Bank controls the maturity period of the credit commitments, since in most cases the long-term commitments carry a larger credit risk, as compared to the short-term ones. Under Loan agreements provisions, the Bank has the right not to allow disbursement of loans without advance notice.

As of 31.12.2016, the Bank has issued 20 bank guarantees for the amount of 970 thousand BGN, of which 14 guarantees, or 810 thousand BGN are secured with a collateral on cash funds of minimum 100 %.

Use of credit ratings by credit ratings agencies

Included in the following table is an analysis and classification of the funds granted to other banks as of 31st of December, 2016, made under criteria provided by a rating agency on the basis of credit ratings from a recognized external institution. The ratings used in the table are the ones of *Standard and Poor's* or their equivalents:

Rating 31.12.2016	Financial assets held for sale	Funds made available to other banks	Rating 31.12.2015	Financial assets held for sale	Funds made available to other banks
BBB+ (Fitch)	-	86	BBB+ (Fitch)	-	5 970
Baa1 (Moody's)	-	536	Baa1 (Moody's)	-	-
BBB (Fitch)	-	78 665	BBB (Fitch)	-	8 095
Baa2 (Moody's)	-	2 427	Baa2 (Moody's)	-	-
BBB- (Fitch)	10 675	43	BBB- (Fitch)	11 789	4 346
BBB- (BCRA)	-	946	BBB- (BCRA)	-	-
BB+ (Fitch)	-	21	BB+ (Fitch)	-	-
BB+ (BCRA)	-	1	BB+ (BCRA)	-	1
Ba1 (Moody's)	-	-	Ba1 (Moody's)	-	97
BB (Fitch)	-	629	BB (Fitch)	-	999
BB- (Fitch)	-	23 847	BB- (Fitch)	-	20,731
Ba3 (Moody's)	-	4	Ba3 (Moody's)	-	-
B- (Fitch)	-	129	B- (Fitch)	-	9
CCC+ (Fitch)	-	-	CCC+ (Fitch)	-	2
Caa3 (Moody's)	-	-	Caa3 (Moody's)	-	16
RD (Fitch)	-	7	RD (Fitch)	-	-
No rating	89	-	No rating	89	-
Total	**10 764**	**107 341**	**Total**	**11 878**	**19 535**

When providing consumer loans to individuals, the Bank charges a collective impairment, which reflects expectations for future cash flows from the consumer portfolio. Upon the application of the collective impairment, the Bank's credit portfolio is examined on a portfolio basis, thus reflecting the homogeneity of exposure's risk profile. The impairment is charged by applying a certain percentage on the gross exposure, based on the number of days the payments are overdue.

According to the International Financial Reporting Standards, the Bank's Impairment Committee sets impairment and provisions for financial assets held until maturity, which are valued at amortized cost, as well as for certain commitments taken on off-balance elements, where the credit risk is similar to the one of the usual credit relationship (financial guarantees, advance payments and uncovered letters of credit). If required, the impairments are carried out on the interests of financial instruments, which the Bank is not capable of holding until repayment date, and which are evaluated in fundamentally different way.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are determined on the basis of agreed cash flows related to Bank's assets and the historical record for losses generated by assets with credit risk characteristics similar to the ones of the Bank. The loss assessment based on historical record is adjusted as per current data in order to reflect the influence of present conditions, which had not impacted the period in which the loss assessment had been made, as well as to eliminate the effect of circumstances during the historical period that are no longer existent.

b) The securitization risk is a sub-category of the credit risk, and it consists of a financial instrument, which represents securitization for the achievement of liquidity with the same instrument. Since the Bank does not perform securitization transactions, this risk is not considered a major one.

c) Country risk – this is the risk suffered by international counterparties in the case of economic, social, and political events taking place in debtor's country. It has a subcategory, in which the risk is transferred, when debtor's liabilities are not denominated in local currency.

In the case of expected or sudden changes in circumstances, every month, or even more often, the Bank calculates through standard approach the capital required for the credit risk, in accordance with European Community regulations, Bulgarian National Bank rules and the internal policies of the Bank.

Unencumbered assets

As of 31.12.2016 the balance sheet value of encumbered assets is 21 153 thousand BGN consists of:

- The EUR equivalent of 9 188 thousand BGN, blocked in account, serving as a collateral for *forward* limits
- TBI Credit INF S.A., Romania pledged, blocked in account, serving as a collateral for Master Card –733 thousand BGN
- TBI Rent - pledge of other assets (under loan agreement) – BGN 11 450

The balance value of unencumbered assets as of 31.12.2016 (602 586 thousand BGN) consists of:

- Capital instruments – 89 thousand BGN;
- Debt securities – 11 694 thousand BGN;
- "other assets" – 590 803 thousand BGN – cash, loans and receivables, fixed assets, intangible assets

B. Liquidity risk

Liquidity risk is the risk of loss, resulting from the Bank's failure to repay all of its due obligations, or when the Bank is in the position of not being able to provide enough funds for the settlement of its mature liabilities, or when it is compelled to make available needed funds for expenses that exceed its normal costs. The consequences could lead to the impossibility of making payments to depositors and the performance on loan commitments.

In its transactions, the Bank assumes the liquidity risk at acceptable level, under the conditions of banking business' pursued strategy and available capital. Therefore, the Bank strictly monitors the development of the liquidity risk,.

The management of liquidity risk in the Bank pursues the following objectives:

- Provision of sufficient liquidity for the settlement of all of the Bank's obligations;
- Proper planning of Bank's less predictable future and off-balance liabilities;
- Optimization of liquid reserves' balance;
- Avoiding situations, in which the Bank would be forced to provide necessary liquidity at prices that are significantly higher than the market ones.

In terms of assuming and managing the liquidity risk, the Bank has introduced rules and a system of responsibilities, which are specified in the following internal documents:

- TBI Bank JSC policy on the management of liquidity risk;
- Plan for the management of TBI Bank JSC liquidity under extraordinary circumstances;
- Rules of procedure for the activity of TBI Bank JSC Assets and Liabilities Management Committee;
- Recovery plan in accordance with Art. 73 (g) of the Credit Institutions Act and Art. 25 of Bulgarian National Bank Ordinance № 7 and Directive 2014/59/EC of the European Parliament and Council dd. 15th of May, 2014 for the recovery of credit institutions and investment brokers.

The adopted policies on the management of liquidity risk ensure the following:

- maintenance of sufficient liquid assets for the settlement of obligations upon their occurrence;
- financing of medium-term assets with funds under medium-term liabilities in a well selected proportion;
- monitoring the liquidity position on a daily basis in the process of transactions' execution;
- structuring of the balance sheet according to liquidity risk criteria;
- management of liquidity at three levels: operational, structure, and contingent.

The Assets and Liabilities Management Committee, as the primary unit in charge, is assigned by the Bank's Management Committee with the task of providing advices on liquidity management strategy. The operational management of the Bank's assets, as well as the implementation of the decisions taken by the Assets and Liabilities Management Committee, are assigned to the Head of the Financial Markets and Liquidity Department, who performs the following liquidity risk control and management, but not only, by:

- Setting up measures and authorities for the provision of liquidity;
- Organizational separation of tracking and managing structural liquidity;
- Regular, monthly reporting on liquidity indicators to the Assets and Liabilities Management Committee;
- Control of the accuracy and integrity of daily data used in the monitoring of exposures (comparison between current data and data from previous periods; other logical and independent controls);
- Ensuring compliance with regulations applicable to liquidity;
- Providing liquidity reserves at appropriate level;
- Introduction of prescribed internal manuals and guidelines on the structure of the Bank's balance sheet;
- Regular review and, if necessary, bringing documents in compliance with the instructions for the management of liquidity risk in the Bank.
- Structural liquidity indicators are subject to systematic reporting to the Bank's Management and Supervisory Boards.

