TOKUDA BANK AD

SEPARATE AND CONSOLIDATED
REPORT ON THE ACTIVITIES,
CORPORATE GOVERNANCE STATEMENT,
INDEPENDENT AUDITOR'S REPORT
AND SEPARATE AND CONSOLIDATED
FINANCIAL STATEMENTS

December 31, 2016

Unofficial translation of the original in Bulgarian

ANNUAL SEPARATE AND CONSOLIDATED REPORT ON THE ACTIVITIES

FOR 2016

Tokuda Bank

REPORT ON THE ACTIVITIES 2016

CONTENT:

I. Environment in which Tokuda Bank AD operated in 2016

In 2016 the economic growth in the country remained close to the level reached in 2015, as according to preliminary data of the National Statistical Institute (NSI) for 2016, the growth rate for the past year has reached 3.4% on an annual basis. Against the backdrop of the domestic political instability in the second half of the year, the business climate indices continued their hesitant behavior (Figure 1) and the external environment remained in a state that did not particularly support the recovery processes of the real economy in the country. Data obtained under the final consumption cost method shows that in 2016 the influence of the net exports in the overall GDP growth has increased. By the end of 2015, this component had a negative contribution to growth (BGN 360 million for 2015Q4), then in 2016 the changes were positive, with the reported growth for the fourth quarter reaching BGN 410 million. Despite its undoubted contribution to the increase in GDP, the increase in the net exports did not particularly help to restore the potential of domestic production, as the structure of exports remained in favor of goods with low added value.

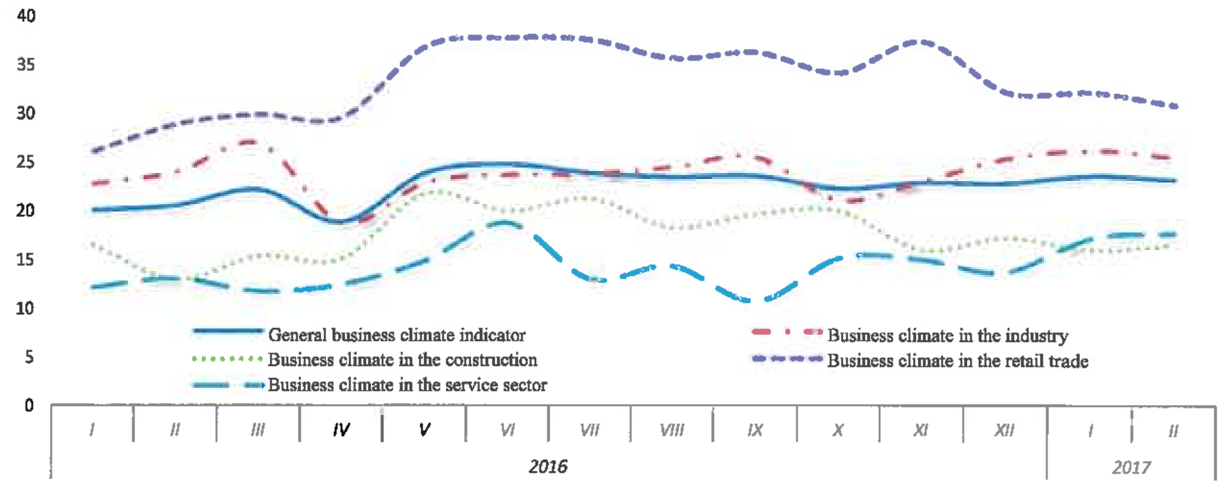
In the last quarter of 2016 the final consumption costs of households and non-profit organizations serving households (NPOSH) grew by only BGN 450 million compared to the same period last year, while in the same period in 2015, the reported annual growth was twice as high (over BGN 1 billion). This is indicative of the still weak potential of the domestic market and corresponds to the changes in the share of compensation of employees, which in the last two quarters of 2016 decreased by 0.1 and 0.8 percentage points (pp) respectively (up to 46.4% at the end of 2016), while in the last two quarters of 2015 the same component increased its share by 1.0 and 2.5 pp respectively on an annual basis.

