



**TBI BANK EAD**

**ANNUAL SEPARATE FINANCIAL STATEMENTS**

**PREPARED IN ACCORDANCE WITH**

**INTERNATIONAL FINANCIAL REPORTING STANDARDS,**

**AS ADOPTED FOR USE IN THE EUROPEAN UNION**

**31 DECEMBER 2017**

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



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## Annual Management Report of TBI Bank EAD

TBI Bank EAD (the Bank) is a member of 4 Finance Group, which as at 31 December 2017 holds 100% (81,600,000 shares) of the Bank's capital through TBIF Financial Services B.V. TBI Bank EAD offers a wide range of banking services to local and foreign clients through its Head office in Sofia, the branch in Bucharest, 162 offices and outsourced working stations serviced by 856 employees (2016: 801 employees).

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

The Bank provides investment intermediary services, in accordance with the provisions of the Public Offering of Securities Act (POSA). As an investment intermediary, the Bank meets certain requirements for the protection of clients' interests, in accordance with the Markets in Financial Instruments Act (MFIA) and Ordinance No 38 issued by the Financial Supervision Commission (FSC). The Bank has established an organizational structure which is applied in relation to the conclusion and execution of contracts with clients, the requirements for the disclosure and use of client information, the record keeping and the protection and safekeeping of clients' assets, all in accordance with the regulatory framework and with the requirements of Ordinance No 38, Articles 28-31, in particular. The Bank has developed internal control rules and procedures to ensure compliance with the regulatory framework applicable to the activity.

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

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

TBI Bank EAD holds a well-diversified client portfolio. The strategy adopted, which is focused on increased lending to individuals, predetermines the significant increase in the loan portfolio, **for the years 2016 and 2017**. Although the newly attracted deposit resources are characterised with a decreasing cost, the profitability of the Bank remains stable. The maintenance of stable liquidity levels is of great importance. Despite the expansion of the Bank's activity and the sharp increase in its lending operations, the Bank maintains adequate levels of liquidity.

In 2017, TBI Bank EAD generated net interest income of BGN 80,744 thousand, or a 37.69 % increase compared to 2016 thanks to the **exponential** growth in the loan portfolio. The net profit of the Bank in 2017 amounts to BGN 30,517 thousand compared to a profit in the prior year of BGN 23,918 thousand.

Operating revenue (net interest income, net fee and commission income, net foreign exchange gains and other income) similarly to the net interest income, has increased by 39.67 % during the reporting period as compared to the prior year.



The operating revenue structure is as follows: net interest income represents 83.91%, fee and commission income – 13.90 %, and the other types of income represent 2.19 %. The revenue structure is similar to that in the prior year.

In 2017 the total assets of the Bank increased by 15.83 % compared to the end of 2016 and reached BGN 688,306 thousand (2016: BGN 594,253 thousand). At the end of 2017 the biggest increase was noted in cash on hand and placements with other banks by BGN 100,285 thousand, followed by the loan portfolio by BGN 80,821 thousand. The increase in the loan portfolio was due to the increase in retail exposures, which exceeded the share of loans to legal entities.

The Bank's liabilities at 31 December 2017 amount to BGN 524,231 thousand (2016: BGN 460,680 thousand), 96.68 % of which or BGN 506,824 thousand (2016: BGN 447,739 thousand) represent deposits from clients and banks. An 14.70 %, or by BGN 64,964 thousand, increase in deposits from clients and a 76.17% decrease in deposits from banks were noted in 2017.

in BGN'000	2017	2016	2015	2014	2013
Total assets	688,306	594,253	515,305	480,480	406,022
Equity	164,075	133,573	106,520	70,255	52,703

There is an increase in the Bank's equity by 22.84 % as a result of the profit generated during the year.

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

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

### Liquidity and risks

According to the effective and current liquidity measurement and management policy, the liquid assets ratio is used as a key indicator. At the end of 2017, this indicator was 38.11 % (2016: 38.77 %), illustrating the stability of the cash flows and exceeded significantly the minimum threshold required (20 % ratio of liquid assets to deposits other than those attracted from credit institutions).

	2017	2016	2015	2014	2013	2012
Liquidity ratio	38.11	38.77	35.71	40.15	39.46	36.07

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

The intense competition in the banking sector is a key factor affecting the development perspectives.

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



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

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

- Credit risk – the maximum exposure to credit risk as at 31 December 2017 amounts to BGN 651,459 thousand;
- Liquidity risk – the net difference in liquidity of assets and liabilities as at 31 December 2017 amounts to BGN 164,075 thousand;
- Currency risk;
- Interest rate risk;
- Inflation risk;
- Business risk;
- Operational risk (including reputation risk).

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

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

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

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

### **Research and development activities and activities in the field of ecology**

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



### **Significant events after the annual closing of accounts**

No significant events have occurred after 31 December 2017, which may have an effect on the Bank's operations or may require adjustments in the financial statements.

### **Future plans of the Bank**

The Management Board of the Bank expects the economic environment in Bulgaria to continue its stabilisation and passing on to gradual economic growth. The macroeconomic and financial stability will contribute to the growing market of financial services in a viable, efficient and competitive banking system. We expect acceleration of the process of integration of the Bulgarian economic and financial system within the European area. This will contribute to the implementation of new services and products and the expansion of the existing ones. The Bank will continue to maintain adequate financial, management, and technical capacity as basis for the implementation of efficient and prosperous banking operations.

The Bank will continue its development in the main segments of the banking market. The main focus will be placed on lending to individuals. The Bank will continue to develop products offering competitive conditions on deposits and current account to its customers, while developing project financing and commercial financing as well as new, innovative products. The future development of the Bank is expressed in the creation of wider customer base and stable distribution network for financial services, including online and offline distribution channels. The main focus of the development will be commercial transactions conducted electronically. TBI Bank EAD will continue to attain the high corporate governance standards, and will work actively for the development of bank security, by implementing flexible and efficient organisational structure with clearly distinct duties and responsibilities. The Bank will continue to create opportunities for internal competition between the units, control and incentives for the activity with continuous improvement of the qualifications of its employees. It will follow an ambitious personnel recruitment, training and renewal policy.

The Bank employs highly qualified personnel sharing the following major values:

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

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

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



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

No shares were redeemed or transferred during the year.

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

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

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or has control - Trailpoint Ltd., Israel;
- c) legal entities where he sits on the management or controlling bodies:  
TBIF Financial Services B.V., The Netherlands – member of the Board of Directors and Executive Director;  
Kardan N.V., The Netherlands – member of the Board of Directors and Executive Director;  
Non-executive member of the management bodies of subsidiaries wholly controlled by Kardan N.V., The Netherlands.

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

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) there are no legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control;
- c) legal entities where he sits on the management or controlling bodies:  
SIA 4Finance LLC, Latvia – member of the Board of Directors  
SIA 4Finance IT, UK branch – Executive Director  
SIA 4Finance Media, Latvia – member of the Board of Directors  
Microfinance Organization 4Finance LLC, Georgia – member of the Supervisory Board

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

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

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

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control:  
Nero Renewables N.V. - 45 %.  
Eki'O SPRL – 100%
- c) legal entities where he sits on the management or controlling bodies:  
Nero Renewables N.V. – Executive Director  
Eki'O SPRL – Director  
Stichting Nero Joint Project – Secretary and Treasurer



- **Valentin Galabov - member of the Management Board and Executive Director**

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control – TBI Leasing – 100%;
- c) there are no legal entities where he sits on the management or controlling bodies.

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

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

- **Nikolay Spasov – member of the Management Board and Executive Director**

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

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

- a) does not hold any interests in commercial entities as unlimited liable partner;
- b) legal entities of which he holds, directly or indirectly, at least 25 percent of the votes in the general assembly or where he has control:  
Aviatiq Support S.R.A., Romania – 50%,  
Business Support S.R.A., Romania – 86,36%;
- c) legal entities where he sits on the management or controlling bodies:  
TBI LEASING IFN S.A., Romania – Member of the Management Board and Executive Director;  
TBI Fleet Management S.A., Romania – Member of the Management Board and Executive Director;

- **Alexander Dimitrov – member of the Management Board and Executive Director**

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

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

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

The total net income received by the members of the Management Board and the members of the Supervisory Board in 2017 amounts to BGN 766 thousand.

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

The members of the Management Board are not allowed to acquire shares and bonds issued by the Bank. Therefore, the members of the Management Board of the Bank had not acquired, held or transferred shares or bonds in 2017.



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

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

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

The Annual management report was approved for issue by the Management Board of the Bank on 29 March 2018 and was signed on behalf of the Board by:

**Valentin Galabov**

Executive Director and  
Member of the Management Board

A handwritten signature in blue ink, consisting of stylized, overlapping loops and strokes.

**Alexander Dimitrov**

Executive Director and  
Member of the Management Board

A handwritten signature in blue ink, featuring a prominent horizontal stroke with a loop above it and several vertical strokes below.



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

### **TBI Bank EAD**

TBI Bank EAD (the "Bank") is a Bulgarian joint-stock company. It has the following activities: corporate and consumer lending, acceptance of deposits and other repayable funds from the public, investment intermediary services, payment services, dealing on own account or when executing client orders, foreign exchange and precious metals trading, guarantee transactions, and all other related activities as laid down in the Bulgarian National Bank's regulatory framework.

The Bank has a branch operating in Romania which is registered under the local law. Its activity overlaps with that of the Bank in Bulgaria, except for the investment intermediary services. In addition, the Bank has also two subsidiaries in Romania – TBI Credit IFN S.A., whose main activity is consumer lending and TBI Leasing IFN S.A., which provides leasing services.

The goal of the bank is to develop as a major player on the consumer lending market in Bulgaria and Romania by offering offline and online services and products and by focusing mainly on different lending facilities, such as money and commodity loans, as well as on credit card offering. To achieve this goal, the Bank employs a strategy that relies on technological development and on building diversified teams of young and talented people.

### **Anti-corruption policies and activities**

The Bank has brought its business activities in line with the requirements of anti-bribery and anti-corruption laws. The policy of the Bank is to carry out its business operations in an honest and ethical manner. All employees are expected to apply the highest standards of professional and personal ethics in fulfilling their assigned duties.

The guiding principles related to the anti-bribery and anti-corruption policy are set up in the Code of Ethics of the administrators and employees of TBI Bank EAD. The Code is accessible on the Bank's internal website and is designed for all employees hired under an employment contract as well as for all other employees who carry out various activities for the Bank on any other ground.

The Regulatory Compliance Department (RCD) is charged with exercising an effective control over possible risks of misconduct, bribery and corruption. The heads of departments of the Bank are responsible for enforcing the rules and surveying the employees' activities, and in the event of non-compliance, they inform the Regulatory Compliance Department and the Bank's management.

For the early detection and prevention of misconduct, the RCD encourages bank employees to act in good faith and to report suspected misconduct to their supervisors and to ensure compliance with the internal rules and procedures in identifying and investigating unauthorized or unusual activities. As part of the regular trainings of the employees from the RCD, various issues related to the detection and reporting of cases of misconduct are also considered.

Employees of the Bank have the opportunity to send signals for any specific violations of the Code of Ethics through different communication channels via telephone and e-mail ([compliance@tbibank.bg](mailto:compliance@tbibank.bg)) or by sending a letter to the RCD.



Third parties may report violations through the website of TBI Bank EAD - <https://www.tbibank.bg/> or may file a letter of complaint to the Bank's head office or branches. The signals are to be sent in case of suspected violation of ethical and professional conduct, damage to the interests of the clients, or non-compliance with the requirements for protection of banking information and data.

The signals made are examined by the legal advisor of the RCD with regard to their legal soundness. The legal adviser then prepares an opinion as to the level of legal risk based on the circumstances described in the signal and their impact on the bank. Whenever any evidence for reasonable suspicion of unacceptable activities or behavior is found, based on the legal opinion, action is taken for investigation continuation by collecting additional information and further clarification with the assistance of the relevant managerial employee and the heads of Internal Audit Department and Internal Security Department. The investigation may also include employees from other departments of the Bank.

The RCD shall notify the Management Board and the Supervisory Board of all the cases of serious violations of the Code of Ethics of the administrators and employees and shall suggest the following action to be taken:

- to lay down the appropriate measures to be implemented by the respective managerial employee;
- to lay down and implement measures in compliance with the internal rules and procedures of the Bank;
- to notify external institutions such as law enforcement authorities, court, prosecution, etc. Copies of all reports on cases of misconduct, examined by the RCD, including information on proposed measures for the improvement of the internal control system and the measures taken, are kept by the RCD.

#### **Policies and activities regarding employees and the respect for human rights**

TBI Bank EAD enforces and observes the provisions of the labor law and of the health and safety at work legislation. The Bank follows the world's best practices in these areas which are introduced and adopted for considering and settling issues concerning the employees of the Bank. Human resource management and development policies and procedures provide the necessary clarity and guidance for both managers and employees in the organization.

The number of employees working for the Bank and its related entities is about 1600, with a male to female ratio of about 25% to 75%.

About 170 employees, who were on parental leave at the time of the preparation of the non-financial declaration, are also included in the aforementioned number of employees.

The Bank applies the principle: equal pay between men and women for equal work thus eliminating the gender pay gap. People who work in the Bank are its most important asset and investing in them is the best investment which ensures the Bank's success. The Bank's success is a result of its strategy which focuses on change, and a change can only be brought about by people. It is a function of employees' competences and skills. There are changes in the field of human resource management imposed by the need for knowledge management, which creates a competitive advantage for faster and more competent decision-making. We use Internet and web-based information systems to achieve faster communication between people and our structures, to spread and exchange knowledge, to share innovations that change societies and economies. We always strive to be the first.

As a result, human resource management acquires an increasingly strategic dimension. It focuses primarily on unlocking the human-resource potential in the organization in order to prepare for continuous changes and for making the most of its use to achieve the Bank's goals.



In the activities related to human resource management and development the Bank attempts to ensure transparency and equality for employees who are able to take advantage of different opportunities given to them for gaining knowledge as well as for skills acquisition and career development.

A schedule of training courses for employees is prepared annually for the next calendar year. The schedule is discussed with the relevant heads of departments and approved by senior management.

The supervisors are consulted about the training sessions which are then carried out. Their effectiveness is subsequently assessed and follow-up actions are developed to improve the teaching processes.

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

In the area of employee selection, the newly created jobs and functional positions are first internally announced and any employee who has the desire and meets the requirements specified has the right and opportunity to apply. The application process and the subsequent steps are laid down in the internal rules and procedures of the Bank. Additionally, by writing recommendation letters for specific professionals meeting the requirements, the employees of the Bank themselves contribute to the formation of efficient and high-performance professional teams.

New recruits attend introductory professional training courses that are consistent with the regulatory requirements for the relevant positions, as well as other trainings related to the quality performance of the assigned tasks. As a result of a detailed analysis of training and development needs, employees have the opportunity to attend occasional or regular training courses, both to improve their professional competencies and to develop the so-called specific competences such as: customer relationship management, project management, team management, and more.

In the activities related to human resource management and development, the organization is in partnership with external institutions – universities, recruitment agencies, training and consulting firms.

The Bank actively participates in various employers' fairs where it presents the opportunities for work and development at TBI Bank EAD and supports the professional orientation of young people.

For several years now, the Bank has been actively supporting the "Manager for a Day" initiative of Junior Achievement Bulgaria and gives the chance to ambitious young people to participate in real working processes and projects and to make their first steps towards choosing a profession.

It is important for the Bank to make sure that its employees consider their job rewarding and satisfying. To this purpose, the Bank organizes corporate team-building events and other activities that support team development and promote a feeling of "belonging".

For the Bank, employees are human beings rather than resources. The Bank's employees are treated with respect and care by their managers. The employees are provided with additional health care plans and preventive health care check up packages as well as with sport opportunities with preferential rates.

In terms of remuneration policy, the Bank has introduced bonus and incentive scheme payment along with hourly payment. For administrative and managerial staff, hourly rate payment is used – payment based on the number of hours worked, which can be 4, 6 or 8 hours per day. This payment scheme does not measure the amount of work, but only the time devoted to labour. For all sales-related positions, the scheme combines bonus and hourly rate payment. Remuneration is divided into two parts: the first is guaranteed minimum wage based on work hours and the second is bonus payment which is determined based on quantitative and qualitative indicators.