For cases of exceptional circumstances, TBI Bank JSC has developed a "Crisis Liquidity Plan" and a "Recovery Plan", which serve as guidelines and action schedules for the identification of problems, the search of solutions, the implementation of activities under emergency situations and the creation of liquidity management system in the Bank, thus securing liquidity maintenance and protection of customers' and shareholders' business interests. These plans define the fundamentals for their activation, as well as the competencies and responsibilities of the Management Board, the task group for the monitoring of the Bank's liquidity position and the relevant organizational units of the institution. The plans explicitly state the reasons for their activation, i.e. business conditions that could not be considered as normal according to different criteria. Changes in the Bank's transactions and liquidity position could be the result of both internal and external factors. The liquidity management plan applicable to emergency situations also establishes the methods for liquidity management under unusual circumstances. These methods should observe the principles of liquidity risk management in a normal environment and the results from the testing of the Bank's liquidity management in stress situations, as well as the system for reporting and communication with internal and external public regulators.

TBI Bank JSC features a well-diversified customer portfolio. The strategy employed, aimed at strong lending to individuals, justifies the credit portfolio's considerable growth. Newly attracted resources are characterized by lower price, and accordingly, profitability remains stable. It is very important for the liquidity to be kept at firm levels. Despite the expansion of the Bank's activity and the sharp rise of its lending business, over the years it has succeeded in retaining high levels of liquidity:

Liquidity	2016	2015	2014	2013	2012	2011
Ratio	38.5	35.4	40.2	39.5	36.1	38.4

The key indicator employed under the current and applicable policy for the measurement and management of liquidity is the liquidity assets ratio. By the end of 2016, this index was 38,51 % (35,40 % in 2015), which speaks of a stable cash flow, significantly higher than the minimum threshold required (20 % proportion between liquid assets and deposits other than the ones of credit institutions).

In 2016 Bank's total assets increased by 16.31 %, as compared to the end of 2015, reaching 623 739 thousand BGN (536 263 thousand BGN in 2015). By the end of 2016, the biggest growth of thousand BGN, was registered in the loan portfolio, followed by a rise BGN in the placements in central bank and cash. The surge of the credit portfolio is mainly due to the increase of retail exposures, which exceed the share of the loans extended to legal entities.

As of 31st of December, 2016, Bank's liabilities amounted to 477,717 thousand BGN (425,409 thousand BGN in 2015), where 438,960 thousand BGN, being deposits of customers (371,303 thousand BGN in 2015). In 2016 there was an increase of 18.22 % (67,657 thousand BGN) in customers' deposits, and a decrease of 76.17 % in deposits held by other banks.

`000 BGN	2016	2015	2014	2013	2012	2011
Balance value	623 739	536 263	480 480	406 022	187 932	74 769
Owner's equity	146 022	110 854	70 255	52 703	32 394	26 168

As a result of the annual profit, Bank's equity rose by 31.72 %.

Next table shows Bank's financial liabilities, allocated to the respective maturity groups on the basis of the remaining period from the balance date to the contractual maturity date. The amounts stated in the table represent the contractual cash flows, and not the discounted ones:

As of 31st of December, 2016 BGN `000	Gross cash outflow	Less than 1 month	1- 3 months	3 - 12 months	1-5 yerars
Funds borrow ed from other banks	6 148	9	18	1 242	4 879
Derivatives	31	31	-	-	-
Funds borrow ed from customers	443 515	124 735	56 354	235 278	27 148
Other borrow ed funds	957	75	79	271	532
Non-current liabilities held for sale	11 160	-	11 160	-	-
Other liabilities	22 522	16 645	4 385	1 492	-
Total liabilities (contractual maturity dates)	**484 333**	**141 495**	**71 996**	**238 283**	**32 559**

As of 31st of December, 2015 BGN `000	Gross cash outflow	Less than 1 month	1- 3 months	3 - 12 months	1-5 yerars
Funds borrow ed from other banks	24 680	22 712	-	1 968	-
Derivatives	17	17	-	-	-
Funds borrow ed from customers	372 959	164 175	54 585	154 158	41
Other borrow ed funds	12 824	192	214	8 584	3 834
Other liabilities	17 104	1 486	15 365	253	-
Total liabilities (contractual maturity dates)	**427 584**	**188 582**	**70 164**	**164 963**	**3 875**

Next table provides an analysis of the Bank's assets and liabilities according to their maturity structure as of balance date and based on the remaining period until the agreed maturity dates. Loans extended to customers with a remaining maturity of more than five years are shown in the column titled "Undefined".

Assets and Liabilities Maturity Structure for the previous reporting period

As of 31st of December 2016 BGN `000	At sight / up to 1 month	1-3 months	3-12 months	1-5 years	Undefined	Total
Assets						
Cash and cash in accounts opened in central banks	66 402	-	-	-	-	66 402
Funds provided to other banks	107 341	-	-	-	-	107 341
Financial assetes held for trading	1 019	-	-	-	-	1 019
Non-current assets held for sale	-	-	30 150	-	-	30 150
Loans extended to customers	21 623	165 425	99 085	54 298	9 237	349 668
Financial leasing	2 862	1 026	5 731	20 642	-	30 261
Investments available for sale	10 675	-	-	-	89	10 764
Investments hold to maturity	-	-	-	8 081	-	8 081
Other assets	3 426	745	1 257	-	-	5 428
Current tax assets	254	-	-	-	-	254
Tangible and intangible assets	-	-	-	-	14 371	14 371
Total assets	**213 602**	**167 196**	**136 223**	**83 021**	**23 697**	**623 739**
Liabilities						
Borrowed funds from other banks	-	-	1 184	4 695	-	5 879
Derivatives	31	-	-	-	-	31
Funds borrowed from customers	123 340	56 269	233 484	25 867	-	438 960
Other borrowed funds	-	-	406	518	-	924
Other liabilities with deffered tax	128	-	-	-	-	128
Non-current liabilities held for sale	-	9 273	-	-	-	9 273
Other liabilities	16 645	4 385	1 492	-	-	22 522
Total liabilities	**140 144**	**69 927**	**236 566**	**31 080**	**-**	**477 717**
Net difference in liquidity	73 458	97 269	(100 343)	51 941	23 697	146 022
Cumulative cash flows	**73 458**	**170 727**	**70 384**	**122 325**	**146 022**	**-**

As of 31st of December 2015 BGN `000	At sight / up to 1 month	1-3 months	3-12 months	1-5 years	Undefined	Total
Assets						
Cash in hand and cash in accounts opened in central banks	109 620	-	-	-	-	109 620
Funds provided to other banks	40 266	-	-	-	-	40 266
Non-current assets held for sale	-	-	8 955	-	-	8 955
Loans extended to customers	17 048	12 028	86 049	168 740	47 227	331 092
Investments available for sale	11 878	-	-	-	-	11 878
Other assets	-	-	7 360	-	-	7 360
Current tax assets	242	-	-	-	-	242
Tangible and intangible assets	-	-	-	-	26 850	26 850
Total assets	**179 054**	**12 028**	**102 364**	**168 740**	**74 077**	**536 263**
Liabilities						
Borrowed funds from other banks	22 712	-	1 963	-	-	24 675
Derivatives	17	-	-	-	-	17
Funds borrowed from customers	163 866	54 472	152 712	253	-	371 303
Other borrowed funds	24	76	7 876	4 219	-	12 195
Other liabilities with deffered tax	115	-	-	-	-	115
Other liabilities	1 486	15 365	253	-	-	17 104
Total liabilities	**188 220**	**69 913**	**162 804**	**4 472**	**-**	**425 409**
Net difference in liquidity	(9 166)	(57 885)	(60 440)	164 268	74 077	110 854
Cumulative cash flows	**(9 166)**	**(67 051)**	**(127 491)**	**36 777**	**110 854**	**-**

The Bank will seek to maintain a positive balance in terms of its assets and liabilities. It should be noted that for most of its liabilities, representing fixed term deposits of individuals and corporate bodies, the Bank is taking adequate measures to motivate the clients to renew their contracts. Practice reveals that deposits held by legal entities are usually negotiated individually, with the conditions being reviewed immediately prior to the maturity date of the contracts. The Bank meets the regulatory requirements for liquidity management and complies with the demands set out in Central Bank resolutions and its own internal rules and procedures. According to applicable legislation, the liquidity risk is not included in the calculation of the required regulatory capital.

Equity exposures that are not included in the trading portfolio and exposure to interest rate risk on positions not included in the trading portfolio

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

As of December 31, 2016 Debt securities held for trading are foreign corporate securities with an annual coupon 11.25%. Debt securities are stated at fair value based on quoted market prices at the reporting date. Interest accrued to December 31, 2016 amounted to 12 thousand leva.