Notwithstanding the fact that these differences are not due to nominal changes in the amount of compensations paid but rather to the overtaking rates of the gross operating surplus at the end of the year, such dynamics exerts a natural pressure on the final consumption, as generally the overtaking increase in the balancing item in the value method is associated with a reduction in the multiplier effect of the costs in the economy.

The results from the regular poll conducted by the Bulgarian Industrial Association (BIA) in December are indicative of the unsustainable nature of the recovery processes in the real sector during this year. Data show that enterprises, the turnover of which declined in 2016 (37% of the sample), are prevailing among the representatives of the business, while the share of respondents with increased turnover is lower (32%). For comparison, in the results of last year's poll these shares were 20% against 47%, which is indicative of the deterioration of the business environment in 2016.

Overall, the pessimistic findings prevail amongst the representatives of the real sector. Data from the same poll show, for example, that the proportion of enterprises reporting reduced production volumes increased from 13% in 2015 to 35% in the past year and the share of respondents reporting job cuts rose from 3% last year to 34% in this year. A disturbing trend indicative of the increased demand for borrowed funds "under coercion" as a temporary substitute is the poor service of inter-company liabilities – the share of respondents reporting an increase in overdue receivables from counterparties rose from 17% in 2015 to 37% in 2016. It is expected that this trend will continue in 2017, which will have a direct impact on the creditworthiness of the lending enterprises.

Figure 1 Business climate



Against the backdrop of the moderate pessimistic findings of the polls of the BIA, the results of the business observations of the NSI give some reasons for positive expectations, insofar as it reports some increase in the average number of months of production assurance with orders in 2016 (from 5.6 months in 2015 to 5.8 months in the past year, as in the fourth quarter this number increased to 7). The inflow of new orders increased and the average monthly surplus of production capacity in 2016 was lower than in the previous year. For the moment, however, positive changes are still small and the recovery of the real sector is slow. This, in turn, has had an adverse impact on the banking system, as the unsustainable nature of the processes in the real sector leads to a natural limitation of profits in the financial sector.

The insecure environment in the country is mentioned as one of the key factors limiting the activity of the enterprises, both by the economic agents in the country and by many external institutions. For example, the report on the macroeconomic imbalances by the European Commission (published in February 2017) states that despite the improvement in the economic results, the accelerated fiscal consolidation and the recovery of the labor market, the serious imbalances of the local economy have not yet been fully resolved and continue to weigh on the investments together with the slow administrative reforms.

It should be noted that despite the continuance of the imbalances in the economy and the unstable external environment (absorbing the challenges of the cross-border economic and migration processes), in 2016 the banking system in Bulgaria reports stable indicators in terms of sustainable deposit growth and still low investment activity. The retention of the rate of deposit accumulation without substantial changes, as well as the moderate activity of the interbank market show that the confidence in the banking system is still recovering, for which the disclosure of the stress-test results and the asset quality assessment has a significant contribution.

Against this background, the liquidity and the profitability of banks improve in general. The total capital adequacy ratio of the system over the past year remained well above the regulatory requirements and almost without any change (22.15% at the end of 2016 and 22.18% in 2015), and the adequacy of the tier 1 capital in the past year increased by 1.42% pp (up to 21.88%). This increase is mainly due to the growth rate of the core tier 1 capital in comparison to the growth of the risk-weighted assets.

The unaudited net profit of the banking system during the past year increased by 40.5% and reached BGN 1,262 billion. The almost double reduction in the interest expenses on received deposits (by BGN 427 million), the reduction in the depreciation costs by 26% (BGN 286 million) and the increase in the revenues from financial assets for sale by BGN 177 million have a major contribution to the improvement of the profitability of the system. The gross revenue from fees and commissions also increased (by 3.6% compared to the previous year), but their contribution to the increase in the financial results is relatively small (BGN 37 million).

The changes in the structure of the assets over the past year are indicative of the conservatism in the attitudes of both the financial intermediaries and their clients. Upon achieved moderate pace of the total assets (5.2% on an annual basis), the share of the loans decreased by 1.1 pp (up to 60.7% at the end of 2016), at the expense of an increase in the portfolios of financial instruments, incl. of financial assets available for sale, the share of which increased by 2.1 pp (up to 10.3% of the total assets). The share of cash and balances with central banks is heavily influenced by the negative interest rate on the excess reserves maintained by banks (which the BNB has begun to apply since the beginning of 2016) and therefore in the past year the share of this asset category decreased by 1.2 pp – up to 15.7%.