In order to ensure workplace safety and health, the Bank has engaged external occupational health services for its branches in Bulgaria and Romania. They provide the necessary recommendations, trainings and document drafting related to the creation and maintenance of employees' personal health records and to the preparation of annual analysis of employees' health status on the basis of the results of preliminary and regular preventive health care check-ups and examinations, the indicators for permanent or temporary incapacity for work and their relation to working conditions, records for occupational illnesses and traumas. External occupational health services also recommend qualified medical practitioners, clinical and instrumental examinations necessary for conducting mandatory preliminary check-ups and regular medical examinations of employees. They also determine the frequency of the mandatory check-ups, depending on the potential health risk level. Occupational health services draw conclusions as to the suitability of an individual for a given position and the activities related to it based on the results from the mandatory preliminary medical examination and on the results from the conducted health check-ups. They also lay down a system of workplace safety and health rules, regulations and instructions.

The Bank has established and maintained several internal communication channels. In this way, the Bank's employees are always informed of important ongoing projects. They can also address questions and receive answers.

A platform is created where employees can share ideas. It aims at optimizing workflows. Thus, employees have the opportunity to come up with well-grounded suggestions. They can make recommendations, give ideas and describe them in detail. A commission is set up to look at all proposals and to take decisions for follow-up steps, while the employees themselves get feedback in full transparency and are able to participate actively in the process of their realization.

### **Environmental protection policies and activities**

For TBI Bank EAD sustainable business development is much more valuable than short-term profitability and other commercial benefits. We believe that our duty to protect our nature is a key element of our concern for the well-being of all stakeholders and the entire society. That is why we strive to reduce the negative impact of our activities on the environment and to use every opportunity to contribute to its protection.

Like any other company, TBI Bank EAD also leaves its mark on the environment. This is mainly due to the consumption of energy and water resources, the use of paper and other materials related to the day-to-day operations of the Bank. The state of our offices, the efficiency of the equipment and vehicles used also have an impact.

Over the last two years the Bank has made efforts to modernize its branches and head offices. It has introduced the use of high-performance air conditioning systems and building management systems. It has renovated thermal insulation and lighting. As a result of these renovations, the total energy consumption has been reduced.

In addition to the reduction of energy consumption for much of the internal processes, the Bank uses computer systems enabling electronic document exchange, which is also part of the strategic understanding of digitization of business and operating processes. Today the Bank offers its customers a high level of service and innovative banking services, using significantly fewer resources. Paper is not used in most work processes, and where paperless data exchange is impossible, it is limited to the minimum. All these optimizations have significantly reduced the use of paper in the Bank.



After optimizing its own processes, the Bank would like to help both its clients and partners to change the way they think and do business in an environmentally friendly way. The Bank encourages them to use innovative technical solutions and reduce the consumption of paper and other resources used in their business operations.

It is important for the Bank to be close to its clients and partners. This requires frequent use of cars. Since the establishment of the Bank, its employees have been using cars with fuel-efficient engines. As a further step to lessen the impact on the environment, TBI Bank EAD is in the process of replacing a large portion of its vehicle fleet with more economical cars which meet the highest European Union exhaust emission standards in 2018.

TBIF Group, part of the 4Finance financial holding company, can boast about its significantly improved environmental performance. At the same time we are fully determined to transfer and improve the good practices in the markets we operate. In this regard, we commit ourselves to setting appropriate goals and objectives, continuously monitoring, assessing and enhancing our environmental performance and strictly complying with all local, national and international legislation in the field.

As a socially responsible institution, the Bank is committed to use its influence and share its experience in order to work for the Planet protection and preservation and to bequeath a better world to children. To this purpose, the Bank will not only adhere to an environmentally responsible policy in its day-to-day business operations, but will gradually extend it to its customers, partners, suppliers and the entire society to help enforce environmentally friendly business practices and achieve sustainable economic growth.

### **Policies and activities related to social issues**

The clients of TBI Bank EAD are at the heart of its activities and the main priority of the Management is to make their lives simpler, faster and better. As clients become more and more digitally oriented in their daily lives, their expectations with regards to banking are also evolving and the goal of TBI Bank EAD is to use a wider range of technologies to meet their needs.

In its relations with clients, the Bank has devoted itself to conveying pro-social messages and establishing ethical business standards. It acts in a socially responsible way by using all of its available channels of communication.

TBI Bank EAD also makes efforts in connection with a number of initiatives aiming to encourage and improve the financial literacy among consumers in general and Bulgarian students in particular in order to provide them with better strategies for taking informed and effective financial decisions.

In 2017 the Bank actively supported the "Bulgarian Christmas" charity initiative which is under the auspices of the President of the Republic of Bulgaria. Its main goal is to raise funds for the medical treatment of Bulgarian children and to purchase specialized equipment for the largest pediatric clinics in the country.

The main objective of TBI Bank EAD is the building and development of successful teams of talented people from diverse backgrounds which will be able to contribute to the achievement of positive business results. A basic belief in our corporate culture is that talent is not connected with origin, race, sexual orientation, abilities, beliefs, generations and experiences. The working environment in the Bank is based on mutual respect and acceptance, through which employees can develop their personal skills and abilities. Acceptance and diversification allow the Bank to strengthen its relations with its customers, partners, and the community in which it operates.



**CORPORATE GOVERNANCE DECLARATION OF  
„TBI Bank” EAD  
31 DECEMBER 2017**

**1. CORPORATE PROFILE AND STRUCTURE**

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

Capital structure

As of 31 December 2017 the share capital of the Bank amounts to BGN 81,600 thousand, with total amount of dematerialised shares of 81,600,000 (eighty-one million and six hundred thousand), each with nominal of BGN 1. The Bank has the right only to issue ordinary shares, each of which gives the owner the right of 1 vote in the general shareholders meeting. As of 31 December 2017 the sole owner of the share capital of the Bank is TBIF Financial Services B.V, Netherlands.

Rights and obligations of the shareholders

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

Organisational structure of the Bank

„TBI Bank” EAD has two-tier management system. All members of the Supervisory and Management board of the Bank meet the requirements of the Law on Credit Institutions as well as Ordinance No 20 of Bulgarian National Bank.

The Bank's structure consists of:

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

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

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

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



The General assembly has the right to:

1. Change or supplement the statutes of the Bank;
2. Increase or decrease the share capital;
3. Decide regarding any merger, demerger, transformation or closure of the Bank;
4. Appoint or dismiss members of the Supervisory board and establishes their remunerations;
5. Appoint or dismiss the auditor of the Bank and sets its remuneration;
6. Approve the financial statements of the Bank and decide on the profit distribution;
7. Discharge the members of the Supervisory and Management board;
8. Decide regarding claims against member of the SB or MB, or shareholder of the Bank;
9. Decide regarding the issuance of bonds;
10. Appoint the liquidators if the Bank faces closure, except in case of bankruptcy;
11. Decide regarding other questions within the powers of the General Assembly set by the law.

The Supervisory board (SB) exercises control over the main activity of the Bank and the Management board. The Supervisory board sets high corporate culture and business ethics with the established ethical norms and corporate values for business behaviour. SB elects and dismisses the members of the Management board in line with the principles of continuity of its work.

The main functions of the Supervisory board are:

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

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

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

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

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

- The Management Board is authorized to decide on all matters related to the operability of the Bank and perform transactions independently within its powers under the law, the Bank's Statutes and Rules of procedure of the Board, approved by the Supervisory Board;
- The MB sets the risk policy and establishes the risk management and internal control system;
- The MB provides guidance, approves and oversees the implementation of the company's business plan, material transactions and other activities set out in the Bank's strategy;



- The Management Board reports to the Supervisory Board and the General Assembly. The Management Board shall submit to the SB at least once every 3 (three) months a report on the business activity and position of the Bank and shall immediately inform the SB of any significant deterioration of the economic situation of the Bank and other important circumstances regarding the economic activity of the Bank.

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

The members of the Management Board, with the approval of the Supervisory Board, shall elect among themselves the Executive Directors, Chairperson of the Management Board and / or the Deputy Chairperson of the Management Board, replacing the Chairperson when he / she is absent. As Executive Directors may only be elected individuals who have received appropriate prior approval of the Bulgarian National Bank to manage and represent the Bank under the terms provided for in effective legislation. The Management Board members are established professionals with proven leadership qualities, representing a prerequisite for achieving the objectives of the Bank.

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

### Committees and commissions:

- As an institution of public interest, according to the Law on Independent Financial Audit, the Bank operates an **Audit Committee**, which is responsible for monitoring of the financial reporting and the independent financial audit as well as the effectiveness of the internal audit function and control systems and risk management at the Bank. The Committee recommends the choice of the registered auditor to conduct an independent audit of the Bank and monitors its independence in accordance with the law and the Code of Ethics for Professional Accountants. As at the date of the preparation of the financial statements, the jointly appointed auditors have an engagement, approved by the Audit Committee, for agreed procedures in accordance with the requirements of the Ordinance № 10 of the Bulgarian National Bank on Internal Control in Banks. The purpose of the Audit Committee is to assist and advise the General Assembly in its oversight of the activities of the Bank. Main functions of the Audit Committee are: monitoring the financial reporting processes of the Bank, monitoring the effectiveness of internal supervision systems, and risk management systems, independent financial audit of the Bank.
- **Risk Committee** is an internal unit of the leadership of the group, which is committed to managing and controlling all types of risks faced by the Bank in connection with the provisions of Ordinance № 7 of the Bulgarian National Bank.
- **Impairment Committee** - the body that decides the classification and provisioning of Bank's risk exposures.
- **Lending Committee** (Credit Committee) is the body that is empowered to approve the origination of risk exposures to corporate customers. Credit exposures based on preset limits are subject to subsequent approval by the Management Board and / or must be confirmed by the Supervisory Board.
- **Assets and Liabilities Management Committee** is responsible for the overall operation of the balance sheet of the Bank and monitors interest rates and liquidity in accordance with its competence and organizational structure referred to in the internal rules of the institution.
- According to Bulgarian legislation, the **Credit Council** is a specialized internal body for evaluation and classification of risk exposures.
- **The Special Service is responsible for the prevention of money laundering and financing of terrorism** and compliance risk.
- **The Specialized Service for safe working conditions** is responsible for the compliance with the statutory requirements in this area.



## 1. AUDIT AND INTERNAL CONTROL

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

## 2. INFORMATION SYSTEMS

The Bank is dependent on complex information systems, including management information system, and possible crash, ineffectiveness or failure of these systems may have significant unfavourable effect on the Bank.

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

Each of the above-mentioned or other problems, related to the information systems of the Bank, might have significant negative effect on the Bank activities, its performance and financial position.



### **3. REMUNERATION POLICY**

Bank remuneration principles are structured in a way so as to contribute to the sensible corporate governance and risk management. TBI Bank EAD applies Remuneration Policy in accordance with the Credit Institutions Act and BNB Ordinance No 4 on the requirements on the remuneration in banks, which is consistent with the business strategy, objectives, values and long-term interests of the Bank, by encouraging the reliable and effective risk management, and it does not incentivises risk taking behaviour, exceeding the levels acceptable for the Bank.

The main objective of the policy is attraction and retention of the highly qualified personnel, their motivation for achievement of high results at moderate risk level and in accordance with the long-term interests of the Bank and its shareholders. It is based on the transparency, conflict of interest prevention and equal treatment of employees, documentation, objectivity, reliable risk management principles.

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

### **4. DISCLOSURE OF INFORMATION**

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

On the Bank's website information is published on:

- Data about the Bank;
- Data on the shareholder structure;
- Data on management bodies and structure of the Bank;
- Financial statements for the last 3 financial years at the least;
- Information on upcoming events;
- Other important information, related to the Bank activities.

### **5. STAKEHOLDERS**

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



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

TBI Bank (hereinafter referred to as "the Bank") is not a public company and has no legal obligation to apply the provisions of the National Code of Corporate Governance (NCGC) approved by the Deputy Chairperson of the Bulgarian Stock Exchange – Sofia. However the corporate policy of TBI Bank EAD is based on professional and transparent governance in accordance with internationally recognized standards, good banking practice and where appropriate with the principles underlying the NCGC. Since the Bank is a sole owner joint stock company, the requirements on the protection of shareholders' rights, publishing and disclosure of information concerning the shareholders are not applicable.

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

The principles are established based on the following internal documents of the Bank:

- Statutes of TBI Bank EAD;
- Corporate Governance Policy;
- Organizational structure;
- Code of Ethics of the administrators and employees of TBI Bank EAD;
- Remuneration Policy.

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

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

- Standardisation and harmonization of the corporate governance process;
- Identification of key business objectives within the business line "Planning and reporting".

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

**7. Internal control includes the following components:**

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

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



(c) the information system, including the related business processes relevant to the financial reporting, and communication - a description of the information system of the Bank can be found in the section "Information systems" of the Corporate Governance Declaration;

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

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

**Valentin Galabov**

Executive Director and  
Member of the Management Board  
29 March 2018



**Alexander Dimitrov**

Executive Director and  
Member of the Management Board  
29 March 2018





Statutory Audit Firm # 108  
Ernst & Young Audit OOD  
Polygraphia Office Center  
47A, Tsarigradsko Shose Blvd., floor 4  
1124 Sofia, Bulgaria

Statutory Audit Firm # 015  
AFA OOD  
38, Oborishte str.  
1504 Sofia, Bulgaria

## Independent auditors' report To the shareholders of TBI Bank EAD

### Report on the Audit of the Separate Financial Statements

#### Opinion

We have audited the accompanying separate financial statements of TBI Bank EAD (the Bank), which comprise the separate statement of financial position as at 31 December 2017, and the separate statement of comprehensive income, separate statement of changes in equity and separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements give a true and fair view of the financial position of the Bank as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

#### Basis for Opinion

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

#### Key Audit Matters

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

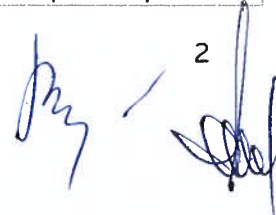




We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the separate financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of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

Key audit matter	How our audit addressed the key audit matter
<b>Impairment of loans to customers</b>	
The Bank's disclosures about impairment of loans to customers are included in and Note 2a Credit risk, Note 16 Loans to customers and Note 17 Impairment loss allowances to the separate financial statements	
Loans to customers represent a significant part (63%) from the total assets of the Bank as at 31 December 2017. As disclosed in Note 2a Credit risk, Note 16 Loans to customers and Note 17 Impairment loss allowances to the separate financial statements, the Bank's management determines impairment loss estimate on loans for which there is identified objective evidence of impairment on an individual basis for Corporate portfolio and on collective basis for the Retail portfolio. The gross value of such loans as at 31 December 2017 is BGN 163,092 thousand and the accumulated loan loss allowance for loans is BGN 31,882 thousand.	In this area, our key audit procedures included, amongst others:
For the loans assessed for impairment on an individual and collective basis, significant management judgement is required to determine the timing and amount of the expected cash flows.	<ul style="list-style-type: none"> <li>• Assessment and tests of the design and operating effectiveness of controls over impairment monitoring process of the Bank. We have used our IT experts to assess and test the IT general controls of the Bank's internal system used for the impairment monitoring and calculation process.</li> <li>• Performance of analytical procedures on a disaggregated data to evaluate if the trends in the impairment expense and allowance follow the development of the loan portfolios.</li> <li>• For loans to customers for which the Bank has not identified any objective evidence of impairment, we tested a sample of exposures to assess their proper risk category classification.</li> <li>• For a risk-based sample of corporate loans to customers that were subject to an individual impairment assessment, and focusing on those with the most significant potential impact on the separate financial statements, we specifically assessed the Bank's assumptions on the expected future cash flows, including the realizable value of collateral based on our own understanding and available market information. We have involved internal valuation experts to assist us in assessing the realizable value of collaterals on a sample basis.</li> <li>• Performance of subsequent events procedures focused on the development of the sampled loans from the Corporate portfolio</li> </ul>
Due to the significance of the loans for which there is identified objective evidence of impairment and the related estimation uncertainty, we have this matter as a key audit matter.	