Financial assets available for sale	**2016**	**2015**
Securities available for sale:		
- equity securities traded on the official market	89	89
- debt securities traded on the official market	10,675	11,789
Total Financial assets available for sale	**10,764**	**11,878**

As of December 31, 2016 debt securities issued are two Romanian government bonds: in euro maturing January 21, 2019 with an annual coupon of 3.40%; and in new Romanian lei with maturity June 11, 2017 and 6.75% annual coupon. Interest accrued to December 31, 2016 amounted to 319 thousand leva. Debt securities are stated at fair value based on quoted market prices at the reporting date.

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

As of December 31, 2016 Debt securities held to maturity are foreign corporate securities with an annual coupon 11.25%. Debt securities are evaluated at amortized cost using the method of effective interest rate. Interest accrued to December 31, 2016 amounted to 92 thousand leva.

C. System risk

Pursuant to the recommendations of the European Council for System Risk, on the 20th of December, 2012, TBI Bank JSC issued a policy on the financing of its operating activities, and created a common framework of rules and principles for the management of system risk in the financing of the institution, thus guaranteeing the achievement and sustaining of a stable structure.

The Bank's policy on the financing of its operating activity is determined by the Management and Supervisory Boards. The system risk management procedure, applied in the financing of the Bank, was prepared by Enterprise Risk Management Department, in accordance with pursued strategy and business model, and it is an integral part of the internal rules and procedures of the department. The procedure was approved by the Bank's Risk Committee, created according to the provisions of Bulgarian National Bank Ordinance № 7, and was adopted by the Bank's Management Board on 20.02.2015.

TBI Bank JSC established business model is mainly characterized by financing from deposits. Other sources of financing could only be used by way of exception, and they need to be explicitly approved by the Bank's Management Board and confirmed by the Supervisory Board. The Bank's management considers the retail deposits as one of the most reliable sources of financing, taking into account the existence of guarantee plans for customers' savings. Therefore, in 2014, the Bank once again focused its attention on this type of financing.

TBI Bank JSC financing through savings determines also the interconnection and essential role of the monitoring and control of the Bank's liquidity risk, along with the system one. Based on this document, the Bank's management has ordered the system risk associated with financing to be included in the report and analysis of the Assets and Liabilities Management Committee, which examines the macroeconomic situation of the countries in which the Bank operates, the specific features of the financial markets, the Bank's balance sheet structure, its liquidity position, interest rate levels, the maturity structure of deposits and loans, stress tests over liquidity, and capital adequacy. All these are factors, which the Bank's units in charge of risk management report during the monitoring and implementation of adequate supervision and control of the institution's financing related system risk. The preparation of regular reports is assigned to the Enterprise risk department and Financial Markets and Liquidity Department (stress test over liquidity).

Distribution of Bank's financing BGN `000	31.12.2016	31.12.2015
Deposits	438 960	371 303
Individuals	344 397	240 300
Fixed-Term Deposits	319 135	215 603
Current Accounts	25 262	24 697
Legal Entities	94 563	131 003
Fixed-Term Deposits	42 941	33 803
Current Accounts	51 622	97 200
Subordinated fixed- term debt	-	2 618
Resources of State Fund "Agriculture"	924	1 706
Other borrowed funds from banks	-	7 871
Total	**439 884**	**383 498**

As of 31.12.2016 TBI Bank JSC, Bulgaria deposit base (excluding current accounts) totals 265 702 thousand BGN consisting of 11 281 deposits.

Breakdown by currency in TBGN

Currency code	Currency	Exposure 31.12.2016	Number of deposits
100	BGN	164 577	7 713
840	USD	75	13
978	EUR	101 050	3 555
Total		**265 702**	**11 281**

Breakdown by domicile in TBGN

Residence	Exposure 31.12.2016	Number of deposits
Residents	241 441	10 714
Nonresidents	24 261	567
Total	**265 702**	**11 281**

Distribution based on the deposit term in TBGN

Term in months	Exposure as of 31.12.2016	Number of deposits	Share
up to 1 month	26 099	1 094	10%
3 months	37 144	1 693	14%
6 months	62 274	2 891	23%
12 months	114 535	4 592	43%
2 years	23 234	916	9%
more than 2 years	2 415	95	1%
Total	**265 702**	**11 281**	**100%**

The Bank has a simple deposit structure, offering one or two products to both individuals and legal entities. Interest rates applicable to deposits in the banking industry are monitored on a monthly basis, and when necessary, the responsible administrators notify the Bank's managers and propose updates.

As of 31.12.2016 TBI Bank JSC, Romania deposit base totals 90,992 thousand BGN consisting of 3 406 deposits (36% of total deposits).

D. Market risk and the related currency risk

Market risk is defined as the risk of unexpected and adverse changes in the fair value of, or the future cash flows from a financial asset, caused by market prices' fluctuations. Market risk arises from opened interest rate, currency and capital positions, affected by general and specific movements of market rates and prices, such as interest rates, credit scope, exchange rates and securities' prices. The market risk components include currency risk, risk of change in the fair value of financial instruments due to variations in interest rates, risk of having altered cash flows due to changes in market interest rates, and price risk.

Currency risk is the risk of loss, resulting from changes in exchange rates. The level of currency risk depends on the amount of positions opened in the Forex market, the stability of the exchange rate, and the market liquidity for the particular currency.

The purpose of currency risk management is to limit the Bank's losses emerging from this risk to a level that's acceptable to TBI Bank JSC.

Organization, competencies and responsibilities for the measuring/monitoring and managing of the currency risk.

Currency risk management in TBI Bank JSC is subject to the internal policy for the management of currency risk, drafted and updated by the Enterprise Risk Management Department and the Financial Markets and Liquidity Department. The policy includes the following:

- Definition of currency exchange (FX position);
- Methods employed in the measurement of currency risks; establishment of limits;
- Supervisory tools;
- Authorizations and responsibilities;
- Reporting;
- Organizational separation of currency risk monitoring and management;
- Constant checking whether the limits have been reached, and reporting any excess to the competent persons and the Bank' Assets and Liabilities Management Committee;
- Reporting exposures to the Bank' Assets and Liabilities Management Committee;
- Overseeing the correct and understandable data collection and subsequent checking of larger changes in positions;
- Stress scenarios.

By using a standard approach, the Bank calculates the required regulatory capital for currency risk in accordance with Regulation 575/13 of the European Parliament and Council.

Bank's exposure in terms of derivative instruments/contracts is monitored as part of the general management of market risk.

Upon their emergence, derivative instruments/contracts often include only a mutual promise for an exchange effected upon the small or no payment at all of remuneration. Nevertheless, these instruments frequently lead to high levels of indebtedness, and they are also quite variable. A relatively small change in the value of assets, levels of interest rates and other indexes, which the derivative contracts are based on, could have a considerable effect on the Bank's profit and loss, and therefore, these instruments are subject to continuous monitoring and management on the part of the Bank's operational units.

In order to hedge exchange rates' fluctuations, the Bank uses currency swaps. The swap is a contractual relationship between two parties for the exchange of payments at fixed periods of time, based on certain nominal values that are related to an agreed corresponding index, such as interest rate, exchange rate or capital index. In FX swaps the Bank pays a particular amount in one currency, and receives a specified amount in another currency.

B Next table summarizes the extent of Bank's group exposure to currency risk as of 31st of December 2016. Assets and liabilities are shown at their balance sheet value, and are classified by currency.