The restricted attitudes of businesses and households continue to exert pressure on lending, and although the volume of newly granted loans to businesses and households increased in 2016, the credit activity remained well below the expectations. The total value of new loans remained below the level required for a sustained growth in gross loans, which is why the reported rate at the end of the year has reached only 0.6% (mainly at the expense of loans to the general public and non-bank financial institutions). The unhomogeneous growth structure is indicative to some extent of the factors that motivated the demand for loans in 2016. The household loans rose by 1.4% (BGN 264 million), with the housing and mortgage loans portfolio remaining almost unchanged (BGN 8,772 billion), while in consumer credits there was a decrease of 0.5% (BGN 40 million). Loans to non-financial corporations remained structurally identifiable, but in the major part of 2016 the annual change in the segment remained negative, reaching 0.3% in December (compared to 1.7% at the end of 2015), therefore the share of loans to non-financial institutions (NFIs) declined by 0.6 pp (up to 60.9% of the gross loans). These changes show that the motivation for the use of loan financing is still weak both in relation to population and businesses, despite the continuing fall in interest rates (albeit at a slower pace than in the last year) and the alleviation of the credit standards (especially in the first half of 2016).

As a whole, with regard to the liability the tendencies of last year remain, and throughout 2016 the local resources continue to get cheaper and the savings of the population – keep rising. The weak investment activity and the uncertain recovery of local consumption in the past year motivated commercial banks to undertake new interest rate cuts in 2016. At the end of the year, the weighted average interest rate on new fixed-term deposits for the non-financial corporations and households sectors reached in total 0.6 %, with a decline by 61 basis points compared to the end of 2015, with a more substantial decrease in interest rates for the new fixed-term deposits of households and lower for the deposits of enterprises.

II. Overview of the activities of Tokuda Bank AD in 2016

As of 31.12.2016 the assets of Tokuda Bank AD amounted to BGN 387.216 million, which represents 0.42% of the total value of the assets in the Bulgarian banking system (according to Bank Supervision data) and ranks the Bank at 23rd place. With regard to the assets of second-tier banks, to which Tokuda Bank AD is included, this share is 1.04%. The average monthly value of the balance sheet figure is relatively constant and for the past year the index reached 399.2, and in the previous two years – BGN 434.2 million and BGN 427.7 million respectively.

For 2016, the Bank has realized a net loss in the amount of BGN 1.739 million, which is why the potential earnings per share have a negative value. The reported loss was 74.59% lower than in the previous year – 2015, when it reached BGN 6.845 million.

During the past year, the credit portfolio dynamics remained volatile due to the ongoing economic stagnation in the country, which in turn determined the poor presence of good projects with an acceptable return period and investors with proven creditworthiness. At the end of the period the gross loans before impairment decreased to BGN 196.584 million. The quality of the portfolio improved significantly and by the end of 2016 the share of loans outside the "loss" group increased by 4.43 pp, reaching 75.00% (with 70.57 in 2015).

The subsidiary Tokuda Security EOOD continued to function during the past year, with the Bank defining the financial and the operating policy of the enterprise. The Company was incorporated in 2013, with a registered capital of BGN 25 thousand (100% owned by Tokuda Bank AD) and its financial indicators are included in the consolidated financial statements of the Group.

1. Operating income and expenses

In 2016, the Bank generated revenue from its core business in the amount of BGN 14.655 million (Table 1), which is by BGN 1.126 million (8.32%) more than the previous year. Their impact on the dynamics over the past period is mainly influenced by the effect of the decrease in the interest rates in the country, leading to an earlier decrease in the interest expense (by BGN 3.614 million or 46.92% on an annual basis) in comparison to the gross interest income (the decrease of which is smaller – by BGN 2.704 million, or 16.4% on an annual basis).