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	<p>post balance sheet date to assess the Bank's assumptions on the expected future cash flows.</p> <ul style="list-style-type: none"> <li>• For the Retail portfolio of the Bank, which is assessed for impairment on a collective basis, review and analysis of the assumptions and the parameters of Management applied in the approved assessment model for retail loans (e.g. definition of overdue days' time bands, loss given default). Execution of tests of controls for a sample of loans over the key inputs of the model such as recovery rates on loans used in the calculations and appropriate allocations in the respective time bands.</li> <li>• Involvement of our internal valuation specialists to test the correctness of the formulas used the Bank's collective impairment loss calculations as well as the consistency with the approved model.</li> <li>• Performance of a back-testing analysis for servicing of the retail loan portfolio in order to assess the adequacy of the key assumptions used in the collective impairment model.</li> <li>• Assessment of the adequacy and relevance of the separate financial statement disclosures related to the Bank's exposure to credit risk and the impairment losses on the loans to customers.</li> </ul>
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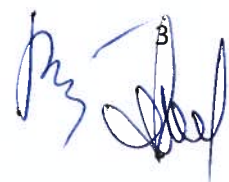
### Information Other than the Separate Financial Statements and Auditor's Report Thereon

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

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have

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performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Responsibilities of Management and Those Charged with Governance for the Separate Financial Statements**

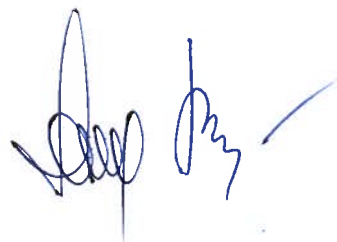
Management is responsible for the preparation and presentation of the separate financial statements that give a true and fair view in accordance with IFRS, as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Separate Financial Statements**

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





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

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


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

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

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



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

## Report on Other Legal and Regulatory Requirements

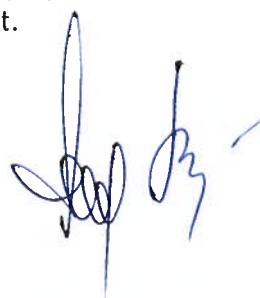
### *Additional Matters to be Reported under the Accountancy Act*

In addition to our responsibilities and reporting in accordance with ISAs, described above in the *Information Other than the [Separate] Financial Statements and Auditor's Report Thereon* section, in relation to the management report, including information about the activities of the Bank as an investment intermediary, the corporate governance statement and the non-financial declaration, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines on New and Expanded Auditor's Reports and Auditor's Communication of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA). These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

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





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

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

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

Audit Firm "Ernst & Young Audit" OOD:

Audit Firm "AFA" OOD:



Nikolay Garnev

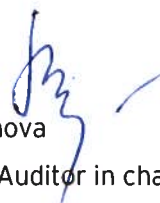
Legal Representative and

Registered Auditor in charge of the audit



Renny Iordanova

Legal Representative



Valia Iordanova

Registered Auditor in charge of the audit

Sofia, Bulgaria

30 March 2018



**31 Decemeber 2017**

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

**Separate statement of comprehensive income**  
for the year ended 31 December 2017

	Notes	2017	2016
Interest income	4	88,013	64,618
Interest expense	4	(7,269)	(5,978)
<b>Net interest income</b>		<b>80,744</b>	<b>58,640</b>
Fee and commission income	5	16,253	12,170
Fee and commission expense	5	(2,874)	(2,452)
<b>Net fee and commission income</b>		<b>13,379</b>	<b>9,718</b>
Net trading gain	6	235	776
Other operating income/(expenses), net	7	1,871	(239)
<b>Total operating income</b>		<b>96,229</b>	<b>68,895</b>
Loss on impairment of financial assets	17	(14,084)	(6,448)
Loss on impairment of other assets	16	(75)	(27)
<b>Net operating income</b>		<b>82,070</b>	<b>62,420</b>
Staff costs	8	(25,204)	(18,263)
Depreciation and amortization	20,21	(1,649)	(1,615)
Administrative and other expenses	9	(21,379)	(16,117)
<b>Total administrative expenses</b>		<b>(48,232)</b>	<b>(35,995)</b>
<b>Profit before tax</b>		<b>33,838</b>	<b>26,425</b>
Income tax expense	10	(3,321)	(2,507)
<b>Profit for the year</b>		<b>30,517</b>	<b>23,918</b>

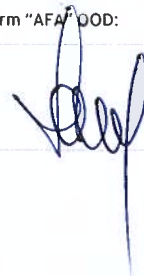
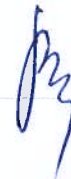
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The notes on pages 14 to 84 form an integral part to the accompanying separate financial statements.

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

Audit firm "Ernst & Young Audit" OOD:

Audit firm "AFA" OOD:



**31 Decemeber 2017**



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

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

Notes

Other comprehensive income	2017	2016
<i>Other comprehensive income to be reclassified to the profit or loss</i>		
Foreign exchange differences from translation of the financial statements of foreign operations	30 63	4
Net gain/(loss) on available for sale financial assets remeasured at fair value	30 169	131
Current tax unrealized gain on available-for-sale investments	(26)	-
<i>Other comprehensive income not to be reclassified to the profit or loss</i>	-	-
<b>Other comprehensive income for the period, net of tax</b>	<b>206</b>	<b>135</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>30,723</b>	<b>24,053</b>

Valentin Galabov  
Executive Director and  
Member of MB Member of MB

Alexander Dimitrov  
Executive Director and

Yordan Stoyanov  
Preparer



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Audit firm "AFA" OOD:



**31 Decemeber 2017**

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

**Separate statement of financial position**

as at 31 December 2017

	Notes	As at 31 December	
		2017	2016
<b>ASSETS</b>			
Cash on hand and balances with central banks	11	166,684	66,399
Placements with other banks	12	18,363	105,681
Held-for-trading financial assets	13	-	1,019
Derivatives	26, 29	10	-
Available-for-sale financial assets	14	26,519	10,764
Loans to customers	16, 17, 18	431,819	350,998
Held-to-maturity investments	15	-	8,081
Other assets	23	3,821	10,092
Current tax assets	10	1,616	104
Investments in subsidiaries	22	11,148	11,148
Intangible assets	20	3,062	1,406
Property and equipment	21	11,001	11,339
Deferred tax assets	10	326	-
Non-current assets held for sale	19	13,937	17,222
<b>Total assets</b>		<b>688,306</b>	<b>594,253</b>
<b>LIABILITIES</b>			
Derivatives	26, 29	224	31
Deposits from banks	24	-	5,879
Deposits from customers	25	506,824	441,860
Other borrowings	26	502	924
Other liabilities	27	16,681	11,986
<b>Total liabilities</b>		<b>524,231</b>	<b>460,680</b>
<b>EQUITY</b>			
Share capital	30	81,600	81,600
Statutory reserves	30	8,350	7,168
Revaluation reserve	30	232	89
Foreign currency translation reserve	30	87	24
Accumulated profit		73,806	44,692
<b>Total equity</b>		<b>164,075</b>	<b>133,573</b>
<b>Total liabilities and equity</b>		<b>688,306</b>	<b>594,253</b>

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

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Audit firm "AFA" OOD:



**31 Decemeber 2017**

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

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

	Share capital (Note 30)	Statutory reserves (Note 30)	Revaluation reserve – financial assets (Note 30)	Foreign currency translation reserve (Note 30)	Retained earnings	Total
<b>At 1 January 2016</b>	<b>78,600</b>	<b>4,349</b>	<b>(42)</b>	<b>20</b>	<b>23,593</b>	<b>106,520</b>
Profit for the year	-	-	-	-	23,918	23,918
Other comprehensive income, net of tax	-	-	131	4	-	135
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>131</b>	<b>4</b>	<b>23,918</b>	<b>24,053</b>
Profit distribution	-	2,819	-	-	(2,819)	-
Capital increase	3,000	-	-	-	-	3,000
<b>As of 31 December 2016</b>	<b>81,600</b>	<b>7,168</b>	<b>89</b>	<b>24</b>	<b>44,692</b>	<b>133,573</b>
Profit for the year	-	-	-	-	30,517	30,517
Other comprehensive income, net of tax	-	-	143	63	-	206
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>143</b>	<b>63</b>	<b>30,517</b>	<b>30,723</b>
Profit distribution	-	1,182	-	-	(1,182)	-
Other movements	-	-	-	-	(221)	(221)
<b>As of 31 December 2017</b>	<b>81,600</b>	<b>8,350</b>	<b>232</b>	<b>87</b>	<b>73,806</b>	<b>164,075</b>

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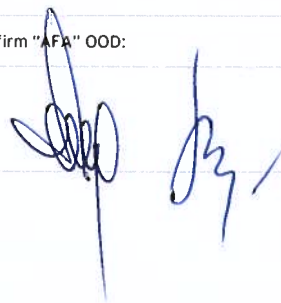
Yordan Stoyanov  
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Financial statements on which an auditors' report is issued dated: 26 March 2018

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Audit firm "AFA" OOD:



## 31 Decemeber 2017



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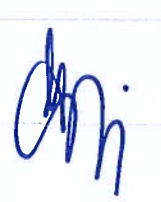

### Separate statement of cash flows for the year ended 31 December

	Notes	2017	2016
<b>Cash flows from operating activities</b>			
Profit for the year		30,517	23,918
<i>Adjustments:</i>			
Accrued current tax expense/(income)		3,647	2,507
Accrued deferred taxes expense/(income)		(326)	-
Impairment of financial assets	17	14,084	6,448
Impairment of non-current assets held for sale		75	27
Depreciation and amortisation	20,21	1,649	1,615
Net gains on transactions with non-current assets held for sale	6	(802)	(45)
Net (gains) / losses on financial assets and liabilities held for trading		(554)	-
Accrued short-term liabilities to employees	26	4,534	108
Unrealised foreign exchange losses	6	153	236
Taxes paid		(5,185)	(2,403)
<b>Cash flows from in operating activities before changes in operating assets and liabilities</b>		<b>47,792</b>	<b>32,411</b>
Net increase in the statutory reserves with Central banks	11	(4,710)	(8,807)
Net decrease / (increase) in loans to banks > 3 months		493	(8,805)
Net increase in loans to customers	16	(94,904)	(46,588)
Net (increase) / decrease in available-for-sale financial assets	14	(3,375)	1,102
Net decrease / (increase) in non-current assets held for sale		276	(5,381)
Net decrease / (increase) in derivatives		183	(14)
Net increase in financial assets held for trading		(2,330)	(1,005)
Net increase in financial assets held to maturity		(397)	-
Net decrease in other assets		6,262	247
Net increase in deposits from banks	24	(5,879)	(18,796)
Net increase in deposits from customers	24	64,964	70,581
Net increase in other liabilities	26	172	4,155
<b>Net cash flows from operating activities</b>		<b>8,547</b>	<b>18,892</b>

(Continued on the next page)

The notes on pages 14 to 84 form an integral part to the accompanying separate financial statements.

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

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



31 Decemeber 2017



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

**Separate statement of cash flows (continued)**

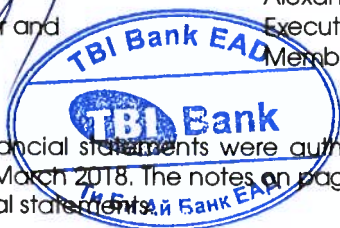
	Notes	2017	2016
<b>Cash flows from investing activities</b>			
Purchases in held-to-maturity financial assets	15	-	(8,081)
Proceeds/(payments) related to investments in subsidiaries	22	3,745	(2,943)
Purchase of intangible assets	21	(2,300)	(410)
Proceeds from disposal of property and equipment	21	-	15
Purchase of property and equipment	21	(820)	(600)
<b>Net cash flows from/(used in) investing activities</b>		<b>625</b>	<b>(12,019)</b>
<b>Cash flows from financing activities</b>			
Payments made on other borrowings	26	(422)	(3,400)
Share capital increase	30	-	3,000
<b>Net cash flows used in financing activities</b>		<b>(422)</b>	<b>(400)</b>
<b>Net increase in cash and cash equivalents</b>		<b>8,750</b>	<b>6,473</b>
Cash and cash equivalents at the beginning of the period (1 January)	31	122,943	116,470
<b>Cash and cash equivalents at the end of the period (31 December)</b>	31	<b>131,693</b>	<b>122,943</b>

<b>Cash flows related to interest and dividends</b>			
		<b>2017</b>	<b>2016</b>
Interest paid		(7,445)	(6,902)
Interest received		86,261	66,440
Dividends received		21	-

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

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**Notes to the separate financial statements****1 General information and accounting policies**

TBI Bank EAD (the Bank) was incorporated on 11 November 2002 as a joint-stock company with a two-tier management system under the name West - East Bank AD with the following shareholders: Aktiva Holding B.V., Factor Banka d.d. and LB Maxima D.O.O. The Bank was registered at Sofia City Court as a joint-stock company on 28 August 2003, UIC 131134023, after receiving a licence from the Bulgarian National Bank allowing it to render banking services on 13 August 2003. It started its operations on 1 October 2003. In 2006 Nova Ljubljanska Banka d.d. consecutively acquired 97.01% of the share capital of the Bank: on 14 April 2006 - 72.51 %, and then on 28 December 2008 another 24.50 % of the capital. The name of the Bank was initially changed to NLB Banka West – East AD, and subsequently to NLB Banka Sofia AD. Until mid-2011 the Bank, still under the name of NLB Banka Sofia AD, is controlled by Nova Ljubljanska Banka d.d., which holds 97.01% of its shares. The remaining 2.99% of the shares are held by Factor Banka d.d.

At the end of July 2011 TBIF Financial Services B.V., having its registered office in the Netherlands, acquired 100 % (38,399,001 shares) of the Bank's capital. The legal form of the Bank was changed – from a joint-stock company it was transformed into a sole owner joint-stock company. In October 2011 the Bank's capital was increased by BGN 8,001 thousand, and at the end of November 2011 the name of the Bank was changed to TBI Bank EAD. As at 31 December 2016 the Bank's capital amounted to BGN 81,600 thousand, distributed in 81,600,000 ordinary dematerialised shares with a par value of BGN 1 each.

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

The parent of the Bank is Tirona Limited, Cyprus. The parent is looking for opportunities to invest in financial services, particularly banking, mortgage and consumer financing, asset management and investment advisory services in Central and Eastern Europe, and in some former CIS republics. The ultimate parent of the Bank is 4Finance having its registered address in Latvia. The bonds of the company are quoted on the stock exchanges Frankfurt Stock, Irish Stock Exchange and Nasdaq Stockholm.

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

The policy of the Bank is to carry all of its investments in subsidiaries at cost in its separate financial statements. Dividends are recognised as income when the Bank's right to receive them arises.



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)**

The accompanying financial statements are not consolidated financial statements in accordance with art. 37, paragraph 2 of the Accountancy Act and International Accounting Standard 10 *Consolidated Financial Statements*. The Bank prepares consolidated financial statements in accordance with IFRS 10 and the Bulgarian legislation. These consolidated financial statements are available at [www.tbibank.bg](http://www.tbibank.bg). In order to obtain the complete information as to the financial position, performance and changes in the financial position of the Group as a whole, the accompanying financial statements should be read by the users together with the consolidated financial statements as at and for the year ended 31 December 2017 at the time when these financial statements are available.

The Bank is managed by a Management Board under the control of a Supervisory Board. As at 31 December 2017 the Management Board comprises four members with a term of office up to five years elected by the Supervisory Board. Three of the Management Board members are also Executive Directors and the Bank is represented jointly by each two of its Executive Directors. The Supervisory Board comprises at least three but not more than seven members with a term in office of up to five years. The individuals charged with the overall governance are presented by the Audit Committee (Ariel Hason, Inita Hane and Dmitri Kislyakov) and the Supervisory Board (Ariel Hason, Rieran Donnelly, Nicholas John Philpott and Gauthier Van Weddingen) of the Bank.

The accompanying separate financial statements, as well as the consolidated financial statements have been approved by the Bank's Management Board by virtue of resolution of 29 March 2018.

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

**a Basis of preparation of the financial statements****Statement of compliance**

The accompanying financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRIC) as adopted by the European Union. Reporting framework "IFRS as adopted by the EU" is essentially the defined national basis of accounting "IAS, as adopted by the EU", stipulated in the Bulgarian Accountancy Act and defined in paragraph 8 of its Additional provisions.

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

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

The bank presents its statement of financial position based on liquidity. An analysis of the recovery of assets or the settlement of liabilities within twelve months after the balance sheet date (current) and more than 12 months after the balance sheet date (non-current) is presented in the Notes to the financial statements.



**31 Decemeber 2017**

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

**Notes to the separate financial statements (continued)**

**1 General information and accounting policies (continued)**

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

**Comparability of data**

The financial statements provide comparative data with respect to the previous period.

Aiming at achieving a better presentation, the Bank's management judged as necessary and revised the previous period's presentation of certain items of the separate financial statements.