As of 31st of December, 2016 in BGN	BGN	EUR	RON	Other currencies	Total
Assets					
Cash in hand and cash in accounts opened in centi	39 454	19 836	6 686	426	66 402
Funds provided to other banks	2	104 258	1 833	1 248	107 341
Financial assets held for trading	-	1 019	-	-	1 019
Loans extended to customers	175 336	55 152	149 441	-	379 929
Financial assets available for sale	69	9 686	1 009	-	10 764
Investments held to maturity	-	8 081	-	-	8 081
Current tax assets	-	-	254	-	254
Property, plant and equipment	4 593	-	8 149	-	12 742
Intangible assets	1 105	-	524	-	1 629
Other assets	25 245	666	8 711	956	35 578
Total assets	**245 804**	**198 698**	**176 607**	**2 630**	**623 739**
Liabilities	0	0	0	0	0
Derivatives	-	8	23	-	31
Funds borrowed from customers	188 190	176 694	71 813	2 263	438 960
Borrowed funds from other banks	-	5 879	-	-	5 879
Other borrowed funds	924	-	-	-	924
Deferred tax liabilities	-	-	128	-	128
Non-current liabilities held for sale	3 406	5 867	-	-	9 273
Other liabilities	11 649	65	10 808	-	22 522
Total liabilities	**204 169**	**188 513**	**82 772**	**2 263**	**477 717**
Net balance position	41 635	10 185	93 835	367	146 022
Conditional liabilities and irrevocable commitments	12 557	416	4 205	-	17 178

Counterparty credit risk arises in transactions with derivative instruments, repo transactions, lending / borrowing securities or commodities, long settlement transactions. In order to limit the CCR Bank uses a system of limits.

Counterparty risk management includes:

1. assessing the level of a potential counterparty risk, ie the potential risk of creating exposure to banks and non-bank financial institutions formed by unsecured claims;

2. determining the amount of acceptable exposure to each bank and non-bank financial institution counterparty formed by unsecured debts by setting specific limits;
3. supervising the counterparty risk to banks and non-bank financial institutions.

The Bank applies the method of determining the market value of equity to be allocated for CCR.

The Bank has adopted internal limits for counterparty risk as a part of concentration risk for money market deals, forex deals and derivatives deals. Limits are defined after deep analysis of the counterparty position on the market considering issued rating by acceptable rating agency and comparing main financial results at least for 2 years period of time. The Bank analyzing deviations in main financial results, observing the development of the institutions and the capability to face its commitments.

Financial institution - bank name	Country credit rating (S&P)		Major ownership	World rank	Banks equity (in milions)			Total assets (in milions)					Financial result (in milions)			Credit rating					
					31.12.2015	31.12.2014	Δ	31.12.2015	Loans	31.12.2014	Loans	Δ	31.12.2015	31.12.2014	Δ	Fitch		Moody`s		S&P	
																Long-	Short-	Long-	Short-	Long-	Short-
BNP Paribas SA	AA	Stable	Société Fédérale de Participations et	5	114 195 EUR	104 886 EUR	8.9%	1 994 193 EUR	806 572 EUR	2 077 759 EUR	816 812 EUR	-4%	7 044 EUR	507 EUR	1289%	A+	F1	A1	P-1	A	A-1
UniCredit SpA	BBB-	Stable	Capital Research and Management	27	68 663 EUR	68 289 EUR	0.5%	860 433 EUR	312 599 EUR	844 217 EUR	468 984 EUR	2%	2 046 EUR	2 388 EUR	-14%	BBB+	F2	Baa1	P-2	BBB-	A-3
ING Bank NV	AAA	Stable	ING Groep NV, AmsterdamNetherlands,	28	57 363 EUR	55 388 EUR	3.6%	838 528 EUR	301 507 EUR	828 602 EUR	568 126 EUR	1%	4 731 EUR	2 823 EUR	68%	A+	F1	A1	P-1	A	A-1
Turkiye Cumhuriyeti Ziraat Bankasi AS	BB+	Stable	Government of the Republic of TurkeyTurkey,	200	8 843 EUR	7 851 EUR	12.6%	97 466 EUR	60 467 EUR	79 478 EUR	45 708 EUR	23%	1 693 EUR	1 295 EUR	31%	BBB-	F3	Ba2	NP		
CitiBank Europe PLC	A+	Stable	Citibank Holdings Ireland Limited,	594	7 459 EUR	7 031 EUR	6.1%	24 370 EUR	7 562 EUR	23 502 EUR	9 877 EUR	4%	571 EUR	590 EUR	-3%	A	F1	A1	P-1	A	A-1
Nova Ljubljanska Banka d.d.	A	Positive	State of the Republic of SloveniaSlovenia,	973	1 358 EUR	1 360 EUR	-0.1%	11 822 EUR	6 218 EUR	11 909 EUR	6 351 EUR	-1%	95 EUR	65 EUR	47%	BB-	B	Ba3	NP	BB-	B
UniCredit Bulbank JSC	BB+	Stable	National Bank of Greece SA, 99.9%	1094	1 365 EUR	1 239 EUR	10.2%	9 652 EUR	4 450 EUR	8 173 EUR	5 679 EUR	18%	174 EUR	145 EUR	20%	BBB	F2			BB+	B
DSK Bank PLC	BB+	Stable	OTP Bank Nyrt, BudapestHungary, 100%	1422	818 EUR	791 EUR	3.4%	5 759 EUR	2 033 EUR	5 166 EUR	1 990 EUR	11%	166 EUR	125 EUR	33%						
First Investment Bank AD	BB+	Stable	Mr. Ivailo Mutafchiev, 42.5%; Mr. Tzeko	1608	405 EUR	422 EUR	-4.0%	4 543 EUR	2 346 EUR	4 516 EUR	2 963 EUR	1%	9 EUR	16 EUR	-42%	B-	B				
Raiffeisen Bank International AG	AA+	Stable	Raiffeisen International Beteiligungs	166	11 734 EUR	11 472 EUR	2.3%	114 427 EUR	46 124 EUR	121 500 EUR	87 480 EUR	-6%	435 EUR	-587 EUR	-174%	WD	WD	Baa2	P-2	BBB	A-2
Raiffeisenbank Bulgaria EAD	BB+	Stable	Raiffeisen SEE Region Holding GmbH,	1913	657 EUR	656 EUR	0.1%	3 305 EUR	1 404 EUR	3 061 EUR	2 073 EUR	8%	32 EUR	24 EUR	33%	BBB-	F3	Ba3	NP		
EuroBank Bulgaria AD	BB+	Stable	Eurobank Ergasias SA, AthensGreece,	2034	518 EUR	468 EUR	10.6%	2 941 EUR	1 340 EUR	1 605 EUR	1 961 EUR	83%	43 EUR	0 EUR	12322%						
Central Cooperative Bank Plc	BB+	Stable	CCB Group EAD, SofiaBulgaria, 68.56%,	2252	194 EUR	184 EUR	5.4%	2 374 EUR	1 043 EUR	2 034 EUR	884 EUR	17%	3 EUR	4 EUR	-8%						
Societe Generale Expressbank AD	BB+	Stable	Sociéte Générale, Paris La DéfenseFrance,	2036	326 EUR	301 EUR	8.3%	2 936 EUR	1 705 EUR	2 499 EUR	1 751 EUR	17%	38 EUR	28 EUR	37%	BBB+	F2				
Piraeus Bank Bulgaria AD	BB+	Stable	Piraeus Bank SA, AthensGreece, 99.98%	2806	251 EUR	339 EUR	-25.9%	1 479 EUR	736 EUR	1 690 EUR	1 116 EUR	-12%	-92 EUR	-22 EUR	310%						
CiBank JSC	BB+	Stable	KBC Bank NV, BrusselsBelgium, 100%	2894	148 EUR	131 EUR	12.9%	1 371 EUR	573 EUR	1 255 EUR	679 EUR	9%	13 EUR	10 EUR	22%						
Allianz Bank Bulgaria AD	BB+	Stable	Allianz Bulgaria Holding AD, 99.891%	307	100 EUR	102 EUR	-2.1%	1 186 EUR	412 EUR	1 072 EUR	581 EUR	11%	5 EUR	11 EUR	-54%	BBB+	F2				
Isbank AG	AAA	Stable	TÜRKiYE iS BANKASIAS, IstanbulTurkey,	3042	133 EUR	132 EUR	0.9%	1 206 EUR	698 EUR	1 018 EUR	917 EUR	19%	1 EUR	2 EUR	-29%						
ProCredit Bank Bulgaria EAD	BB+	Stable	ProCredit Holding AG & Co. KGaA, Frankfurt	3604	104 EUR	94 EUR	10.3%	786 EUR	580 EUR	734 EUR	475 EUR	7%	15 EUR	12 EUR	22%	BBB-	F3				
Municipal Bank PLC	BB+	Stable	Government of the Municipality of Sofia,	391	57 EUR	51 EUR	13.2%	617 EUR	159 EUR	640 EUR	159 EUR	-4%	3 EUR	3 EUR	16%			B1	NP		
International Asset Bank AD	BB+	Stable	Dinatreid Internacional LtdBulgaria, 32.996%,	3919	54 EUR	59 EUR	-8.8%	613 EUR	259 EUR	567 EUR	255 EUR	8%	2 EUR	2 EUR	21%						
Bulgarian-American Credit Bank AD	BB+	Stable	CSIF AD, SofiaBulgaria, 61.43%, LTBI	4124	84 EUR	81 EUR	3.9%	519 EUR	242 EUR	213 EUR	112 EUR	144%	0 EUR	-2 EUR	-117%						
United Bulgarian Bank AD	BB+	Stable	National Bank of Greece SA, AthensGreece,	1897	681 EUR	677 EUR	0.5%	3 349 EUR	1 688 EUR	3 363 EUR	2 122 EUR	0%	26 EUR	39 EUR	-34%	B+	B			B-	C
D Commerce Bank AD	BB+	Stable	Fortera Ltd, 33%	4619	47 EUR	47 EUR	0.1%	344 EUR	148 EUR	364 EUR	152 EUR	-6%	0 EUR	0 EUR	19%						
Commercial Bank Victoria EAD	BB+	Stable		5676	22 EUR	26 EUR	-14.8%	87 EUR	26 EUR	100 EUR	54 EUR	-13%	-5 EUR	-8 EUR	-41%						
Texim Bank AD	BB+	Stable	4,000 shareholders	5466	18 EUR	18 EUR	-1.6%	125 EUR	34 EUR	75 EUR	35 EUR	67%	0 EUR	0 EUR	-29%						
Bulgarian Development Bank AD	BB+	Stable	Ministry of Finance of Bulgaria,	3551	362 EUR	345 EUR	5.2%	826 EUR	324 EUR	980 EUR	319 EUR	-16%	19 EUR	3 EUR	527%						
Bulgarian National Bank	BB+	Stable	State of the Republic of BulgariaBulgaria,		0 EUR	0 EUR	0.0%	0 EUR	0 EUR	0 EUR	0 EUR	0%	0 EUR	0 EUR	0%						
National Bank of Romania	BBB-	Stable	State of RomaniaRomania, 100%		0 EUR	0 EUR	0.0%	0 EUR	0 EUR	0 EUR	0 EUR	0%	0 EUR	0 EUR	0%						
Banca Transilvania SA	BB	Stable	Romanian Individuals, 17.11%; Romanian	1048	1 468 EUR	925 EUR	58.8%	10 504 EUR	5 459 EUR	7 902 EUR	3 855 EUR	33%	540 EUR	97 EUR	455%						
CARPATICA BANK - Banca Comerciala Carpatica SA	BBB-	Stable	PATRIA BANK SA, VoluntariRomania,	3758	25 EUR	50 EUR	-49.2%	692 EUR	175 EUR	733 EUR	230 EUR	-6%	-17 EUR	-37 EUR	-55%						
Raiffeisenbank Romania EAD	BBB-	Stable	Raiffeisen SEE Region Holding GmbH,	1306	919 EUR	939 EUR	-2.2%	6 951 EUR	3 097 EUR	6 356 EUR	2 800 EUR	9%	94 EUR	113 EUR	-17%			Ba1	NP		
Libra Internet Bank SA	BBB-	Stable	Broadhurst Investment LtdCyprus, 69.969%	4374	No Data	43 EUR	-100.0%	372 EUR	233 EUR	265 EUR	173 EUR	40%	-1 EUR	2 EUR	-149%						
Marfin Bank Romania SA	BBB-	Stable	Cyprus Popular Bank Public Co Ltd,		62 EUR	63 EUR	-1.2%	484 EUR	151 EUR	509 EUR	195 EUR	-5%	-2 EUR	-48 EUR	-95%						
Credit Europe Bank Romania SA	BBB-	Stable	Credit Europe Bank NV,	3297	144 EUR	135 EUR	6.6%	996 EUR	538 EUR	990 EUR	474 EUR	1%	10 EUR	-33 EUR	-130%						
UniCredit Tiriac Bank SA	BBB-	Stable	Romanian Individuals, 1.58%; Romanian	1243	787 EUR	745 EUR	5.6%	7 632 EUR	2 992 EUR	7 145 EUR	2 818 EUR	7%	59 EUR	32 EUR	87%	BBB	F2				
Bank Leumi Romania SA	BBB-	Stable	99.9%	4871	33 EUR	39 EUR	-14.3%	270 EUR	165 EUR	272 EUR	176 EUR	-1%	-5 EUR	-12 EUR	-53%						