During the past year, the Bank continued to adhere to the adopted policy of limitation of the administrative costs. Under this policy, the management implements systematic cost control while taking measures aimed at the rebranding of the Bank and the stimulating of employee efficiency. The implementation of these measures, as well as the emergence of costs associated with the procedures for the stress-test and the assessment of the quality of the assets in 2016 lead to a certain increase in some items in the group of administrative costs and therefore their total value increased over the past year by BGN 650 thousand (up to BGN 12.963 million)

The ratio of the total operating expenses to the operating income during the previous year decreased by 2.56 pp (up to 88.45%), because the increase in the operating income (BGN 1.126 million) outstripped the increase in the operating expenses (by BGN 650 thousand).

The changes in the structure of the total income from the Bank's operations are moderate (see Table 1). In 2016 the share of net interest income grew by 1.22 pp and reached 66.15% of the total net income, while the non-interest rate declined, accounting for a share of 33.85%. In the same period last year, these values were 64.93% and 35.07% respectively. The retention of this structure can be explained by the comparable values of the reported rate of net interest income (rising by 10.36% due to the outrunning reduction of the costs of the attracted funds) and non-interest income, which grew by 4.55% on an annual basis due to the increase in the profit of financial assets for trading.

Table 1. Operating income

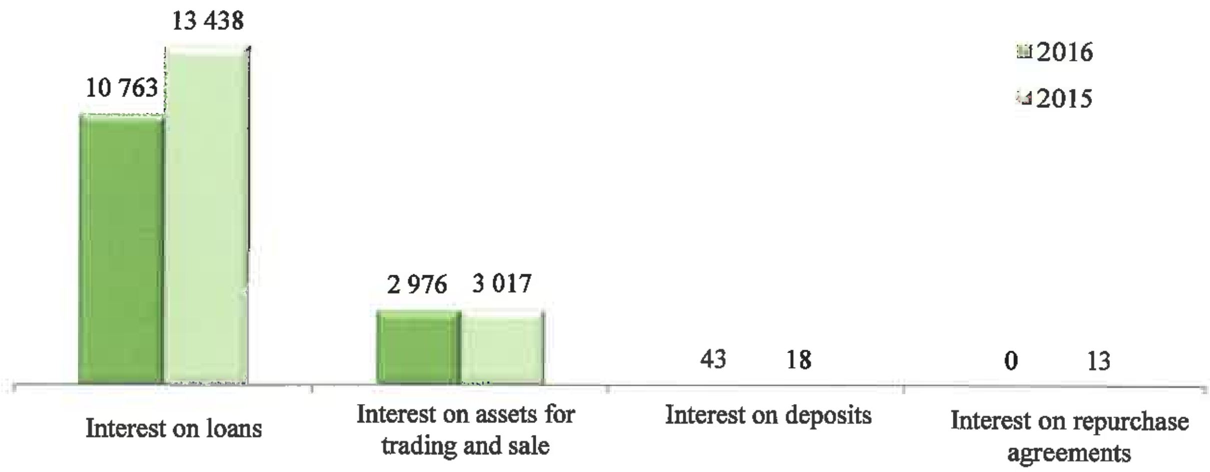
	2016	***2015***
Interest income	13,782	16,486
Interest expenses	(4,088)	(7,702)
Net interest income	**9,694**	**8,784**
Fees and commissions income	3,772	3,900
Fees and commissions expenses	(291)	(348)
Net income from fees and commissions	**3,481**	**3,552**
Net gains on financial assets held for trading	**791**	**305**
Other operating income (expenses)	**689**	**888**
Total operating income	**14,655**	**13,529**

The gross income from loans interest and other receivables decreased by BGN 2.675 million up to BGN 10.763 million and continued to occupy the largest relative share in comparison to the total interest income (78.09%). The decrease in this category of revenues by 19.91% in the previous year resulted in a decrease of their share by 3.42 percentage points compared to the reported one in 2015 (81.51%) amid the preservation of the absolute interest income on securities close to the reported values during the last year. The main factor for the reported decrease in the gross income from the Tokuda Bank AD portfolio is the market trend aimed at a general reduction in interest rates in the country, which is partly offset by the improvement of the portfolio quality (during the past year, the share of classified loans before impairment decreased by 10.11 pp and the share of the loans classified with "loss" by 4.43 pp).