The revision relates to the disclosure of the statement of comprehensive income as follows:

- reclassification of other administrative expenses to fee and commission expenses at the amount of BGN 187 thousand (2016: BGN 208 thousand);
- other operating expenses are presented in detail in the financial statements – staff costs, amortization and depreciation and other administrative expenses – BGN 21,379 thousand (2016: administrative expenses – BGN 13,423 thousand, operating lease rentals – BGN 2,055 thousand, materials – BGN 847 thousand and reclassification of other administrative expenses – BGN 208 thousand);
- net trading gain (2016: BGN 851 thousand) and loss on derivative instruments (2016: BGN 885 thousand) are presented in the financial statements as net trading gain/loss and other operating expenses, net;
- net trading gain in Note 6 is presented according to the type of operation: gain on financial assets held for trading (2016: BGN 30 thousand) and net foreign translation gain (2016: BGN 746 thousand);
- in Note 7 net gain on financial assets (2016: BGN 266 thousand) and other operating income, net (2016: BGN 571 thousand) are not presented separately.

The reclassifications made have no effect on the reported financial position, performance or cash flows of the Bank.

The accounting policies applied by the Bank are consistent with those applied during the preceding reporting period, except the following amended IFRS adopted as of 1 January 2017.

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

The objective of these amendments is to clarify the accounting for deferred tax assets for unrealised losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment. The amendments have no effect on the financial position or performance of the Bank.

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

The objective of these amendments is to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes. The amendments affect presentation only and have no impact on the Bank's financial position or performance. The Bank has provided the information for the current period in Note 31.



## Notes to the separate financial statements (continued)

## 1 General information and accounting policies (continued)

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

**IFRS 9 Financial Instruments: Classification and Measurement**

The standard is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. Except for hedge accounting, retrospective application of the standard is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Bank plans to adopt the new standard on the required effective date – 1 January 2018 and will not restate comparative information.

During 2017, the Bank has started an impact assessment of all three aspects of IFRS 9. As at 1 January 2018, based on the preliminary calculations, performed by the Bank, there will be an adjustment in opening balance of equity of the Bank, ranging from BGN 4,500 thousand to BGN 4,800 thousand. The adjustment is the result of:

- Increase in impairment of loans provided to individuals ranging from BGN 650 thousand to BGN 700 thousand;
- Increase in impairment of corporate lending ranging from BGN 600 thousand to BGN 630 thousand;
- Increase in impairment of other financial assets ranging from BGN 110 thousand to BGN 120 thousand.

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

The Company expects no significant impact on its statement of financial position and equity as a result of the initial application of IFRS 9 except for the effect of applying the following requirements of IFRS 9:

- Classification and measurement of equity instruments, classified as „available-for-sale“ in compliance with IFRS 39.
- Impairment of other receivables – update of the historical observed default rates (using a provision matrix) by analyzing the changes in the forward-looking estimates;

In accordance with the “Rules for classification and impairment of financial assets”, adopted in January 2018, sub-portfolios, assessed on collective basis, and exposures, assessed on individual basis, are determined by a written decision of the Impairment Committee of TBI Bank EAD.

Risk exposures of the Bank are classified by using a three-stage model, as follows:

Classification of risk exposures – Stage 1

The following criteria should be simultaneously met for the exposures included in the Stage 1 classification:

- Exposures past due up to 30 days;
- Exposures without sufficient evidence for financial difficulties;
- Exposures which are not defined as restructured.

Stage 1 risk exposures are those, which are serviced on a regular basis and the information on the debtor's financial position casts no doubts that the debtor will be capable to repay the debt in full.



**31 Decemeber 2017**

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

## Notes to the separate financial statements (continued)

### 1 General information and accounting policies (continued)

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

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

##### Classification of risk exposures – Stage 2

The following criteria should be simultaneously met for the exposures included in the Stage 2 classification:

- Exposures past due between 31-90 days;
- Exposures without sufficient evidence for financial difficulties;
- Exposures defined as restructured in accordance with COMMISSION IMPLEMENTING REGULATION (EU) 2015/1278 of 9 July 2015 amending Implementing Regulation (EU) № 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions as regards instructions, templates and definitions.
- Forborne exposure, if any one of the following conditions are met:
  - а) this extension has not resulted in classifying the exposure in the non-performing category;
  - б) the exposure was not considered a non-performing exposure as at the date of implementation of the forbearance measures.

• Balance sheet exposures, resulting from meeting off-balance sheet commitments, are classified as exposures belonging to at least Stage 2.

##### Classification of risk exposures – Stage 3

These are risk exposures where significant weaknesses exist with respect to their servicing or there is a serious deterioration in the financial position of the debtor which may cast doubts as to the full repayment of the obligation.

The following criteria should be simultaneously met for the exposures included in the Stage 3 classification:

- Exposures, which fulfill the criteria for Stage 3 exposures, corresponding to the existing impairment models under IFRS 9, which result in a loss for the Bank;
- All non-performing exposures, as defined by the Bank, for non-performance of 90 + days after maturity;
- Loan commitment to the Bank of considerable amount that is more than 90 days past due;
  - for exposures to individuals – BGN 5 or the equivalent value in other currencies;
  - for exposures to legal entities – BGN 100 or the equivalent value in other currencies;
- Under the baseline scenario, it is unlikely that the debtor's loan commitment to the Bank will be fully repaid, without the Bank being forced to resort to collateral foreclosure.



**31 Decemeber 2017**

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

**Notes to the separate financial statements (continued)**

**1 General information and accounting policies (continued)**

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

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

All restructured exposures, which meet the conditions described below, should in all cases be classified as non-performing:

- Have inappropriate repayment schedule (both original and subsequent), which includes, among other factors, repeated non-compliance with the repayment schedule, changes in the repayment schedule or repayment schedule based on expectations, that are not supported by macroeconomic projections or realistic assumptions about the debtor's ability and willingness to pay;
- Loan contracts containing provisions, which allow payment to be received for a certain period of time after the actual due date in such a way as to cover up the assessment for appropriate classification by offering a grace period for the principal of 2 or more years;
- Inclusion of write-offs that exceed the accumulated losses on credit risk for non-performing exposures with a similar risk profile.
- Additional restructuring measures are implemented to performing restructured exposures in probation period, which have been reclassified out of the non-performing category or are past due more than 30 days after maturity.
- The bank has started insolvency proceedings, the debtor is declared bankrupt or is being wound up and the result may be dissenting creditors, with no possibility of reorganization.

Loans provided to individuals are fully monitored as per past due criterion for default identification.

**IFRS 15 Revenue from Contracts with Customers**

The standard is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. IFRS 15 was issued in May 2014, and amended in April 2016, including standard clarifications. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Under IFRS 15 revenue is recognized to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The new revenue standard will supersede all current revenue recognition requirements under IFRS – IAS 11 Construction contracts and IAS 18 Revenue, as well as related interpretations. The standard requires either a full retrospective application or a modified retrospective application.



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****c Standards issued but not yet effective and not early adopted (continued)****IFRS 15 Revenue from Contracts with Customers (continued)**

The Bank plans to adopt the new standard on the required effective date 1 January 2018. During 2017, the Bank started an assessment of the effects from adoption of IFRS 15, and at the date of issuing its 2017 financial statements is in the process of finalizing this analysis. As such the disclosed below information on the possible impact that application of IFRS 15 will have on its financial statements in the period of initial application may be subject to further changes in 2018.

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

**IFRS 16 Leases**

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their balance sheet and to have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Bank will analyze and assess the impact of the new standard on its financial position or performance.

**IFRS 17: Insurance Contracts**

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



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

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## Notes to the separate financial statements (continued)

### 1 General information and accounting policies (continued)

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

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

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

##### ***IFRS 2 Share-based Payment (Amendments): Classification and Measurement of Share based Payment Transactions***

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

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

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

##### ***IFRIC 22 Foreign Currency Transactions and Advance Consideration***

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



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

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**Notes to the separate financial statements (continued)**

**1 General information and accounting policies (continued)**

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

**IFRIC 23 *Uncertainty over Income Tax Treatments***

The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. This interpretation has not yet been endorsed by the EU. The Bank is in the process of assessing the impact of the new interpretation on its financial position or performance.

**IAS 40 *Investment Property (Amendments): Transfers of Investment Property***

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

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

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

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

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



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

**Notes to the separate financial statements (continued)**

**1 General information and accounting policies (continued)**

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

**Annual Improvements to IFRSs 2014-2016 Cycle**

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

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

The improvements to IFRSs 2014 – 2016 – the Bank is in the process of assessing the impact of the amendments on its financial statements.

**Annual Improvements to IFRSs 2015-2017 Cycle**

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

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

The improvements to IFRSs 2015 – 2017 Cycle have not yet been endorsed by EU. The Bank is in the process of assessing the impact of the amendments on its financial statements.

**d Foreign currency transactions**

*(a) Functional and presentation currency*

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

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



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****d Foreign currency transactions (continued)***(b) Transactions and balances*

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

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

As at 31 December 2017 monetary assets and liabilities denominated in foreign currencies were translated at the official exchange rate quoted by BNB on this date – BGN 1.95583 = EUR 1, BGN 1.63081 = USD 1 and BGN 0. 419841 = RON 1 (31 December 2016: BGN 1.95583 = EUR 1, BGN 1.85545 = USD 1, BGN 0. 430894 = RON 1).

The Bank's foreign operation assets and liabilities, through its branch in Bucharest, Romania, were translated into Bulgarian lev at the closing exchange rate quoted by BNB, valid for the new Romanian leu as at 31 December 2017. The foreign operation income and expenses were translated at the average exchange rate for the reporting period, which amounted to BGN 0. 4281345 = RON 1 in 2017 (2016: 0.4355579 ). The effects of the translation of the functional currency of the branch into the functional currency of the Bank are recognised in the other comprehensive income.

**e Interest income and expense**

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

The effective interest method is a method for calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. Effective interest rate is the percentage that exactly discounts expected future cash payments or receipts through the expected life of the financial instrument or, when appropriate, over a shorter period to the net carrying amount of the financial asset or financial liability.

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

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



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****f Fee and commission income and expenses**

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

**g Financial assets**

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

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

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

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

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

*(b) Held-for-trading financial assets*

Held-for-trading investments are part of the fair value through profit and loss category and comprise those financial assets that the Bank acquires for generating a profit in the short-term fluctuations in price or trader's margin. Held-for-trading financial assets are recognised initially on the Bank's statement of financial position and subsequently, they are revalued at fair value with transaction costs, realized gains on the disposal of the financial assets, and unrealized gains on changes in fair value are being reported directly in profit or loss. Realized gains on interest on financial assets held for trading is reported as interest income.

*(c) Loans and receivables*

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



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****g Financial assets (continued)***(c) Loans and receivables (continued)*

Loans and receivables are recognised upon the disbursement of the cash to the borrowers. Following initial recognition loans and receivables are subsequently carried at amortised cost, less any impairment allowance, using the effective interest method.

*(d) Held-to-maturity investments*

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities which the Bank's management intends to and is capable to hold to maturity with the exception of: a) those that upon initial recognition are reported at fair value through profit or loss; b) those that the Bank has determined as held to maturity; and c) those that are defined as loans and receivables. If the Bank intends to sell a material portion of the value of held to maturity assets the whole category is reclassified as available for sale financial assets. Following initial recognition held to maturity investments are measured at amortised cost applying the effective interest rate method before impairment allowances. Interest income on investments held to maturity is reported as interest income. The Bank assesses its intention and ability to holds its investments to maturity not only upon the initial recognition of these financial assets, but subsequently at each balance sheet date.

*(e) Available-for-sale financial assets*

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

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

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

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



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****h Impairment of financial assets***(a) Assets carried at amortised cost*

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

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

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

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

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

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



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****h Impairment of financial assets (continued)***(a) Assets carried at amortised cost (continued)*

When consumer loans are extended to individuals the Bank accrues collective impairment which reflects the expectations of the management for the future cash flows from the consumer portfolio. When applying collective impairment the loan portfolio of the Bank is assessed on portfolio basis, taking into account the homogeneous nature of the exposure's risk profile. Impairment is calculated applying certain percentage on the gross exposure based on the number of days the payments are overdue.

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

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

*(b) Available-for-sale financial assets*

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

*(c) Renegotiated loans*

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

**i Offsetting of financial assets and liabilities**

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



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****j Derecognition of financial assets and liabilities***Financial assets*

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

- the contractual rights to receive cash flows from the financial asset have expired;
- the contractual rights to receive cash flows from the financial asset have been retained, but there is a contractual obligation to pay all cash flows collected, without significant delay, to a third party under a transfer arrangement, or the contractual rights to receive cash flows from the financial assets have been transferred, where (a) the Bank has transferred significantly all risks and rewards from the ownership of the transferred asset; or (b) the Bank has neither transferred, not retained significantly all risks and rewards from the ownership of the financial asset, but has not retained control over the asset.

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

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

*Financial liabilities*

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



**Notes to the separate financial statements (continued)****l General information and accounting policies (continued)****k Investments in subsidiaries and associates**

Investments in subsidiaries include equity interests in entities over which the Bank exercises control. In accordance with the requirements of *IFRS 10 Consolidated Financial Statements* the Bank has control when all of following criteria are met cumulatively:

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

Based on the above criteria in 2017 the Bank has assessed that it has control over all of the entities in which it holds, directly or indirectly, more than 50% of the voting rights.

Investments in associates are equity interests in entities where the Bank does not have control, alone or jointly with other entities, but where it has significant influence over their operations.

In its separate financial statements the Bank has adopted the policy to present investments in subsidiaries and associates at cost.

**l Property and equipment**

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

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

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

*The annual depreciation rates are as follows:*

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

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



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****l Property and equipment (continued)**

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

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

**m Intangible assets**

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

*The annual amortisation rates are as follows:*

Software	25 %
Other	25 %

**n Non-current assets classified as held for sale**

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

**o Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and cash in bank accounts, held with central banks, as well as cash in nostro accounts held with other banks, as well as deposits with banks with original maturity of less than three months. Cash and cash equivalents do not include encumbered assets.

**p Taxes**

Current income taxes are calculated in accordance with the requirements of the Bulgarian tax legislation - the Corporate Income Tax Act and the Romanian tax legislation with respect to the income taxes of the branch. The nominal tax rate applicable in Bulgaria in 2017 is 10 % (2016: 10%), and the tax rate applicable in Romania is 16% (2016: 16 %). Current tax for the reporting period is based on the taxable profit for the year at the tax rates in effect as at the balance sheet date. Tax expenses, other than income taxes, are included in the other operating costs.

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



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

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**Notes to the separate financial statements (continued)**

**1 General information and accounting policies (continued)**

**p Taxes (continued)**

Deferred tax liabilities are recognised for all taxable temporary differences.

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

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

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

**q Provisions**

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

**r Financial liabilities**

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

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

**s Share capital**

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



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

## **Notes to the separate financial statements (continued)**

### **1 General information and accounting policies (continued)**

#### **f Leases**

##### **The Bank as lessor**

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

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

Where reassessment is made and it is determined that the arrangement is (or contains) a lease, lease accounting shall commence or cease from:

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

##### **Operating lease**

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

##### **Finance lease**

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

##### **The Bank as Lessee**

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



**Notes to the separate financial statements (continued)****1 General information and accounting policies (continued)****u Financial guarantee contracts**

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

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

**v Employee benefits**

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

**w Dividends**

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

**x Fiduciary assets in custody**

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

**y General information**

The Bank provides services as an investment intermediary in accordance with the provisions of the Public Offering of Securities Act (POSA). Being an investment intermediary, the Bank is obliged to comply with certain requirements for safeguarding the customers' interests in compliance with the Markets in Financial Instruments Act (MFIA) and Ordinance 38, issued by the Financial Supervision Commission (FSC). The Bank has developed and implements organisation for the conclusion and implementation of the contracts with clients; observing the requirement for information from customers, as well as keeping of the corresponding accounts and preserving the customer's assets in compliance with the statutory legislation and in particular, the requirements of Ordinance 38, articles 28-311. The Bank has elaborated internal control rules and procedures in order to insure compliance with the above legislation.



**Notes to the separate financial statements (continued)****2 Financial risk management**

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

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor adherence to the risk limits by means of a reliable and up-to-date information system. The Bank regularly reviews its risk management policies and systems to reflect in a timely manner changes in the markets, products and emerging best practice.

In September 2017 the Bank adopted Internal Capital Adequacy Assessment Process (ICAAP) methods, stress testing to determine the risk exposure of TBI Bank EAD and Internal Liquidity Adequacy Assessment Process (ILAAP) methods. In January 2018 the Bank updated the rules for the classification and impairment of financial assets in accordance with the requirements of *International Financial Reporting Standard 9* (IFRS 9) and the Business Continuity and Contingency Plan of TBI Bank EAD.

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

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

The Supervisory Board passes decisions on the measures to be taken by the Bank with respect to its long-term risk management policy and strategy.