Internal limits are as follows:

- On an individual level - the total of all types of transactions plus any amounts on correspondent accounts cannot exceed 25% of the capital base of the Bank.
- On a group level - the total of all types of transactions plus any amounts on correspondent accounts with any banking group in Europe, Bulgaria or Romania cannot exceed 50% of the capital base of the Bank.
- The maximum duration of transactions is limited to one month and to large, stable Banks to 3 months
- Significant transactions with counterparties must be concluded with the sanction of at least one executive director.

E. Interest risk

Interest rate risk is the potential loss from adverse changes in the fair value of interest rate sensitive positions, following a change in market interest rates. Interest rate risk arises where there is exposure to interest sensitive instruments. Interest rate risk exists also in the presence of imbalance between the maturity structure of interest sensitive assets and liabilities. The Bank carries out its activities related to the management of interest rate risk in accordance with national and international legislation.

The Bank is exposed to interest rate risk due to changes/volatility of market interest rates for all of the financial instruments that are directly affected by interest rate changes. Changes in interest rates can have a significant impact on the net interest income (interest margin) and/or the non-interest income (reflecting the assessment of the debt financial instruments) of the Bank.

The policy applied to price (interest rate) risk is the one that balances between assets and liabilities with fixed and variable interest rate. The Bank's practice is to determine a minimum interest rate threshold for assets with floating interest rate, which mitigate the interest rate risk.

The Bank takes risks associated with the effect of changing market interest rate levels both in terms of its financial assets and cash flows. As a result of these changes, interest rate margins could increase, but they could also decrease and lead to losses in the event of unexpected downturns.

The policy on interest rate management consists of:

- Procedures for the measurement and management of interest rate risk;
- Internal inspections;
- Organization and monitoring;
- Authorities and duties;
- Control mechanisms, evaluations of system's efficiency, and, where necessary, securing the performance of appropriate audits, or making more frequent internal inspections, which means that the employees would have to follow established practices and procedures.

These reviews and assessments are also applicable to any existing change that could impact the effectiveness of inspections, such as a change in market conditions, personnel, technology and the units, which make sure the limits imposed on interest rate risk exposure are complied with. They also guarantee that the managers will be supervised so that they will not to exceed any limits. An efficient system for the internal control of interest rate risk includes also:

- Control of the accuracy and completeness of data required for the monitoring of exposure (comparison between current data and data from previous periods, as well as other logical and thorough inspections);
- Other scenarios

F. Operational risk

Operational risk is the risk of loss, resulting from inadequate or unsuccessful internal processes, people or systems, or the impact of external factors. This definition includes also legal risk, although it does not contain strategic risk or reputational risk. TBI Bank JSC fully adopts principals related to Operational risk management in accordance with Regulation 575/2013 and Directive 2006/48/EC (CRD) namely a clear organisational structure with well defined transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and adequate internal control mechanisms, including sound administrative and accounting procedures. People, processes, systems and external factors are drivers of operational risks. Management efforts and actions aimed at preventing or mitigating operational risks.

TBI Bank JSC internal policy on the management of operational risk is the basic document that regulates how this type of risk should be handled. Operational risk management is an important part of the Bank's activity, as it allows for its long-term existence and the maintenance of good reputation.