The interest income from the debt instrument portfolio (Figure 2) recorded a slight decrease (by 1.36% compared to the figure reported in 2015 – up to BGN 2.976 million) due to the depreciation of the portfolio leading to the replacement of the maturing issues with new ones, the profitability of which was lower. The share of these revenues in the total value of interest income in the past year increased from 18.30% to 21.59% due to the outrunning negative rate of the gross interest on loans. The interest income on deposits was in the amount of BGN 43 thousand which is with BGN 26 thousand more than the reported income in 2015 due to an increase in the average annual value of this asset group from BGN 17.125 million in 2015 to BGN 22.091 million for this year.

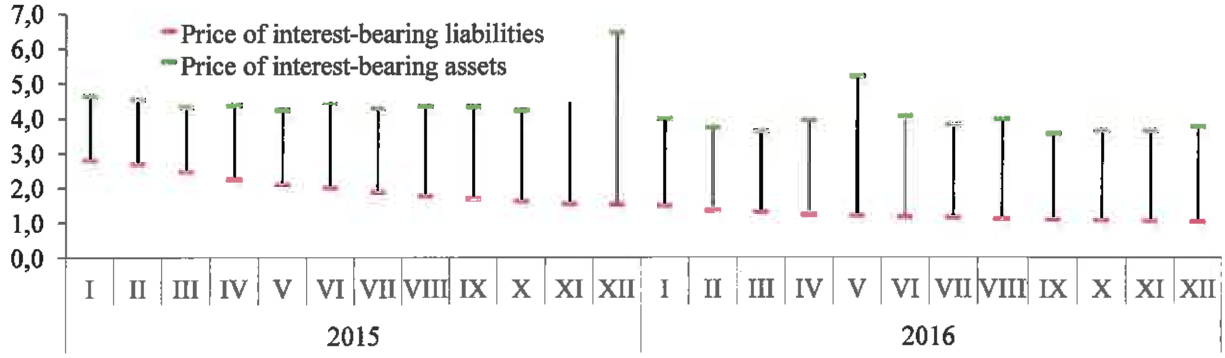
The cost of the attracted funds remained above the average for the banking system in the country, but there was a tendency of decline. In the past year, the deposit base of Tokuda Bank AD continued to be formed mainly from deposits of individuals and households. For 2016, these costs amounted to BGN 4.088 million, down by 46.92% as compared to 2015 (when they amounted to BGN 7.701 million) as a result of the management's effective policy on liabilities and interest expenses management.

Figure 2. Interest income by sources



Over the past reporting period the interest spread gradually stabilized (Figure 3), with the indicator fluctuating in relatively narrow limits (2.7 – 2.9) in the second half of the year. The comparison of the profitability of the interest-bearing assets shows that during the past year the weighted average rate of income decreased by 0.69 percentage points (from 4.61% in 2015 to 3.91% in 2016), despite the decline in the share of classified loans with overdue principal and interest over 180 days. This is a normal result of the decrease in the interest on new loans with the purpose to take into account the market situation and is fully compensated by the decrease in the expenditures for attracted funds, which on an average annual basis decreased by 0.84 pp (from 2.02% in 2015 to 1.18% in 2016), as a result of decreases in the interest on attracted funds and the occurrence of maturities of a large proportion of relatively expensive deposits. Favorable impact on the cost of the resource was the attracting of clients from the corporate segment and the budget sector, which in the past year led to an increase in the share of sight deposits by 0.44 pp (up to 46.04%). The outpacing decline in the costs of attracted funds and the implementation of additional revenue over the past year (resulting from the implementation of additional revenue from collected assigned receivables) led to an increase in the interest spread to 2.74% on an accrual basis in 2016, which is by 0.18 pp more than the interest spread for 2015 (2.56%).