The process of risk management includes the following stages:

- risk identification – definition of its nature and description;
- risk measurement and assessment – methods to measure the risks and to ensure reliable outgoing data for risk measurement;



**Notes to the separate financial statements (continued)****2 Financial risk management (continued)**

*Risk management units:* Decrease of risk – decrease of potential and probable losses through defining acceptable levels of risk, outsourcing, monitoring and other methods for decreasing the risk.

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

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

**a Credit risk**

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of acceptable risk in relation to its exposure to one borrower or a group of borrowers, as also by geographical regions and industry segments. Such risks are monitored regularly and are subject to annual or more frequent review.

*Loans to other banks and customers*

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

- international ratings awarded by recognised rating agencies;
- assessment of the financial position of the individual debtor;
- ability of the debtor to secure sufficient funds for regular repayment of its future payables to the Bank;
- servicing of past liabilities of the debtor to the Bank and/or to other institutions;
- type and amount of providing for the balance sheet and contingent liabilities of the customer.

The Bank manages the credit risk on loans and advances to customers or banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered. Financial risk is assessed following detailed analysis of the financial statements of the borrower/guarantor, based on a system of creditworthiness indicators.

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

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



## Notes to the separate financial statements (continued)

### 2 Financial risk management (continued)

#### a Credit risk (continued)

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

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

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

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

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

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

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

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

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

Loans provided to individuals are fully monitored as per past due criterion for default identification.



**Notes to the separate financial statements (continued)****2 Financial risk management (continued)****a Credit risk (continued)****Risk mitigation and risk limits control policies**

The Bank manages limits and controls the concentration of credit risk to its counterparties, groups and sectors for each type of risk identified.

For the purpose of credit risk management the Bank has set loan approval levels and the respective approving units. Depending on the amount of the loan applied for the loans are presented for approval at the respective level. The Bank assesses financial, market and business risk, as well as the adequate structuring of the deals. Credit risk is measured based on detailed analysis of the financial statements of the borrower / guarantor against a system of creditworthiness indicators.

The exposure to each borrower, including banks and intermediaries, is further limited by: sub-limits, covering balance sheet exposures and contingent liabilities and firm commitments; daily risk limits in relation to trading positions, such as forwards. The actual exposures against the respective limits are monitored currently. The credit risk exposure is managed using a continuous analysis of the ability of the borrowers and potential borrowers to repay their liabilities and through changes in the credit limits, as appropriate.

*Collaterals*

The Bank is using a set of policies and practices aimed at mitigating credit risk. A requirement of the Bank to the borrowers is the provision of liquid collaterals prior to the granting of the approved loans for all loans other than consumer loans to individuals. The main types of collaterals on loans granted to clients include:

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

To minimise loan losses the Bank requires additional collaterals from the counterparties if any indications for impairment of the respective individual receivables on the loans granted are identified. Collaterals held as pledges on financial assets, other than loans and advances, are determined by the nature of the financial instrument.

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



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**a Credit risk (continued)**

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

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

**At at 31 December**

**Loans to customers**

	<b>2017</b>		<b>2016</b>	
	<b>Gross amount of loans</b>	<b>Collateral</b>	<b>Gross amount of loans</b>	<b>Collateral</b>
Loans, collateralized by mortgages	90,702	87,352	75,391	73,918
Loans with cash collateral	1,045	921	80	30
Loans with other collateral	15,631	5,948	21,974	19,015
Unsecured loans	356,323	-	276,451	-
<b>Total loans to customers</b>	<b>463,701</b>	<b>94,221</b>	<b>373,896</b>	<b>92,963</b>

The table below shows the level of coverage of credit risk by collateral provided as a percentage of the carrying amount of the loans, by types of collateral as of 31 December 2017 and 31 December 2016. The amount of collateral is considered up to the amount of exposures it relates to, thus eliminating the effect of collateral exceeding the exposure. Exposures secured by mortgage are 96 % covered for credit risk, and those secured by cash – 88 %, which illustrates the level of the Bank's exposure to risk of credit losses.

	<b>2017</b>	<b>2016</b>
Loans, collateralized by mortgages	96%	98%
Loans with cash collateral	88%	38%
Loans with other collateral	38%	87%



**31 Decemeber 2017**



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**a Credit risk (continued)**

*Contingent liabilities and irrevocable commitments*

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

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

*Maximum exposure to credit risk before collaterals*

The table below presents the worst case scenario of exposure to credit risk of the Bank as at 31 December 2017 and 31 December 2016 without taking into account any collateral. Exposures for balance sheet assets are based on the net book values reported at the balance sheet date.

<b>As at 31 December</b>	<b>Maximum exposure</b>	
	<b>2017</b>	<b>2016</b>
Cash on hand and balances with central banks	157,448	54,943
Placements with other banks	18,363	105,681
Held-for-trading financial assets	-	1,019
Derivatives	10	-
Loans to customers:		
Corporate clients	109,500	123,921
Individuals	322,319	227,077
Available-for-sale investments	26,519	10,764
Held-to-maturity investments	-	8,081
Other receivables	2,457	9,046
<i>Credit risk exposures related to contingent liabilities and irrevocable commitments are as follows:</i>		
Guarantees	1,285	1,015
Undrawn loans commitments	13,558	13,517
<b>Total maximum exposure to credit risk</b>	<b>651,459</b>	<b>555,064</b>



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**a Credit risk (continued)**

Loans to customers are summarised as follows:

**As at 31 December 2017**

	<b>Loans to customers</b>
Neither past due, nor impaired individually	300,609
Past due but not impaired individually	152,690
Impaired individually	10,402

<b>Gross amount</b>	<b>463,701</b>
Less: allowance for impairment losses	(31,882)

<b>Carrying amount</b>	<b>431,819</b>
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**As at 31 December 2016**

	<b>Loans to customers</b>
Neither past due, nor impaired individually	264,373
Past due but not impaired individually	93,006
Impaired individually	16,517

<b>Gross amount</b>	<b>373,896</b>
Less: allowance for impairment losses	(22,898)

<b>Carrying amount</b>	<b>350,998</b>
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The total allowance for impairment losses of loans and advances at 31 December 2017 is BGN 31,882 thousand (2016: BGN 22,898 thousand). Allowances accrued on individually assessed financial assets amount to BGN 2,843 thousand (2016: BGN 3,388 thousand), and allowances based on collective impairment assessment amount to BGN 29,039 thousand (2016: BGN 19,510 thousand). Further information on impairment loss allowances on loans to customers is presented in Note 17. In 2017 loans to customers granted by the Bank before impairment, increased by 19.37% YoY. For the purpose of the effective credit risk management, the Bank continues to be actively involved in renegotiation, restructuring and closing of existing risk exposures.

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

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

<b>As at 31 December 2017</b>	<b>Corporate clients</b>	<b>Individuals</b>	<b>Total</b>
<b>Total</b>	<b>59,582</b>	<b>241,027</b>	<b>300,609</b>
Including			
Standard risk loans	53,296	239,496	<b>292,792</b>
Higher risk loans	6,286	1,531	<b>7,817</b>

Higher risk loans are loans which have not been repaid for six months as of the date of the financial statements are neither past due nor impaired.



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**a Credit risk (continued)**

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

<b>As at 31 December 2016</b>	<b>Corporate clients</b>	<b>Individuals</b>	<b>Total</b>
<b>Total</b>	<b>77,309</b>	<b>187,064</b>	<b>264,373</b>
Including			
Standard risk loans	77,208	187,059	264,267
Higher risk loans	101	5	106

The consumer loan portfolio, which represents more than 80.18 % (2016: 70.76%) of all receivables that are neither past due nor individually impaired, is strongly diversified both in terms of number and of amount. The latter comprises many small exposures without geographic and sector concentrations, characterised with its short-term nature and high quality based on past experience. With respect to loans to enterprises, these are primarily SMEs of acceptable quality and within the Bank's risk appetite. The loan portfolio comprises loans secured mainly by mortgages and loans financed under joint schemes with SFA and NGF.

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

For the purpose of presenting the quality of credit risk loans to customers that are past due but not impaired individually are divided on the basis of historical analysis of non-performance of the customers' obligations. The group bearing higher risk includes exposures past due for more than 90 days as at the date of the financial statements. All other exposures are included in the group of standard quality of credit risk.

<b>31 December 2017</b>	<b>Corporate clients</b>	<b>Individuals</b>	<b>Total</b>
Past due up to 30 days	18,186	62,004	<b>80,190</b>
Past due from 31 to 60 days	6,353	15,794	<b>22,147</b>
Past due from 61 to 90 days	2,650	5,276	<b>7,926</b>
Past due more than 90 days	17,222	25,205	<b>42,427</b>
<b>Total gross amount</b>	<b>44,411</b>	<b>108,279</b>	<b>152,690</b>
Less: allowance for impairment losses	(1,986)	(27,053)	(29,039)
<b>Carrying amount</b>	<b>42,425</b>	<b>81,226</b>	<b>123,651</b>



## 31 Decemeber 2017

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

### Notes to the separate financial statements (continued)

#### 2 Financial risk management (continued)

##### a Credit risk (continued)

*Loans to customers that are past due, but are not impaired individually (continued)*

31 December 2016	Corporate clients	Individuals	Total
Past due up to 30 days	9,513	33,557	43,070
Past due from 31 to 60 days	10,651	6,021	16,672
Past due from 61 to 90 days	3,153	1,646	4,799
Past due more than 90 days	10,783	17,682	28,465
<b>Total gross amount</b>	<b>34,100</b>	<b>58,906</b>	<b>93,006</b>
Less: allowance for impairment losses	(615)	(18,895)	(19,510)
<b>Carrying amount</b>	<b>33,485</b>	<b>40,011</b>	<b>73,496</b>

According to its internal rules and policies the Bank measures corporate loans individually in its portfolio and sets aside impairment allowance in case of objective evidence for impairment. Consumer loans and retail loans are reviewed for indicators for impairment on portfolio basis, and the credit quality is determined based on analysis of the days past due and the respective volume of the default.

*Loans to customers impaired individually*

31 December 2017	Corporate clients	Individuals	Total
Gross amount	10,402	-	10,402
Less: allowance for impairment losses	(2,843)	-	(2,843)
<b>Carrying amount</b>	<b>7,559</b>	<b>-</b>	<b>7,559</b>
31 December 2016	Corporate clients	Individuals	Total
Gross amount	16,517	-	16,517
Less: allowance for impairment losses	(3,388)	-	(3,388)
<b>Carrying amount</b>	<b>13,129</b>	<b>-</b>	<b>13,129</b>

For individually assessed positions loans are considered impaired at the time when objective evidence for impairment loss is identified.



**31 Decemeber 2017**

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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**a Credit risk (continued)**

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

*Geographic sectors*

Financial assets	Total assets	
	2017	2016
Bulgaria	293,532	230,887
Romania	322,169	295,948
Luxembourg	9,837	9,100
The Netherlands	5,389	-
Other countries	5,689	4,596
<b>Total financial assets</b>	<b>636,616</b>	<b>540,531</b>
<i>Exposures to credit risk related to contingent liabilities and irrevocable commitments:</i>		
Bulgaria	14,205	12,938
Romania	636	1,594
Other countries	2	-
<b>Total financial assets and contingent liabilities and irrevocable commitments</b>	<b>651,459</b>	<b>555,063</b>

The table below presents an analysis of available-for-sale financial assets and placements with other banks at 31 December 2017 and 31 December 2016 based on criteria set by a rating agency as a result of credit assessments of a recognised external institution.

Rating	31 December 2017		Rating	31 December 2016	
	Available-for-sale financial assets	Placements with other banks		Available-for-sale financial assets	Placements with other banks
Aa3 (Moody's)	-	5,379	Aa3 (Moody's)	-	-
Baa1 (Moody's)	-	2,811	Baa1 (Moody's)	-	536
BBB (Fitch)	-	8,221	BBB (Fitch)	-	77,926
Baa2 (Moody's)	-	-	Baa2 (Moody's)	-	2,427
Baa3 (Moody's)	-	748	Baa3 (Moody's)	-	-
BBB- (Fitch)	16,593	4	BBB- (Fitch)	10,675	-
BBB- (BCRA)	-	1,200	BBB- (BCRA)	-	946
BB+ (BCRA)	-	-	BB+ (BCRA)	-	1
BB- (Fitch)	-	-	BB- (Fitch)	-	23,841
Ba3 (Moody's)	-	-	Ba3 (Moody's)	-	4
B2 (Moody's)	9,837	-	B2 (Moody's)	-	-
Without rating	89	-	Without rating	89	-
<b>Total</b>	<b>26,519</b>	<b>18,363</b>	<b>Total</b>	<b>10,764</b>	<b>105,681</b>



**31 Decemeber 2017**

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

## **Notes to the separate financial statements (continued)**

### **2 Financial risk management (continued)**

#### **a Credit risk (continued)**

As at 31 December 2017 the rating of financial assets held for trading and financial assets held to maturity is B3 (Moody's).

Placements with other banks and other financial institutions that are not rated are categorised internally based on quantitative and qualitative factor analysis.

At 31 December 2017 and 31 December 2016 other receivables were neither past due nor impaired. Other receivables are settled within 30 days after the date of occurrence and therefore, they are considered not past due. Other receivables were fully paid at the date of issue of the financial statements.

As of 31 December 2017 the rating of cash balances on accounts with central banks was BBB- (2016: BBB-).

#### **b Market risk**

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

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

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

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

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

The objectives of market risk control and supervision are:

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



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

## Notes to the separate financial statements (continued)

### 2 Financial risk management (continued)

#### b Market risk (continued)

##### Market risk measurement techniques

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

- foreign exchange rates;
- interest rates;
- fair value of financial assets held for trading. The Bank assesses the risk as immaterial.

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

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

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

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

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

The nominal amounts in the table below show the volume of outstanding transactions related to derivative contracts as of 31 December 2017 and 31 December 2016.

	Assets 2017	Liabilities 2017	Nominal amount 2017
<b>Derivatives aimed to hedge changes in interest rates/currency risk</b>			
FX swaps	10	224	90,392
	Assets 2016	Liabilities 2016	Nominal amount 2016
<b>Derivatives aimed to hedge changes in interest rates/currency risk</b>			
FX swaps	-	31	64,572

As of 31 December 2017 the Bank had four active derivatives. The effect of the concluded derivative contracts on the profit and loss in the reporting period is a loss of BGN 952 thousand (2016: BGN 885 thousand).



31 Decemeber 2017



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

## Notes to the separate financial statements (continued)

### 2 Financial risk management (continued)

#### b Market risk (continued)

##### Foreign currency risk

Fluctuations in the foreign exchange rates have impact on the financial position and cash flows of the Bank and expose it to foreign currency risk. The Management Board sets limits to control the risk on open FX positions, which are monitored daily. As a rule the Bank does not maintain material open positions in currencies other than the Bulgarian lev and Euro. The Bank does not measure sensitivity to foreign currency risk since as at 31 December 2017 the Bulgarian lev is pegged to the Euro. The open FX position in RON, which amounted to BGN 97,638 thousand as at 31 December 2017 (2016: BGN 73,708 thousand), is hedged by means of FX forward and swap with a nominal amount of BGN 88,243 thousand (2016: FX forward at the amount of BGN 64,572 thousand).

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

##### As at 31 December 2017

###### Exchange rates

	Direct effect on profit/loss
- 10% devaluation of local currency	(10,217)
+ 10% enhancement of local currency	10,217

##### As at 31 December 2016

###### Exchange rates

	Direct effect on profit/loss
- 10% devaluation of local currency	(7,156)
+ 10% enhancement of local currency	7,156

The Bank considers that there is no sensitivity to and significant impact on capital, since the changes in exchange rates have no significant effect on the revaluation of the available-for-sale securities, revalued in other comprehensive income.

##### Interest rate risk

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

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

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

##### As at 31 December 2017

###### Interest rates

	Effect of changes in interest rates on profit/loss
+100 bp change	798
-100 bp change	(798)



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

## Notes to the separate financial statements (continued)

### 2 Financial risk management (continued)

#### b Market risk (continued)

##### Interest rate risk (continued)

##### As at 31 December 2016

<u>Interest rates</u>	<b>Effect of changes in interest rates on profit/loss</b>
+100 bp change	295
-100 bp change	(295)

The Bank does not consider that there is a significant effect on capital since the changes in interest rate levels do not have a significant impact on the revaluation of available-for-sale securities as most of them are with fixed interest rate.