During 2016 the Bank continues the process for evaluation and upgrating internal system for Operational risk management. In order to secure a quality execution of identification, assessment and reduction of operational risks, TBI Bank JSC has been applied the following methods:

- Conducting of training of the administrators involved in the management of operational risk in their respective units (heads of departments) – mandatory and uniform qualification program;
- Compliance with the main requirements of operational risk management (awareness of the processes in the each departments);
- Participation of each head of department in identifying and assessing the operational risk;
- Preparation of comparative analysis based on previous losses(historical data base);
- Taking into account internal audit's findings and recommendations;
- Preparation of regular reports related to operational risk management and providing to SB, MB and Risk Committee;
- Auditing the process of operational risk management as part of regular audit inspections;
- Daily monitoring, identification, evaluation and reduction of operational risk;
- An in-house electronic platform for reporting occured operational events.

The Management Board bears responsibility for the adequacy of the policy applicable to operational risk, the formal confirmation and regular monitoring of all key elements of the operational risk management framework, as well as for the establishment of suitable organizational structure that would allow for the efficient management of operational risk.

As a part of risk mitigation techniques and according to article 323 of Reglament (EU) 575/2013 TBI Bank JSC has an active insurance policy, valid until 9 March 2018, which covers typical risks of systematic and human errors and actions, involuntary actions of all employees; hardware, software and communication problems; problems in data transmission; malicious external acts; property insurance, etc..

For the purpose of capital reporting, the Bank is applying the Basic Indicator Approach (the own funds requirement for operational risk is equal to 15% of the average over the last three years audited net revenue) for calculating minimum required capital for regulatory purposes under Pillar I.

in `000 BGN

Net revenue 2013	Net revenue 2014	Net revenue 2015	Capital requirements	Total amount of exposure to operational risk (x12.5)
34 785	44 816	87 072	8 334	104 175

G. Reputational risk

Reputational risk is defined as the current or probable risk to earnings and capital, emerging from clients, counterparties, shareholders, investors and regulators having a negative view on the Bank's image. This risk could appear in the form of legal disputes, reduction in the number of clients, and financial losses.

The main objective here is to preserve the confidence of customers and local and foreign business partners of the Bank, through the creation of relationships based on trust, safety and mutual respect. Therefore, customer focus is a fundamental value for the Bank's employees.

Organization, competencies and responsibilities for measurement/monitoring and management

Reputational risk is treated as the result of the implementation of another type of risk management, and namely – the operational risk.

Reputational risk plays an Important role in the avoidance of deliberate or unintentional breach of banking operations' applicable law, standards, codes, and internal rules. There are plenty of regulations related to this, especially the ones for the protection of confidential information and personal data, prevention of internal information abuse, money laundering, financing of illegal activities, etc.

One of the main activities having a direct impact on the reputation of the Bank is the presentation of the organization to the outside world, which is direct responsibility of the institution's Management Board and employees.

Capital requirements for reputational risk are not calculated.

H. Strategic risk

This is the risk of loss, resulting from wrong strategic decisions, inappropriate introduction of approved resolutions, and inadequate response to changes in the business environment. The risk is dependent on the alignment between the Bank's strategic goals and the business strategy for their achievement, deployed assets and quality of implementation.

TBI Bank JSC is familiar with the exposure to strategic risk, and takes it into account when preparing its strategy, by following a conservative approach, in which the strategic risk is a key component of long-term business success.

The realization process of the Bank's strategy is implemented by the Bank's Management Board and confirmed by the Supervisory Board.

The preparation of a long-term strategy is focused in advance on the Bank's competitive advantages, such as comprehensive and first class offers for customers and high level of employees' expertise.

The Bank regularly monitors the transactions and the achievement of planned objectives. If necessary, it undertakes measures for the elimination of any changes. Part of this process is the tracking of market fluctuations and regulatory conditions.

In budget planning, strategic risk is assessed at least once a year, whereby the Bank's management:

- issues guidelines for the plan/budget;
- adopts the plan/budget;
- ensures the plan is implemented, and reports to the Supervisory Board ;
- proposes measures, if necessary;

According to the applicable law, the strategic risk is not included in the calculation of required regulatory capital.

The risk of loss contains in itself strategic and reputational risks.

The profit risk is defined as the cancellation, incorrect preparation or loss of income, or the Bank's inability to guarantee an efficient and constant level of profitability. The Bank's profit is an important source of growth, and it is part of its equity base. Profit is also the first barrier against risks, as it is used to cover unforeseen events, before resorting to the capital. Loss, on the other hand, could threaten liquidity and affect public trust.

TBI Bank JSC is aware of the profit risk, and it actively works to minimize it. The continuing increase of added value to the invested capital is one of the key components of market economy, and the Bank, operating in market conditions, should do the following in terms of managing the profit risk:

- Establishment of an investment structure, which will enable the Bank to maintain firm and sufficient profitability;

- Fulfillment of shareholders' expectations related to present or future returns on invested assets.

The main tool used by TBI Bank JSC for the active management of the risk on profit is its strategic orientation in the creation of specific banking products. For this purpose, the Bank has established two committees for the approval of banking products – one for retail financing and one for corporate financing – consisting of Bank's experts, who discuss, analyze, review, and offer to the managers every product of the organization.

Over the last few years, TBI Bank JSC has also been handling the risk on profit through active cost management. The fundamental factor behind the Bank's business results in the last couple of years is the high level of impairment expenses and provisions under the loan portfolio, as well as the expenditures made on staff and offices as a result of the Bank's growing network in the country. With the so established structure of the Bank's portfolios and activity, profit is expected to grow throughout all the periods until the end of the year and during the next year, too.

I. Compliance risk

Compliance Department organizes the activities of the Bank in accordance national, European and international law to which Bulgaria is a party, in the following areas:

- Establishment of internal rules and procedures;
- Prevention of money laundering and financing of terrorism;
- Ethics and fraud
- Customers complaints

It provides Bank's management and structural units in the Head Office and branch network with current information and advice in dealing with customers.

Compliance Department performs the functions of a specialized service for control and prevention of money laundering and financing of terrorism, "TBI Bank" JSC and works in partnership with all business units and offices of the bank.
It monitors the adequacy of the internal regulatory framework in terms of completeness, timeliness, relevancy and knowledge and make recommendations for relevant amendments after legislative changes.

The Management Board of the Bank considers that the mechanisms and systems of risk management are adequate in terms of risk profile and strategy of the Bank.

V. CAPITAL MANAGEMENT AND CAPITAL ADEQUACY

The objective of risk management in the Bank is to provide an optimum volume, structure and sources of capital, so as to ensure:

- adherence to the capital requirements set by the regulatory authorities of the banking market in which the Bank operates;
- Bank's ability to continue its activity as an existing enterprise that provides its shareholders with a return on their investments;
- maintenance of a stable equity base, serving as a base for the Bank's development

The regulatory authority requires each bank or group of banks to keep a minimum level of owner's equity, amounting to 10 000 thousand BGN, and a ratio of 13.5 % between the total amount of the regulatory capital and the risk-adjusted assets. Next, there is an 8 % requirement for capital adequacy, 2,5 % for protective capital buffer, and 3 % for the system risk buffer introduced in 2014.

According to the provisions of Regulation № 575 dd. 26.06.2013 of the European Parliament and Council, the Bank's owner's equity is divided into 2 tiers:

(a) Tier 1 Capital, consisting of the following elements:

- paid-in and registered capital, except for preference shares;
- Reserve Fund;
- other general reserves set aside from net profit;
- undistributed profit from previous years;
- current year profit, net of taxes, expected dividend payments, and other deductions.

(b) Tier 2 Capital, consisting of the following elements:

- revaluation of real estate occupied by the Bank;
- amounts raised by the Bank through permanent debt-equity (hybrid) securities and other financial instruments, as well as through perpetual preferred shares with cumulative dividend, provided that such instruments meet the specific requirements of the regulator.
- amounts borrowed as subordinated debt and fixed-term preferred shares with cumulative and long-term debt capital (hybrid) instruments, provided that such instruments meet the specific requirements of the regulator.

In the last five years, the amount of instruments raised as subordinated debt is included until maturity in Tier 2 Capital, with a reduction of 20 per cent annually. Following maturity, these instruments are completely excluded from the calculation of owner's equity (capital base). The subordinated debt was repaid ahead of schedule. As of 01.01.2016, the requirements for subordinated debt have been brought in line with European legislation - Regulation № 575/13 of the European Parliament and Council.

Consolidated statement of changes in owner's equity:

Movement of capital	Subscribed capital	Reserves	Other reserve	Reserve for currency exchage	Accumulated loss/profit	Attributable to owners of parent company	Non-controlling interest	Total equity
As of 1st of January 2016	**78 600**	**4 349**	**(42)**	**(49)**	**28 008**	**110 866**	**(12)**	**110 854**
Reclassification of non-controlling interest	-	-	-	-	-	-	12	12
Other	-	-	-	-	(386)	(386)	-	(386)
Capital increase	3 000	-	-	-	-	3 000	-	3 000
Transfers of reserves	-	2 838	-	-	(2 838)	-	-	-
Other comprehensive income for the year	-	-	141	(142)	-	(1)	-	(1)
Annual profit	-	-	-	-	32 543	32 543	-	32 543
Total comprehensive income for the year	-	-	141	(142)	32 543	32 542	-	32 542
As of 31st of December, 2016	**81 600**	**7 187**	**99**	**(191)**	**57 327**	**146 022**	**-**	**146 022**

Movement of capital	Subscribed capital	Reserves	Other reserve	Reserve for currency exchage	Accumulated loss/profit	Attributable to owners of parent company	Non-controlling interest	Total equity
As of 1st of January 2015	**70 400**	**2 596**	**12**	**4**	**(2 757)**	**70 255**	**-**	**70 255**
Capital increase	8 200	-	-	-	-	8 200	-	8 200
Transfers of reserves	-	1 753	-	-	(1 753)	-	-	-
Other comprehensive income for the year	-	-	(54)	(53)	-	(107)	(12)	(119)
Annual profit	-	-	-	-	32 518	32 518	(12)	32 506
Total comprehensive income for the year	-	-	(54)	(53)	32 518	32 411	(12)	32 399
As of 31st of December, 2015	**78 600**	**4 349**	**(42)**	**(49)**	**28 008**	**110 866**	**(12)**	**110 854**

The following is not included in the Bank's owner's equity:

- reserves from the hedging of cash flows under positions previously evaluated at depreciated cost, and hedging of cash flows related to forecasted transactions;
- profits and losses from liabilities appraised at fair value, resulting from changes in the assessment of Bank's credit quality;
- unrealized profit from investment property and financial instruments available for sale.

Owner's equity is reduced by:

- the balance value of investments in stocks or in another form of shareholding, when these investments represent more than 10 % of the paid-in capital of a bank or a credit institution, as per the Credit Institutions Act, as well as investments made in long-term debt (hybrid) instruments and subordinated fixed-term debt in institutions, in which the Bank holds more than 10 % of the paid-in capital – applicable for each separate case and when these investments are not consolidated in the Bank's balance sheet;

- the balance value of investments in stocks or in another form of shareholding, in long-term debt-capital (hybrid) instruments and subordinated fixed-term debt in another bank or financial institution according to the Credit Institutions Act, in case their total amount exceeds 10 per cent of the Bank's owner's equity prior to the reductions;

- the balance value of investments in stocks or in another form of direct or indirect shareholding, when these investment represent 20 or more than 20 per cent of the paid-up capital of insurance and reinsurance companies and insurance holdings;

- the balance value of all the investments made in stocks or in another form of shareholding, when these investment represent 10 or more than 10 per cent of the paid-up capital of unconsolidated enterprises other than the ones referred herein above.

The amounts under the aforementioned items are deducted in a proportion of 50 % Tier 1 Capital and 50 % Tier 2 Capital. Where the respective reduction exceeds the Tier 2 Capital, the excess is deducted from the Tier 1 Capital.

According to the requirements of the European legislation adopted by Bulgaria, owner's equity is generated as the sum of Tier 1 Capital and Tier 2 Capital.

According to the law, the processes, activities and authorities related to capital monitoring and management in the Bank are described in detail in the rules applicable to capital management in TBI Bank JSC.

Capital adequacy is one of the supervision tools used by the regulatory authorities in order to limit the risk in banking transactions, thus protecting depositors' interests. At any given time, the Bank is obliged to have available a sufficient volume of capital, matching the size and risk of its operations.

CAPITAL ADEQUACY RATIOS AND CAPITAL AMOUNTS – 31.12.2016	
Item	Amount/%
Core Tier 1 owner's equity ratio	22.38%
Surplus(+)/Deficit (-) of core Tier 1 owner's equity	89 308
Tier 1 Capital ratio	22.38%
Surplus(+)/Deficit (-) of Tier 1 Capital ratio	81 817
Total capital adequacy ratio	**22.38%**
Surplus(+)/Deficit (-) of total capital	71 828

1. Capital management and capital adequacy

The basic criterion for establishing whether the amount of the Bank's or Bank Group's capital is sufficient is the capital adequacy ratio (the ratio between risk-adjusted assets and capital). The Bank determines the ample amount of capital for assumed risks based on two approaches:

Regulatory approach – this is a methodology for the measurement of risk, i.e. calculation of capital adequacy is prescribed by the regulator. The regulator also suggests a method for the determination of appropriate liquid capital covering these losses. The minimum prescribed ratio for banks and bank groups, as per EC Directive and Regulation № 575/2013 of the European Parliament and Council dd. 26th of June, 2013 concerning the prudential requirements for credit institutions and investment brokers, along with its supplementing capital buffers prescribed by the Bulgarian National Bank, is 13.5 %, based on 8 % requirement for capital adequacy, 2,5 % protective capital buffer, and the newly introduced system risk buffer of 3 %. The responsibility for meeting the requirements imposed by local legislation and regulators lays with the Bank's management.

Internal and business approach – this is a methodology for the identification and measurement of risks and the calculation of capital requirements, prepared by the Bank according to its perception about what would best suit the needs of management. The Bank itself sets the appropriate and required level of capital to cover these risks. For this purpose, TBI Bank JSC has established an internal (target) capital adequacy ratio of 18% before Pillar II adjustments.

2. Process of capital management in the Bank

The Enterprise Risk Department, the Accounting Department, and the Budgeting and Information Systems Management Department (in view of the secondary inspection of the various units) prepare on a regular basis statements, analysis and stress tests needed for the calculation of Bank's capital adequacy, which are reported to management and the Bank's responsible committees and commissions, such as the Assets and Liabilities Committee.

The activities associated with the management of capital needs include also quarterly short-terms forecasts and stress tests on the Bank's capital adequacy ratio.

If additional capital is needed, and where the Bank is required to fulfill the regulatory and internal restrictions, the Enterprise Risk Department would immediately come up with a proposal to the Bank's Management Board, which would then take necessary measures so as to secure banking assets that satisfy these requirements.

All the estimates on the Bank's capital and capital adequacy should be prepared in compliance with applicable legislation, on the respective day and within the respective period, for which these estimates were drafted, as well as in accordance with the chosen approach for the calculation of forecasts.

The Bank regularly reports (on monthly and three month basis) to the Supervisory Board on the observance of the requirements imposed by Bulgarian regulators. Where the values of the limits defined by the internal policy (target capital adequacy ratio and target values of other relevant items) are not reached, the mid-term forecast on capital (and capital adequacy) and the proposed measures for the attainment of internal target values should be submitted to the Supervisory Board.

Risk–adjusted assets are measured by means of five classifications of risk weights, which depend on their character and reflect the evaluation of credit, market and other related risks – every asset and counterparty, taking into account each collateral or guarantee that meets the conditions. Similar treatment is applied also to the off-balance positions, except for some differences in the provision of bigger conditionality of potential losses.

Structured in the next table are the Bank's owner's equity and indexes as of 31st of December of the respective reporting years. During these three years, the Bank has complied with all external and internal capital requirements.