#### c Fair value of financial assets and liabilities

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

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

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

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

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

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. External valuers are usually engaged for the measurement of the fair values of the material assets and liabilities. The need to engage external valuers is assessed by the Bank's management every year. Selection criteria for external valuers include professional experience, qualities and reputation. The management decides, after discussions with the valuation experts, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured as per the Bank's accounting policies. This involves verification of the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents. The management, in conjunction with the valuation experts, also compares the changes in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.



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

Notes to the separate financial statements (continued)

2 Financial risk management (continued)

c Fair value of financial assets and liabilities (continued)

	Carrying amount		Fair value	
	2017	2016	2017	2016
<b>Financial assets</b>				
Cash on hand and balances with central banks	166,684	66,399	166,684	66,399
Placements with other banks	18,363	105,681	18,363	105,681
Held-for-trading financial assets	-	1,019	-	1,019
Derivatives	10	-	10	-
Loans to customers:				
<i>Corporate clients</i>	109,500	123,957	113,661	128,785
<i>Individuals</i>	322,319	227,041	322,006	224,975
Available-for-sale investments	26,519	10,764	26,519	10,764
Held-to-maturity investments	-	8,081	-	8,152
Other receivables	2,457	9,046	2,457	9,046
<b>Financial liabilities</b>				
Deposits from banks	-	5,879	-	5,879
Derivatives	224	31	224	31
Deposits from customers	506,824	441,860	506,753	442,706
Other borrowings	502	924	502	924
Other liabilities	11,632	7,071	11,632	7,071

(a) Financial assets and liabilities carried at fair value

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

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

- Placements with other banks

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



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

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**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**c Fair value of financial assets and liabilities (continued )**

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

- *Loans to customers*

Loans to customers are carried at amortised cost less any impairment allowance. The fair value of fixed interest rate loans to customers is the discounted future cash inflows by applying interest rate statistical data published by the relevant Central banks. In 2017 and 2016 the Bank extended consumer loans mainly bearing fixed interest rates.

- *Deposits from banks and from customers*

The fair value of deposits from banks approximates their carrying amount due to their short-term nature. The fair value of fixed-rate deposits from customers is the discounted amount of the estimated future cash outflows using market rates.

- *Other borrowings*

The fair value of other fixed rate borrowings without quoted market prices is based on the discounted cash flows using interest rates for new liabilities with similar remaining maturity. The fair value of other borrowings approximates their carrying amount due to the fact that as at 31 December 2017 most of them bear floating interest rates.

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

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

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

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



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

### Notes to the separate financial statements (continued)

#### 2 Financial risk management (continued)

##### c Fair value of financial assets and liabilities (continued)

###### Fair value hierarchy

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

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

	Total	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
<b>Assets measured at fair value</b>				
Available-for-sale financial assets	26,519	26,430	-	89
Derivatives	10	10	-	-
<b>Assets not measured at fair value</b>				
Loans to customers:				
Corporate clients	113,661	-	113,661	-
Individuals	322,006	-	206,051	115,955
<b>Liabilities measured at fair value</b>				
Derivatives	224	-	224	-
<b>Liabilities not measured at fair value</b>				
Deposits from customers	506,753	-	506,753	-
Other borrowings	502	-	502	-

Due to the short-term nature of other assets, placements with other banks, placements from other banks and other liabilities the Bank's management believes that their fair value approximates their carrying amounts as at 31 December 2017.

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

Management believes that no significant changes occurred at 31 December 2017 in the market at which the assets subject to the transaction have been originated and that its parameters reflect the acceptable yield level for the respective type of financial instrument and risk to the Bank.



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**c Fair value of financial assets and liabilities (continued )**

**Fair value hierarchy (continued)**

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

**Reconciliation of Level 3 fair value measurement**

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

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

Transfers were not made in 2017 between the fair value hierarchy levels, nor any changes in the valuation techniques used during the period.

Description of valuation techniques and significant inputs to fair value measurement as at 31 December 2017:

	<b>Valuation technique</b>	<b>Significant observable inputs</b>	<b>Range (weighted average)</b>	<b>Sensitivity analysis</b>
Loans to customers	DCFM	Statistical data of Central banks for interest rates on new business by loans of sectors non-financial entities and mortgage loans by original maturity	2.93% - 22.9% (12.9 %)	Increase (decrease) in interest rates by 5 % would result in a change in the fair value
Deposits from customers	DCFM	Statistical data of Central banks for interest rates on new business by term deposits of sectors non-financial entities and households	0.1% - 2.99% (1.55 %)	Increase (decrease) in interest rates by 2 % would result in a change in the fair value
Other borrowings	DCFM	Current interest rate on borrowings	2%	



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**c Fair value of financial assets and liabilities (continued )**

**Fair value hierarchy (continued)**

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

	Total	Quoted prices in active markets (Level 1)	Significant observabl e inputs (Level 2)	Significant unobservabl e inputs (Level 3)
<b>Assets measured at fair value</b>				
Available-for-sale financial assets	10,764	10,675	-	89
Available-for-trading financial assets	1,019	1,109	-	-
<b>Assets not measured at fair value</b>				
Loans to customers:				
<i>Corporate clients</i>	128,785	-	128,785	-
<i>Individuals</i>	224,975	-	154,081	70,894
Held-to-maturity investments	8,152	8,152	-	-
<b>Liabilities measured at fair value</b>				
Derivatives	31	-	31	-
<b>Liabilities not measured at fair value</b>				
Deposits from customers	442,706	-	442,706	-
Other borrowings	924	-	924	-

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

**Reconciliation of Level 3 fair value measurement**

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



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

## Notes to the separate financial statements (continued)

### 2 Financial risk management (continued)

#### c Fair value of financial assets and liabilities (continued )

##### Fair value hierarchy (continued)

Neither transfers between fair value hierarchy levels, nor any changes in the valuation techniques used during the period were made in 2016.

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

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

#### d Liquidity risk

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

##### *Liquidity risk management process*

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

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



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

## Notes to the separate financial statements (continued)

### 2 Financial risk management (continued)

#### d Liquidity risk (continued)

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

The Asset and Liabilities Management Committee manages:

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

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

The table below presents the financial liabilities of the Bank, payables to personnel and taxes, other than income tax, by maturity groups based on the period remaining from the balance sheet date to the maturity date of the contract. The amounts disclosed in the table represent the contractual undiscounted cash flows.

As at 31 December 2017	Gross outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years
Deposits from banks	-	-	-	-	-
Derivatives	224	-	224	-	-
Deposits from customers	510,324	136,259	76,187	242,199	55,679
Other borrowings	511	61	58	160	232
Other liabilities	16,681	8,180	7,101	1,388	12
<b>Total liabilities (contractual maturity dates)</b>	<b>527,740</b>	<b>144,500</b>	<b>83,570</b>	<b>243,747</b>	<b>55,923</b>
As at 31 December 2016	Gross outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years
Deposits from banks	6,148	9	18	1,242	4,879
Derivatives	31	31	-	-	-
Deposits from customers	445,864	127,084	56,354	235,278	27,148
Other borrowings	957	75	79	271	532
Other liabilities	11,986	258	4,385	7,343	-
<b>Total liabilities (contractual maturity dates)</b>	<b>464,986</b>	<b>127,457</b>	<b>60,836</b>	<b>244,134</b>	<b>32,559</b>



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**d Liquidity risk (continued)**

**Contingent liabilities and irrevocable commitments**

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

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

<b>As at 31 December 2017</b>	<b>Within 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Guarantees:				
- financial	220	511	-	<b>731</b>
- good performance guarantees	534	20	-	<b>554</b>
Commitments:				
- undrawn loan commitments	563	12,995	-	<b>13,558</b>
<b>Total contingent liabilities and irrevocable commitments</b>	<b>1,317</b>	<b>13,526</b>	<b>-</b>	<b>14,843</b>

<b>As at 31 December 2016</b>	<b>Within 1 year</b>	<b>1-5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Guarantees:				
- financial	159	35	-	<b>194</b>
- good performance guarantees	625	196	-	<b>821</b>
Commitments:				
- undrawn loan commitments	3,022	8,404	2,091	<b>13,517</b>
<b>Total contingent liabilities and irrevocable commitments</b>	<b>3,806</b>	<b>8,635</b>	<b>2,091</b>	<b>14,532</b>

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



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**d Liquidity risk (continued)**

As at 31 December 2017	On demand / up to 1 month	1-3 months	3-12 months	1-5 years	Not defined	Total
<b>Assets</b>						
Cash on hand and balances with central banks	166,684	-	-	-	-	166,684
Placements with other banks	10,050	8,313	-	-	-	18,363
Derivatives	-	10	-	-	-	10
Held-for-trading financial assets	26,430	-	-	-	89	26,519
Loans to customers	27,302	40,119	137,684	221,730	4,984	431,819
Other assets	1,932	741	1,139	9	-	3,821
Current tax assets	1,616	-	-	-	-	1,616
Investments in subsidiaries	-	-	-	-	11,148	11,148
Intangible assets	-	-	-	-	3,062	3,062
Property and equipment	-	-	-	-	11,001	11,001
Deferred tax assets	-	-	326	-	-	326
Held-for-sale assets	-	-	13,937	-	-	13,937
<b>Total assets</b>	<b>234,014</b>	<b>49,183</b>	<b>153,086</b>	<b>221,739</b>	<b>30,284</b>	<b>688,306</b>
<b>Liabilities</b>						
Derivatives	-	224	-	-	-	224
Deposits from customers	136,168	75,984	240,156	54,516	-	506,824
Other borrowings	61	58	160	223	-	502
Other liabilities	8,180	7,101	1,388	12	-	16,681
<b>Total liabilities</b>	<b>144,409</b>	<b>83,367</b>	<b>241,704</b>	<b>54,751</b>	<b>-</b>	<b>524,231</b>
<b>Net liquidity gap</b>	<b>89,605</b>	<b>(34,184)</b>	<b>(88,618)</b>	<b>166,988</b>	<b>30,284</b>	<b>164,075</b>
<b>Cumulative cash flows</b>	<b>89,605</b>	<b>55,421</b>	<b>(33,197)</b>	<b>133,791</b>	<b>164,075</b>	

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



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

**Notes to the separate financial statements (continued)**

**2 Financial risk management (continued)**

**d Liquidity risk (continued)**

<b>As at 31 December 2016</b>	<b>On demand / up to 1 month</b>	<b>1-3 months</b>	<b>3-12 months</b>	<b>1-5 years</b>	<b>Not defined</b>	<b>Total</b>
<b>Assets</b>						
Cash on hand and balances with central banks	66,399	-	-	-	-	<b>66,399</b>
Placements with other banks	105,681	-	-	-	-	<b>105,681</b>
Held-for-trading financial assets	1,019	-	-	-	-	<b>1,019</b>
Available-for-sale financial assets	-	-	1,009	9,666	89	<b>10,764</b>
Loans to customers	20,454	162,081	94,124	65,102	9,237	<b>350,998</b>
Held-to-maturity investments	-	-	-	8,081	-	<b>8,081</b>
Other assets	2,273	6,602	1,217	-	-	<b>10,092</b>
Current tax assets	104	-	-	-	-	<b>104</b>
Investments in subsidiaries	-	-	-	-	11,148	<b>11,148</b>
Intangible assets	-	-	-	-	1,406	<b>1,406</b>
Property and equipment	-	-	-	-	11,339	<b>11,339</b>
Held-for-sale assets	8,087	-	9,135	-	-	<b>17,222</b>
<b>Total assets</b>	<b>204,017</b>	<b>168,683</b>	<b>105,485</b>	<b>82,849</b>	<b>33,219</b>	<b>594,253</b>
<b>Liabilities</b>						
Derivatives	31	-	-	-	-	<b>31</b>
Deposits from banks	-	-	1,184	4,695	-	<b>5,879</b>
Deposits from customers	126,240	56,269	233,484	25,867	-	<b>441,860</b>
Other borrowings	-	-	406	518	-	<b>924</b>
Other liabilities	258	4,385	7,343	-	-	<b>11,986</b>
<b>Total liabilities</b>	<b>126,529</b>	<b>60,654</b>	<b>242,417</b>	<b>31,080</b>	<b>-</b>	<b>460,680</b>
<b>Net liquidity gap</b>	<b>77,488</b>	<b>108,029</b>	<b>(136,932)</b>	<b>51,769</b>	<b>33,219</b>	<b>133,573</b>
<b>Cumulative cash flows</b>	<b>77,488</b>	<b>185,517</b>	<b>48,585</b>	<b>100,354</b>	<b>133,573</b>	

**Fiduciary assets in custody**

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



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

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## **Notes to the separate financial statements (continued)**

### **2 Financial risk management (continued)**

#### **e Capital management**

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

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

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

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

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

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

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

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

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

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

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



## Notes to the separate financial statements (continued)

### 2 Financial risk management (continued)

#### e Capital management

The tier-one capital is reduced by:

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

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

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

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

Tier-two capital cannot exceed tier-one capital.

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



**Notes to the separate financial statements (continued)****2 Financial risk management (continued)****e Capital management (continued)**

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

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

The Bank cannot include in its equity:

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

The equity is reduced by:

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

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

Risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of and reflecting the assessment of the credit, market and other related risks for each assets and counterparty, taking into account any eligible collateral or guarantee.

A similar treatment is adopted for contingencies and commitments, with some adjustments to reflect the more contingent nature of potential losses.



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



### Notes to the separate financial statements (continued)

#### 2 Financial risk management (continued)

##### e Capital management (continued)

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

	As at 31 December	
	2017	2016
<b>Tier-one capital</b>		
Share capital	81,600	81,600
Reserves and accumulated profit/(loss) from prior years	52,205	27,941
Less:		
Intangible assets	(3,062)	(1,406)
Other deductions	(14,894)	(11,237)
<b>Total tier-one capital</b>	<b>115,849</b>	<b>96,898</b>
<b>Tier-two capital</b>		
Subordinated term debt	-	-
<b>Total tier-two capital</b>	<b>-</b>	<b>-</b>
<b>Total risk-weighted assets</b>	<b>528,495</b>	<b>434,780</b>
<b>Capital adequacy ratio</b>	<b>21.92%</b>	<b>22.29%</b>

##### f Operational risk

With respect to the operational risk of capital reporting, the Bank uses the Basic Indicator Approach (BIA) for determining the first pillar minimum regulatory capital requirement, which averages net interest income for the last three audited annual accounting periods.

Net income	Net income	Net income	Capital requirements	Total amount of operational risk exposure (x12.5)
2014	2015	2016		
44,816	66,282	67,495	8,930	111,625

The actual operational risk losses incurred in the period January-December 2017 of TBI Bank amounted to BGN 154,397, of which BGN 60,297 was reimbursed, representing 39% of the operational risk losses incurred in 2017.



**Notes to the separate financial statements (continued)****3 Significant accounting estimates and judgements in applying the accounting policies****Impairment of financial assets**

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

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

The value of collaterals representing real estates is determined by independent expert appraisers, using generally accepted valuation techniques. Such techniques include the revenue method and the discounted cash flows method. In certain cases, the fair values are determined based on recent transactions with real estates with similar features and locations as the collaterals. The definition of the fair value of the collaterals requires the use of estimates, such as the future cash flows from the assets and the discount rates applicable to these assets. These estimates are based on the conditions at the local market existing as at the valuation date. The continuing volatility and uncertainty of the global financial system is reflected in the uncertainties at the real estate markets. Therefore, in determining the estimates of the collaterals in 2017 the appraisers have used their knowledge of the market and their professional judgement, and did not simply rely of historical benchmarks for the transactions. Under the circumstances the estimated values of the collaterals are underpinned by a higher level of uncertainty than that existing in a more active market.