Year ('000 BGN)	2012	2013	2014	2015	2016
Tier 1 Capital:					
Share capital	54 400	70 400	70 400	78 600	81 600
Reserves	(20 233)	(22 006)	-	(161)	25 169
Deductions:	-	-	-	-	-
Loss for the respective period	(1 773)	(-)	-	-	-
Intangible assets	(945)	(1 429)	-	(1 808)	(1 650)
Reputation	-	(1 696)	-	(435)	(435)
Other reserves					
Other adjustments					
Reductions:	(15 026)	(16 530)	-	(2 243)	5 013
Total Tier 1 Capital	**16 423**	**30 435**	**52 438**	**76 196**	**111 782**
Tier 2 Capital:	-	-	-	-	-
Subordinated fixed-term debt	2 816	1 526	-	535	-
Reductions:	(2 816)	(1 526)	-	-	-
Total Tier 2 Capital	**-**	**-**	**-**	**535**	**-**
Risk-weighted assets:	-	-	-	-	-
Balance sheet items	91 464	206 591	256 225	531 761	620 432
Off-balance sheet items	252	544	237	2 927	950
Total risk-weighted assets	91 716	207 135	256 462	291 824	361 160
Capital requirements for operational risk	1 234	1 012	29 609	83 139	104 175
Capital requirements for currency risk	-	73	3 698	18 875	34 088
Capital adequacy ratio	**15.33%**	**13.79%**	**18.06%**	**19.48%**	**22.38%**

As of 31.12.2016, the Bank meets the regulatory capital requirements in the following manner:

Capital requirements for credit risk, counterparty credit risk, dilution risk and settlement risk in free deliveries – risk weighted assets	2016
Central governments and central banks	-
Institutions	38 052
Companies	15 100
Retail exposures	221 085
Exposures secured by real estate	11 781
Overdue exposures (exposures in default)	27 615
Other positions	47 527
Total capital requirements for credit risk, counterparty credit risk, dilution risk and settlement risk in free deliveries	361 160
Total capital requirements for position, currency and commodity risk	34 088
Total capital requirements for operational risk	104 175
Total capital requirements	499 423
Surplus(+) / Deficit (-) of owner's capital	71 828
Total capital adequacy ratio (%)	22.38%
Tier 1 Capital adequacy ratio (%)	22.38%

3. Definition and use of stress tests for the ICAAP

Stress tests are a risk management technique employed in the assessment of the potential impact of a specific event or the changes in a number of financial parameters on the institution's financial state. The main assumptions in the stress tests include highly adverse, yet plausible events.

TBI Bank JSC uses mainly stress tests type "sensitivity analysis", which evaluate the impact on Bank's financial status in the case of changed risk factors. The stress testing process starts with an appraisal of possible weaknesses. The main areas the Bank is considerably exposed to overlap with the areas that are fully covered by the stress test framework. Thus are identified all the significant risks subject to stress tests. The establishment of major risks is performed through a comprehensive review of the nature and composition of the banking portfolio.

When determining the frequency of stress tests, one should take into account the nature of the risk factors covered by the stress test framework and their volatility. Stress tests are carried out as often as necessary, with the periodic stress test being conducted at least twice a year. In the event of substantial changes in the business environment or in the Bank's risk profile (market crash, deterioration of global economic conditions, problems in specific industries or of concrete persons), the Bank would update its stress tests, increase their frequency or would specify assumptions.

In principle, stress testing for credit risk is performed by the Enterprise Risk Management Department. Stress tests for liquidity and interest rate risks are prepared in the Bank every month, and they are reviewed at the regular meetings of the Assets and Liabilities Management Committee.

The results of the stress tests are reported to the Bank's management, which checks if the risks taken by the Bank conform to the preset risk appetite. The stress tests' reports provide the Bank's management with an overview of the major risks the Bank is or could be exposed to. The reports are focused on potential risks, and they also contain recommendations on the possible countermeasures or actions, if required. As a starting point of the decision making process, there might be necessary to mention the basic assumptions included in the reported scenarios, the comparison of the results with previous stress tests, as well as the current market conditions. If requested, the results from the stress tests and the assumptions are reported to Bulgarian National Bank.

The Bank's management is responsible for the taking of countermeasures and actions, where necessary. These measures and actions depend on specific circumstances, such as:

- review of established limits, especially when the stress tests' results have to be included in the limits set by the Bank (i.e. requirements for market risk and techniques for the reduction of credit risk);
- use of credit protection methods;
- decrease of exposure or activity in particular sectors, countries, regions or portfolios;
- review of capital adequacy;
- implementation of action plans in the event of contingencies;

Once a year the Bank evaluates the stress tests' adequacy in terms of changes that affect portfolio's characteristics or the business environment.

VI. LEVERAGE RATIO

In compliance with Article 451 of Regulation (EU) 575/2013, TBI Bank EAD disclose the information regarding the leverage ratio and the management of the risk of excessive leverage. The Basel III framework introduces the leverage ratio as a credible supplementary measure to the risk-based capital requirements which is defined as the Capital Measure divided by the Exposure Measure.

	On- and off-balance sheet exposures (SA exposures)	Nominal value
Total on- and off-balance sheet exposures belonging to the banking book (breakdown according to the effective risk weight):	662 900	
= 0%	93 305	
> 0 and ≤ 12%	0	
> 12 and ≤ 20%	83 431	
> 20 and ≤ 50%	94 787	
> 50 and ≤ 75%	281 530	
> 75 and ≤ 100%	73 763	
> 100 and ≤ 425%	12 472	
> 425 and ≤ 1250%	0	
Exposures in default	23 612	
Low risk off-balance sheet items and off-balance sheet items attracting a 0% conversion factor under the solvency ratio (memo item)		17 178

Exposure value	LR Exposure: Reporting date
Off-balance sheet items with 100% conversion factor in line with Art. 429, par. 10 of CRD IV	17 178
Other assets	622 111
Total exposure in view of LR - using a fully phased-in definition of Tier 1	639 289
Total exposure in view of LR - using a transitional definition of Tier 1	639 289
Capital	
Tier 1 - using a fully phased-in definition	111 782
Tier 1 - using a transitional definition	111 782
Leverage ratio	
Leverage Ratio - using a fully phased-in definition of Tier 1	17.5%
Leverage Ratio - using a transitional definition of Tier 1	17.5%

VII. REMUNERATION POLICY AND PRACTICE

TBI Bank JSC has adopted a conservative remuneration policy. Every year, along with the drafting of the annual plan and budget, or upon the occurrence of any changes in legislation, the Bank, through its Management announces the core principles of the remuneration policy practiced by it.

The basic salaries of the Bank's employees are the result of the performance of office tasks, assignments and responsibilities associated with the respective office and executed during normal working hours and normal working conditions. Remunerations are paid only in cash through bank transfer. The labor remuneration system in the Bank is time and bonus related.

The basic salary is a remuneration for the performance of certain office tasks and obligations, which are part of the respective office and conform to the corporate standards on the fulfillment of duties in a quantity, quality and on time manner.

Working salary funds for the respective period are used for the establishment and payment of:

- basic monthly salaries under labor contracts;
- additional and other type of remunerations (mainly for sales employees)

	31.01.2016	28.02.2016	31.03.2016	30.04.2016	31.05.2016	30.06.2016	31.07.2016	31.08.2016	30.09.2016	31.10.2016	30.11.2016	31.12.2016
Total in '000 BGN	814	815	883	906	902	974	969	964	1 001	996	1 191	1 956
% fixed remunerations	85%	79%	77%	75%	77%	72%	74%	73%	74%	72%	67%	44%
% variable remunerations	15%	21%	23%	25%	23%	28%	26%	27%	26%	28%	33%	56%

The annual working salary funds are included in the Bank's budget.

Monthly working salary funds are determined based on the actual number of employees and the amounts of the gross monthly salaries for the various offices.

VIII. DISCLOSURE UNDER ART. 70 OF THE LAW ON CREDIT INSTITUTIONS

	Bulgaria	Romania
Name	TBI Bank EAD, TBI Rent EAD	TBI Bank - Bucharest Branch, TBI Credit IFN S.A., TBI Leasing IFN S.A.
Activity	Credit institution, operational leasing provider	Credit institution, operational leasing and customer loans providers
Turnover in TBGN	74 475	45 684
Number of employees on permanent contract	799	675
Gross profit in TBGN	26 581	10 121
Corporate tax in TBGN	2 507	1 652
ROA	5%	7%

Vlentin Galabov
Executive Director

TBI Bank EAD
TBI Bank
Ти Би Ай Банк ЕАД

Alexander Dimitrov
Executive Director