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

**Impairment of held-for-sale non-current assets**

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

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



## Notes to the separate financial statements (continued)

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

## Deferred Tax Assets

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

<b>4 Net interest income</b>	<b>2017</b>	<b>2016</b>
<b>Interest income</b>		
Loans to customers	86,849	64,287
<i>Incl. Impaired loans to customers</i>	10,823	10,833
Placements with other banks and financial institutions	9	148
Available-for-sale investments	530	98
Held-to-maturity investments	462	76
Held-for-trading investments	163	9
<b>Total interest income</b>	<b>88,013</b>	<b>64,618</b>
<b>Interest expenses</b>		
Deposits from banks and financial institutions	952	520
Deposits from customers	6,303	5,288
Other borrowings	14	170
<b>Total interest expenses</b>	<b>7,269</b>	<b>5,978</b>
<b>Net interest income</b>	<b>80,744</b>	<b>58,640</b>
<b>5 Net fee and commission income</b>	<b>2017 r.</b>	<b>2016 r.</b>
<b>Fee and commission income</b>		
Agent's commissions	12,824	8,294
Transfers and transactions	2,272	3,403
Guarantees and letters of credit	32	32
Others	1,125	441
<b>Total fee and commission income</b>	<b>16,253</b>	<b>12,170</b>
<b>Fee and commission expense</b>		
Bank transactions	886	731
Agents' commissions	1,933	1,633
Other	55	88
<b>Total fee and commission expense</b>	<b>2,874</b>	<b>2,452</b>
<b>Net fee and commission income</b>	<b>13,379</b>	<b>9,718</b>

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



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

**Notes to the separate financial statements (continued)**

<b>6 Net trading gain</b>	<b>2017</b>	<b>2016</b>
Net gain on financial assets held for trading	-	30
Net foreign translation gain	235	746
<b>Total net trading gain</b>	<b>235</b>	<b>776</b>
<b>7 Other operating income/ (expenses), net</b>	<b>2017</b>	<b>2016</b>
Net (loss)/gain on currency retranslation	(909)	(236)
Net (loss)/gain on derivatives	(952)	(885)
Net gain on sales of loans	2,081	-
Net gain on dealing with financial assets held for sale	554	-
Net (loss)/gain on dealings with non-current assets, held for sale	802	45
Net gain/(loss) on other financial assets	295	837
<b>Total other operating expenses</b>	<b>1,871</b>	<b>(239)</b>
<b>8 Administrative expenses</b>	<b>2017</b>	<b>2016</b>
Consultancy, legal and other professional services	5,165	3,591
IT services	3,036	909
Operating lease rentals	2,502	2,055
Tax expenses	2,377	2,010
Expenses on hired services	2,127	1,551
Advertising expenses	1,697	1,117
Annual contribution to DGF и FOBR	1,392	1,556
Materials	637	847
Other	2,446	2,481
<b>Total other administrative expenses</b>	<b>21,379</b>	<b>16,117</b>

The amounts charged throughout the year for the services provided by the registered auditor of the Bank are as follows: for independent financial audit: BGN 223 thousand (2016: BGN 148 thousand), for advisory services: BGN 153 thousand (2016: BGN 6 thousand), and for other non-audit services: BGN 22 thousand (2016: BGN 64 thousand).



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### Notes to the separate financial statements (continued)

9 Staff costs	2017	2016
Wages and salaries	22,214	15,648
Social security contributions	2,990	2,615
- incl. Pension Fund	1,775	1,796
<b>Total staff costs</b>	<b>25,204</b>	<b>18,263</b>

The number of the Bank's employees at the end of 2017 was 856 (2016: 801 employees).

### 10 Tax expenses

	2017	2016
Current income tax	3,647	2,507
Deferred tax income relating to the origination and reversal of temporary differences	(326)	-
<b>Tax expenses, reported in profit or loss</b>	<b>3,321</b>	<b>2,507</b>

The statutory rate of corporate income tax is 10% for 2017 and 2016.

The movement in current income tax receivable is as follows:

	2017	2016
Receivable/(payable) on 1 January	104	-
Current income tax reported in profit or loss	(3,647)	(2,507)
Current income tax reported in other comprehensive income (Note 29)	(26)	-
Amounts paid throughout the year	5,185	2,611
<b>Receivable on 31 December</b>	<b>1,616</b>	<b>104</b>

The reconciliation between the income tax expense and the accounting profit multiplied by the tax rate applicable for the years ended 31 December 2017 and 31 December 2016 is as follows:

	2017	2016
Pre-tax profit	33,838	26,425
Statutory tax rate	10%	10%
Corporate tax at a statutory rate of 10 %	3,384	2,643
Tax effect of income, net, not deductible for tax purposes	(63)	(136)
<b>Tax expense</b>	<b>3,321</b>	<b>2,507</b>
Effective tax rate	9.81%	9.49%



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

**Notes to the separate financial statements (continued)**

**10 Tax expenses (continued)**

The change in deferred tax is related to the following temporary differences:

	2017	2016
Increase in provision for unused annual leave	(63)	-
Increase in provision for bonuses	(263)	-
	<u>(326)</u>	<u>-</u>

**Deferred tax income reported in profit or loss**

The change in taxes, reported in other comprehensive income, is related to the following temporary differences:

Revaluation of available-for-sale financial assets	<u>26</u>	<u>-</u>
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<b>Tax income reported in other comprehensive income</b>	<u><b>26</b></u>	<u><b>-</b></u>
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	2017 r.	2016 r.
<i>Deferred tax assets</i>		
Provision for unused annual leave	63	-
Bonus accrual	<u>263</u>	<u>-</u>
<b>Total deferred tax assets</b>	<u><b>326</b></u>	<u><b>-</b></u>
<b>Total deferred tax assets, net</b>	<u><b>326</b></u>	<u><b>-</b></u>



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



### Notes to the separate financial statements (continued)

#### 11 Cash on hand and balances with central banks

	2017	2016
Cash on hand	9,236	11,456
Cash at central banks other than the minimum statutory reserve	112,406	14,611
<b>Cash and cash equivalents for the purposes of the cash flow (Note 31)</b>	<b>121,642</b>	<b>26,067</b>
Minimum statutory reserve	45,042	40,332
<b>Total cash on hand and cash at central banks</b>	<b>166,684</b>	<b>66,399</b>

As at 31 December 2017 the statutory minimum reserves held with the Bulgarian National Bank (BNB) amount to 10 % (2016: 10 %) of the deposits attracted, except: 5% of funds attracted from abroad and 0 % of funds attracted from other local banks, through branches of a local bank abroad; through debt/equity (hybrid) instruments; as subordinated term debt. As at 31 December 2017 the statutory minimum reserves held at the National Bank of Romania (NBR) amount to 8% of the funds attracted in new Romanian Lei and 8 % of the funds attracted in currencies other than new Romanian lei, except funds attracted from other local banks and funds attracted with residual maturity of less than two years without early termination clauses. The statutory minimum reserves are available for use in the Bank's day-to-day operations with the amount of 50% of the required reserves in compliance with the statutory minimum reserves on a monthly basis. BNB may charge interest on the minimum statutory reserves and excess reserves, whereas the interest charged could be a negative figure (-0.60%), while NBR charges zero interest rate.

#### 12 Placements with other banks

	2017	2016
Deposits with foreign banks with original maturity of up to three months	8,312	8,805
Deposits with local banks with original maturity of up to three months	5,000	-
Current accounts with foreign banks	3,103	95,925
Current accounts with local banks	1,948	951
<b>Included in cash and cash equivalents for the purpose of the cash flows (Note 31)</b>	<b>10,051</b>	<b>96,876</b>
<b>Total placements with other banks</b>	<b>18,363</b>	<b>105,681</b>



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### Notes to the separate financial statements (continued)

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

<b>13 Held-for-trading financial assets</b>	<b>2017</b>	<b>2016</b>
Debt securities	-	1,019
<b>Total held-for-trading financial assets</b>	<b>-</b>	<b>1,019</b>
<b>14 Available-for-sale financial assets</b>	<b>2017</b>	<b>2016</b>
Securities available for sale:		
- unlisted equity securities	89	89
- debt securities traded in an official market	26,430	10,675
<b>Total available-for-sale financial assets</b>	<b>26,519</b>	<b>10,764</b>

Debt securities at 31 December 2017 comprise corporate bonds and government bonds. Government bonds represent three types of issued Romanian government bonds: in EUR with a maturity on 28 October 2024 and coupon of 2.875% per annum, with a maturity on 29 October 2025 and coupon of 2.75% per annum, with a maturity on 21 January 2019 and coupon of 3.4% per annum. Interest accumulated as at 31 December 2017 amounts to BGN 314 thousand. Debt securities are carried at fair value based on listed market prices as at the date of the financial statements. Corporate bonds represent two types of bonds. The first type comprises issued corporate bonds in USD with a maturity on 1 May 2022 and coupon of 10.75% per annum. The second type comprises issued corporate bonds in EUR with a maturity on 23 May 2021 and coupon of 11.25% per annum. Interest accumulated as at 31 December 2017 amounts to BGN 123 thousand. Debt securities are stated at fair value based on quoted market prices as at the reporting date.

On 18 September 2017 the Executive Director of TBI Financial Services B.V., the sole owner of 100% of the Bank's capital, was appointed as a member of the Executive Committee of 4Finance S.A. Subsequently, the Bank is included in the list of the associated companies of 4Finance S.A. (European Union Regulation No 596/2014). In order to avoid any potential risk of insider dealing, it was decided to discontinue any trading with financial instruments issued by 4Finance S.A. As a result, the Bank considers that in November 2017 there were circumstances under paragraph 50B of IAS 39 that required corporate bonds of 4Finance S.A. denominated in USD with a maturity in 2022 to be reclassified from held-for-trading financial assets to available-for-sale financial assets. As at 31 December 2017 revaluation gains amounted to BGN 188 thousand. The revaluation amount in comprehensive income is BGN 31 thousand. At the date of the reclassification, the effective interest rate was 10.55%, the cash flows the Bank expects to collect related to the financial instrument amounted to BGN 3,328 thousand.



**31 December 2017**

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**Notes to the separate financial statements (continued)**

<b>15 Held-to-maturity investments</b>	<b>2017</b>	<b>2016</b>
Debt securities	-	8,081
<b>Total held-to-maturity investments</b>	<b>-</b>	<b>8,081</b>

The management of the Bank changed its intention in relation to certain line items of debt securities that have been reported to date as held-to-maturity investments.

In July 2017 the Bank reclassified corporate bonds of 4Finance S.A. denominated in EUR with a maturity in 2021 from held-to-maturity financial assets to available-for-sale financial assets. The effect of the reclassification with the amount of BGN 508 thousand is reported in other operating income/expenses.

As at 31 December 2017 r. there are no line items reported as held-to-maturity investments

<b>16 Loans to customers</b>	<b>2017</b>	<b>2016</b>
Loans extended by the Bank to:		
Corporate clients	114,328	127,926
Individuals	347,804	244,690
Staff	1,569	1,280
<b>Total loans to customers</b>	<b>463,701</b>	<b>373,896</b>
Impairment allowance (Note 17)	(31,882)	(22,898)
<b>Total net loans to customers</b>	<b>431,819</b>	<b>350,998</b>

Loans to customers include accrued interest of BGN 8,087 thousand (2016: BGN 5,000 thousand). Loans to customers bearing floating interest rates amount to BGN 96,615 thousand (2016: BGN 111,153 thousand), and loans to customers bearing fixed interest rate amount to BGN 367,086 thousand (2016: BGN 262,743 thousand).

The line item *Loans extended by the Bank to corporate customers* also includes receivables under finance lease contracts with a book value of BGN 69 thousand as at 31 December 2017 (2016: BGN 77 thousand).

Within 1 year	22	34
From 1 to 5 years	58	54
<b>Gross investment in lease contracts</b>	<b>80</b>	<b>88</b>
Unrealised finance income	(11)	(11)
<b>Gross amount before provisions</b>	<b>69</b>	<b>77</b>
Less: allowance for impairment losses	(69)	(43)
<b>Net amount of lease payments</b>	<b>-</b>	<b>34</b>



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### Notes to the separate financial statements (continued)

#### 17 Impairment loss allowances

The movement in impairment loss allowances is as follows:

Specific allowance for individually assessed financial assets	2017	2016
<b>At 1 January</b>	<b>3,388</b>	<b>2,776</b>
Impairment loss allowance charged	408	2,900
Reversed allowance	(934)	(1,085)
<i>Total impaired, reported in the statement of comprehensive income</i>	<i>(526)</i>	<i>1,815</i>
Loans written off against the allowance	-	(1,277)
Foreign currency differences	(19)	74
<b>At 31 December</b>	<b>2,843</b>	<b>3,388</b>

Specific allowance for collectively assessed financial assets	2017	2016
<b>At 1 January</b>	<b>19,512</b>	<b>15,641</b>
Impairment loss allowance charged	16,043	8,088
Reversed allowance	(1,433)	(3,455)
<i>Total impaired, reported in the statement of comprehensive income</i>	<i>14,610</i>	<i>4,633</i>
Loans written off against the allowance	(5,088)	(724)
Foreign currency differences	5	(38)
<b>At 31 December</b>	<b>29,039</b>	<b>19,512</b>

#### 18 Structure of the loan portfolio by economic sectors

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

	2017	2017	2016	2016
Commerce	14,388	3.10%	19,208	5.14%
Agriculture	17,005	3.67%	14,569	3.90%
Construction and real estate	46,293	9.98%	45,094	12.06%
Services	14,306	3.09%	21,275	5.69%
Manufacturing	7,927	1.71%	7,137	1.91%
Tourism	14,231	3.07%	20,387	5.45%
Other financial institutions	178	0.04%	256	0.07%
Individuals	347,804	75.01%	244,690	65.44%
Staff	1,569	0.34%	1,280	0.34%
<b>Total loans to customers</b>	<b>463,701</b>	<b>100.00%</b>	<b>373,896</b>	<b>100.00%</b>

The ten largest loans to customers as of 31 December 2017 represent 8.62% of the Bank's portfolio, net of provisions (2016: 7.93%).



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### Notes to the separate financial statements (continued)

#### 19 Non-current assets held for sale

	2017	2016
<b>Reposessed assets, incl.</b>		
Book value	14,003	14,500
Accumulated impairment	(66)	(221)
<b>Total reposessed assets</b>	<b>13,937</b>	<b>14,279</b>
Investment in subsidiary	-	2,943
<b>Total non-current assets held for sale</b>	<b>13,937</b>	<b>17,222</b>

As at 31 December 2017 the Bank reposessed assets under terminated or overdue loan agreements of BGN 13,937 thousand (2016: BGN 14,279 thousand), net of impairment. As at 31 December 2017 the Bank accrued impairment of BGN 66 thousand (2016: BGN 221 thousand).

In 2017 the Bank sold assets classified in this category of BGN 366 thousand (2016: BGN 1,260 thousand). Impairment written off in relation to these assets amounted to BGN 221 thousand (2016: nil).

In 2017 the Bank did not acquire assets classified as held for sale (2016: BGN 6,524 thousand).

As of 31 December 2017 the Bank the investment in its subsidiary TBI Rent is sold in accordance with a sales contract dated 8 March 2017 for the amount of BGN 4,302 thousand. As at the date of the sale, the amount of cash and cash equivalents is of BGN 86 thousand, the amount of assets and liabilities other than cash and cash equivalents amounts to BGN 15,063 thousand and BGN 15,149 thousand.

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

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

	Total
<b>As of 1 January 2016</b>	<b>221</b>
Impairment charged	-
Impairment written off	-
<b>As of 31 December 2016</b>	<b>221</b>
Impairment charged	66
Impairment written off	(221)
<b>As of 31 December 2017</b>	<b>66</b>

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



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

**Notes to the separate financial statements (continued)**

**19 Non-current assets held for sale (continued)**

	2017	2016
<b>Type of repossessed assets</b>		
Commercial (buildings and land)	9,378	11,224
Land	5,889	3,896
<b>Total repossessed assets</b>	<b>15,267</b>	<b>15,120</b>

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

Type of assets for sale	Valuation technique	Significant unobservable inputs	Range (weighted average) for 2017	Range (weighted average) for 2016	Significant unobservable Inputs
Land	MVM	Price per sq. m.	€9.25 - €850.52 (€171.65)	€10.17 - €341.25 (€38.00)	Significant increase in the price per sq. m. will result in a higher fair value.
Commercial (buildings and land)	RAM	Price per sq. m.			Significant increase in the price per sq. m. will result in a higher fair value.
	RVM	Price per sq. m.	€352.24 - €806.65 (€540.67)	€412.74 - €547.55 (€552.18)	Significant increase in the price per sq. m. will result in a higher fair value.
	MCFCF	Price per sq. m.			Significant increase in the price per sq. m. will result in a higher fair value.

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

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



**Notes to the separate financial statements (continued)****19 Non-current assets held for sale (continued)**

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

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

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



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

**Notes to the separate financial statements (continued)****20 Intangible assets**

	Software	Other	Total
<b>Balance at 1 January 2016</b>			
Book value	3,288	130	3,418
Accumulated amortisation	(1,784)	-	(1,784)
<b>Carrying amount</b>	<b>1,504</b>	<b>130</b>	<b>1,634</b>
<b>Year ending 31 December 2016</b>			
Carrying amount at the beginning of the period	1,504	130	1,634
Additions	423	106	529
Transfers	-	(119)	(119)
Foreign currency differences	-	-	-
Amortisation	(638)	-	(638)
<b>Carrying amount at the period-end</b>	<b>1,289</b>	<b>117</b>	<b>1,406</b>
<b>As of 31 December 2016</b>			
Book value	3,708	117	3,825
Accumulated amortisation	(2,419)	-	(2,419)
<b>Carrying amount at the period-end</b>	<b>1,289</b>	<b>117</b>	<b>1,406</b>
<b>Year ending 31 December 2017</b>			
Carrying amount at the beginning of the period	1,290	117	1,407
Additions	1,581	718	2,299
Disposals	-	-	-
Transfers	472	(472)	-
Foreign currency differences	(6)	-	(6)
Amortisation	(638)	-	(638)
<b>Carrying amount at the period-end</b>	<b>2,699</b>	<b>363</b>	<b>3,062</b>
<b>As of 31 December 2017</b>			
Book value	5,756	363	6,119
Accumulated amortisation	(3,057)	-	(3,057)
<b>Carrying amount at the period-end</b>	<b>2,699</b>	<b>363</b>	<b>3,062</b>

No intangible assets were written off in 2017 (2016: no intangible assets were written off).

At the end of 2017 the book value of intangible assets, fully amortised, but still in use, amounted to BGN 2,042 thousand (2016: BGN 1,094 thousand).



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

### Notes to the separate financial statements (continued)

	Buildings	Equipment	Leasehold improvements	Total
<b>21 Property and equipment</b>				
<b>As of 1 January 2016</b>				
Book value	10,759	3,395	581	14,735
Accumulated depreciation	(760)	(1,912)	(299)	(2,971)
<b>Carrying amount</b>	<b>9,999</b>	<b>1,483</b>	<b>282</b>	<b>11,764</b>
<b>Year ended 31 December 2016</b>				
Carrying amount at the beginning of the period	9,999	1,483	282	11,764
Additions	-	591	9	600
Disposals	-	(1)	(14)	(15)
Impairment	(22)	-	-	(22)
Foreign currency differences	(12)	-	1	(11)
Depreciation	(336)	(566)	(75)	(977)
<b>Carrying amount at the period-end</b>	<b>9,629</b>	<b>1,507</b>	<b>203</b>	<b>11,339</b>
<b>As of 31 December 2016</b>				
Book value	10,742	3,984	553	15,279
Accumulated depreciation	(1,113)	(2,477)	(350)	(3,940)
<b>Carrying amount</b>	<b>9,629</b>	<b>1,507</b>	<b>203</b>	<b>11,339</b>
<b>Year ended 31 December 2017</b>				
Carrying amount at the beginning of the period	9,629	1,507	203	11,339
Additions	61	730	29	820
Disposals	-	-	-	-
Impairment	21	-	-	21
Foreign currency differences	(145)	(2)	-	(147)
Depreciation	(329)	(598)	(84)	(1,011)
<b>Carrying amount at the period-end</b>	<b>9,216</b>	<b>1,637</b>	<b>148</b>	<b>1,001</b>
<b>As of 31 December 2016</b>				
Book value	10,660	4,714	582	15,956
Accumulated depreciation	(1,444)	(3,077)	(434)	(4,955)
<b>Carrying amount</b>	<b>9,216</b>	<b>1,637</b>	<b>148</b>	<b>11,001</b>

In 2017 no equipment was written off (2016: BGN 1 thousand). In 2017 no leasehold improvements were written off (2016: BGN 14 thousand).

At the end of 2017 the book value of property and equipment, fully depreciated, but still in use, amounted to BGN 1,738 thousand (2016: BGN 881 thousand).



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

### Notes to the separate financial statements (continued)

#### 22 Investments in subsidiaries

	2017	2016
<b>Investments in subsidiaries:</b>		
Book value	11,148	11,148
Accumulated impairment	-	-
<b>Total investments in subsidiaries</b>	<b>11,148</b>	<b>11,148</b>

In 2015 the Bank's Management Board made a decision to acquire all shares in the capital of TBI RENT EAD, namely 1000 registered voting shares with a par value of BGN 1,400 each, and total par value of BGN 1,400 thousand, which represents 100% of the capital of TBI RENT EAD at a price equal to the market value of the company, namely BGN 2,043 thousand. The market value is determined by an external independent valuer using the average weighted amount derived using two approaches – the discounted cash flows method and the net book value method. In June 2016 the capital of TBI RENT EAD was increased through cash contribution amounting to BGN 900 thousand. As at 31 December 2016 the investment in TBI RENT EAD was classified as an asset held for sale. In 2017 the company was sold.

In 2015 the Bank's Management Board made a decision to acquire all shares in the capital of TBI CREDIT IFN S.A., namely 72,999,999 registered voting shares with a par value of RON 0,10 each, and total nominal amount of RON 7,300 thousand (BGN 3,152 thousand at the fixed exchange rate as of 31 December 2016), which represents 99.99999863 % of the capital of TBI CREDIT IFN S.A. at a price equal to the market value of the company, namely EUR 4,200 thousand (BGN 8,214 thousand). The market value is determined by an external independent valuer using the average weighted amount derived using two approaches – the discounted cash flows method and the business analysis method (with two approaches: market benchmarks and book value).

In 2016 the Bank's Management Board made a decision to acquire all shares in the capital of TBI LEASING IFN S.A., namely 364,620 registered voting shares, with a par value of RON 2,75 each, total nominal amount of RON 1,003 thousand (BGN 3,152 thousand at the fixed exchange rate as of 31 December 2016), which represents 99.9989 % of the capital of TBI LEASING IFN S.A. at a price equal to the market value of the company, namely EUR 1,500 thousand (BGN 2,934 thousand). The market value is determined by an external independent valuer using the average weighted amount derived using two approaches – the discounted cash flows method and the business analysis method (with two approaches: market benchmarks and book value).

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#### 23 Other assets

	2017	2016
Monthly cession payments	1,485	8,163
Deferred expenses	579	363
Receivables from suppliers	785	683
Collateral MasterCard	644	733
Other receivables	328	150
<b>Total other assets</b>	<b>3,821</b>	<b>10,092</b>

As at 31 December 2017 and 31 December 2016 other receivables are neither past due, nor impaired. The other financial assets include monthly receivables on cession agreements.



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

### Notes to the separate financial statements (continued)

#### 24 Deposits from banks

	2017	2016
Loans from banks	-	5,879
<b>Total deposits from banks</b>	<b>-</b>	<b>5,879</b>

#### 25 Deposits from customers

	2017	2016
Corporate clients		
- current/settlement accounts	42,777	54,522
- term deposits	67,094	42,941
Individuals		
- current/settlement accounts	35,601	25,262
- term deposits	361,352	319,135
<b>Total deposits from customers</b>	<b>506,824</b>	<b>441,860</b>

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

#### 26 Other borrowings

	2017	2016
State Fund "Agriculture"	502	924
<b>Total other borrowings</b>	<b>502</b>	<b>924</b>

At the end of 2017 long-term borrowings included interest of BGN 0,3 thousand (2016: BGN 1 thousand).

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



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

**Notes to the separate financial statements (continued)****27 Other liabilities**

	2017	2016
Other liabilities	6,581	4,722
Prepaid repayment instalments on loans to individuals	5,148	4,430
Payables to employees	3,806	1,866
Unused leave provisions	728	361
Taxes payable, other than income tax	417	193
Ordered transfers	1	414
<b>Total other liabilities</b>	<b>16,681</b>	<b>11,986</b>

Prepaid repayment instalments on loans to individuals represent instalments that have not matured yet. Upon request by a customer, the Bank is obliged to repay the amounts to the respective borrower. There is no litigation provisions accrued as of 31 December 2017 (2016: nil). Other financial liabilities comprise payables to traders and suppliers.

**28 Contingent liabilities and irrevocable commitments**

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

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

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

The contingent liabilities and irrevocable commitments (except for operating lease commitments) of the Bank at 31 December 2017 and 31 December 2016 are as follows:

	2017	2016
<b>Guarantees</b>		
Corporate clients	1,285	1,015
<b>Undrawn credit commitments</b>		
Corporate clients	6,114	5,715
Individuals	7,444	7,802
<b>Total contingent liabilities and irrevocable commitments</b>	<b>14,843</b>	<b>14,532</b>

In 2017 and 2016 the Bank had no irrevocable operating lease commitments.



## 31 Decemeber 2017

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

### Notes to the separate financial statements (continued)

#### 29 Pledged assets

	2017	2016
Placements with foreign banks	8,312	8,805
Loans to customers	-	515
Other assets	644	733
<b>Total pledged assets</b>	<b>8,956</b>	<b>10,053</b>

As of 31 December 2017 the Bank pledged as collateral deposits placed with foreign banks of BGN 8,312 thousand (2016: BGN 8,805 thousand) against the FX risk hedging transactions. Derivatives are renewed on a monthly basis and the Bank is not able to dispose of any deposits provided as a collateral prior to the expiry of the relevant hedge contract. The outcome of the FX hedging as at 31 December 2017 and 31 December 2016 is disclosed in Note 2. As of 31 December 2017 the receivables on loans to customers comprising a pledge in favour of Bulgarian Development Bank pursuant to a loan contract amount to nil because of the early termination of the contract (2016: BGN 515 thousand). Guarantee deposit to the benefit of Mastercard of BGN 644 thousand (2016: BGN 733 thousand).

#### 30 Equity

The total registered ordinary dematerialised shares at 31 December 2017 are 81,600,000 (2016: 81,600,000), with par value of BGN 1 each. All shares are fully paid-in and vest equal voting rights.

The Bank's management has not changed its capital management methodology as compared to 2016.

##### Share capital

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

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

##### Movements in the number of shares

	Number of shares
<b>As of 1 January 2016</b>	<b>78,600,000</b>
Newly issued and fully paid-in shares	3,000,000
<b>As of 31 December 2016</b>	<b>81,600,000</b>
<b>As of 1 January 2017</b>	<b>81,600,000</b>
<b>As of 31 December 2017</b>	<b>81,600,000</b>



## 31 Decemeber 2017



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

### Notes to the separate financial statements (continued)

#### 30 Equity (continued)

##### *Foreign currency translation reserve*

The foreign currency translation reserve at 31 December 2017 amounts to BGN 87 thousand (2016: BGN 24 thousand) and includes the translation of the operations of the branch of the Group in Romania from its functional currency – the new Romanian leu (RON) into the presentation currency of the Group – Bulgarian levs.

##### *Revaluation reserve*

Revaluation reserve on available for sale financial instruments includes unrealised gains and losses on fair value movements of the instruments. The annual movements are included in the statement of comprehensive income. As at 31 December 2017 the accumulated revaluation reserve amounted to BGN 232 thousand (2016: BGN 89 thousand).

##### *Statutory reserves*

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

If the amounts in the Reserves Fund fall below the minimum the Group is obliged to fill the gap, so as to recover the minimum level over a period of two years. Under the provisions of the banking legislation, banks are not allowed to pay dividends before they make the required contributions. As at 31 December 2017 the Reserves Fund amounted to BGN 8,350 thousand (2016: BGN 7,168 thousand).

#### 31 Cash and cash equivalents

	2017	2016
Cash at central banks other than the minimum statutory reserve (Note 11)	121,642	26,067
Deposits with other banks (Note 12)	10,051	96,876
<b>Total cash and cash equivalents</b>	<b>131,693</b>	<b>122,943</b>

Deposits with foreign banks which are pledged as a collateral are not included in cash and cash equivalents, as disclosed in Note 29.



## 31 Decemeber 2017



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

### Notes to the separate financial statements (continued)

The table below summarizes the changes in liabilities arising from financing activities, including both changes related to cash flows and non-monetary changes. It contains reconciliation between the opening and closing balances in the statement of financial position of the liabilities arising from financing activities for the year ended on 31 December 2017.

	1 Januar y 2017	Cash inflows	Cash outflows	Effect of change s in foreign exchan ge rates	Accruals using the effective interest rate method	New lease contract s	Other	31 Decem ber 2017
Current interest-bearing loans and borrowings	924	422	-	-	-	-	-	502
Total liabilities from financing activities	924	422	-	-	-	-	-	502

### 32 Related party transactions

In the ordinary course of business the Bank carries out bank transactions with related parties based on the principle of equality and party's independence. These include mostly loans and deposits, as also purchase of receivables with the aim to invest the Bank's free cash. As at 31 December 2017 the Bank did not set aside provisions for overdue receivables relating to funds provided to related parties (2016: nil). Such evaluation is carried out annually, by conducting an analysis of the financial position and the market in which these related parties operate. In 2017 the Bank acquired portfolios from its subsidiary TBI CREDIT IFN S.A. amounting to BGN 114,108 thousand (2016: BGN 76,691 thousand) and from 4Finance A.B. (Sweden) amounting to BGN 1,789 thousand. TBI CREDIT IFN S.A. and 4Finance A.B. collect the instalments due in favour of the Bank on fixed interest rate portfolios. The portfolios acquired by the Bank are classified as consumer loans and as at 31 December 2017 they amount to BGN 115,897 thousand (2016: BGN 73,398 thousand).

#### *Parent company*

As at 31 December 2017 the Bank is controlled by TBIF Financial Services B.V. (registered in the Netherlands), which holds 100% of the ordinary dematerialised shares of the Bank.

#### *Ultimate parent*

The ultimate parent is Tirona Limited, Cyprus.

#### *Subsidiaries*

As at 31 December 2017 the Bank holds 100% of the capital of TBI RENT EAD, 99.99999863 % of the capital of TBI CREDIT IFN S.A. and 99.9989% of the capital of TBI LEASING IFN S.A. These companies are to be treated as subsidiaries of the Bank.

#### *Other related parties*

4Finance A.B. is other related party to the Bank, as it is under common control of the ultimate parent.



**31 December 2017**



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

**Notes to the separate financial statements (continued)**

**32 Related party transactions (continued)**

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

<b>31 December 2017</b>	<b>Parent company</b>	<b>Subsidiaries</b>	<b>Other related parties</b>	<b>Total</b>
Debt securities	9,837	-	-	9,837
Loans granted	-	69	-	69
Other assets	-	1,254	-	1,254
Borrowings	280	3,913	-	4,193
Other liabilities	-	179	-	179
Guarantees issued	-	-	-	-
Purchase of receivables	-	123,910	2,122	126,032
Interest income	963	-	-	963
Fee and commission income	2	83	-	85
Other operating income	-	828	-	828
Other operating expenses	-	2,949	-	2,949
<b>31 December 2016</b>	<b>Parent company</b>	<b>Subsidiaries</b>	<b>Other related parties</b>	<b>Total</b>
Debt securities	9,100	-	-	9,100
Loans granted	-	2,986	-	2,986
Other assets	-	7,860	-	7,860
Borrowings	64	2,900	-	2,964
Other liabilities	-	14	-	14
Guarantees issued	-	65	-	65
Purchase of receivables	-	76,691	-	76,691
Interest income	85	451	-	536
Fee and commission income	14	42	-	56
Other operating income	-	73	-	73
Other operating expenses	-	(1,901)	-	(1,901)

The total remuneration paid to key management personnel in 2017 amounts to BGN 766 thousand (2016: BGN 700 thousand). The key management personnel comprise the members of the management Board. The accrued but not paid remuneration to key management personnel as at 31 December 2017 amounts to BGN 1,467 thousand (2016: BGN nil). They are short-term in their nature. Other benefits were not paid to management, including pension plans, share based payments, etc.



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

## Notes to the separate financial statements (continued)

### 33 Information disclosed under Article 70 of Credit Institutions Act

The information disclosed in the table below is at 31 December 2017 and does not include consolidation eliminations:

Name:	Description of activities:	Head office:	Turnover*:	Number of employees:	Profit before tax:	Taxation:	Return on assets:
<b>Bulgaria:</b>							
TBI Bank EAD Bulgaria	Corporate and consumer lending, acceptance of deposits and other repayable funds from the public, investment intermediary services, payment services, dealing on own account or when executing client orders, foreign exchange and precious metals trading, guarantee transactions, and all other related activities as laid down in the Bulgarian National Bank's regulatory framework.	Sofia	97,494	733	35,158	3,321	5%
<b>Romania:</b>							
TBI Bank - branch Romania	Corporate and consumer lending, acceptance of deposits and other repayable funds from the public, investment intermediary services, payment services, dealing on own account or when executing client orders, foreign exchange and precious metals trading, guarantee transactions, and all other related activities as laid down in the Bulgarian National Bank's regulatory framework.	Bucharest	12,518	105	(1,287)	-	0%
TBI Credit IFN S.A. Romania	Consumer lending	Bucharest	48,173	736	7,262	1,370	14%
TBI Leasing IFN S.A. Romania	Finance leasing of assets	Bucharest	2,759	19	1,597	201	27%

### 34 Events after the balance sheet date

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