Figure 3. Components of the interest spread



Non-interest revenue

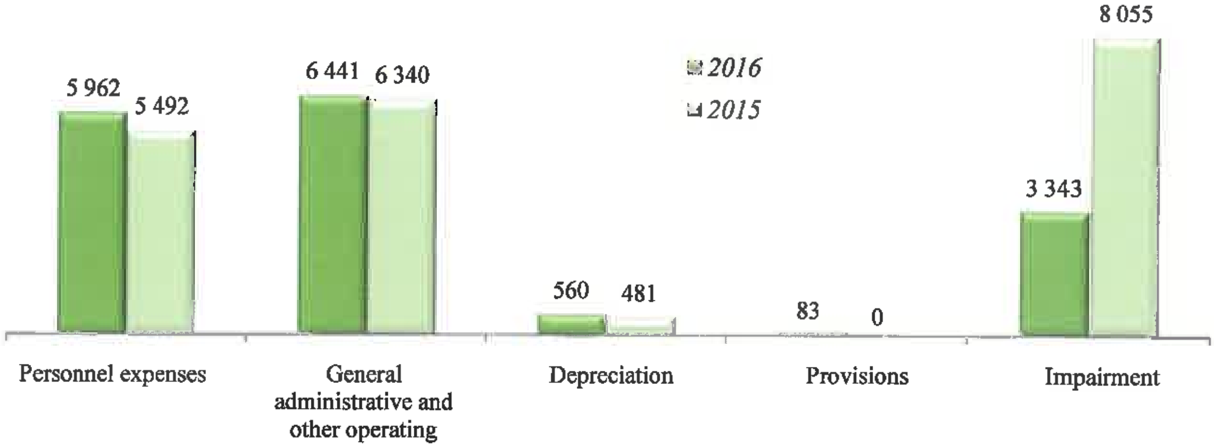
The non-interest income in 2016 increased by BGN 216 thousand (4.55%), reaching BGN 4.961 million, in comparison to the previous year, which was entirely due to the increase in profit from financial assets held for trading with BGN 486 thousand. The net income from fees and commissions continued to be with the greater weight in this group of revenue (BGN 3.481 million), which during the past year decreased marginally (by BGN 71 thousand or 2% on an annual basis) due to the reduced revenues of issued guarantees (BGN 51 thousand), outgoing transfers (BGN 80 thousand), cash services (BGN 38 thousand) and other charges (BGN 73 thousand). Overall, the structure of revenues from fees and commissions during the past year remained without significant changes.

The slightly expressed price dynamics and the unfavorable situation on the securities market have a negative impact on the trade with securities, as a result of which the total value of net proceeds from sales and revaluation of securities during the past year (BGN 806 thousand) remained close to the reported one in the previous year (BGN 784 thousand). The result of foreign currency exchange differences for the past 2016 decreased by BGN 79 thousand and reached BGN 308 thousand

Non-interest expenses

The non-interest expenses of the Bank for 2016 (Figure 4) amounted to BGN 16.389 million, which is by BGN 3.979 million or by 19.54% less than the previous year and which is entirely due to the decrease in the impairment expenses (the depreciation accrued for the past year amounted to BGN 3.343 million, which is 58.50% less than in the previous year). The most significant increase in this group was reported in the personnel expenses, which increased by BGN 470 thousand (to BGN 5.962 million) despite the maintenance of the administrative structure and the office network of the Bank without any significant change and the retention of the average number of staff at a relatively constant level (reaching 253 at the end of the year). The general administrative and other operating expenses increased by BGN 101 thousand, due to the additional expenses for services, rents, materials, telecommunications, information technologies and others in connection with the measures taken for the rebranding and the completion of the stress-tests and the asset quality assessment. The depreciation costs increased by BGN 79 thousand (to BGN 560 thousand) as a result of the renewal initiative of the Bank in relation to its technological equipment.

Figure 4. Non-interest expenses



The clear dynamics of the expenses in this group has led to substantial changes in its structure. For example, the share of personnel expenses (including wages and social security contributions) in the general structure of non-interest expenses increased by 9.41 pp (from 26.96% to 36.38% for the past year); the share of general administrative and other operating expenses increased by 8.17 pp (up to 39.30%) and the depreciation expenses in 2016 occupied with a 1.06 pp larger share than in the previous year. These increases were entirely at the expense of the impairment expenses, the share of which decreased by 19.15 pp (down to 20.40% in the past year).

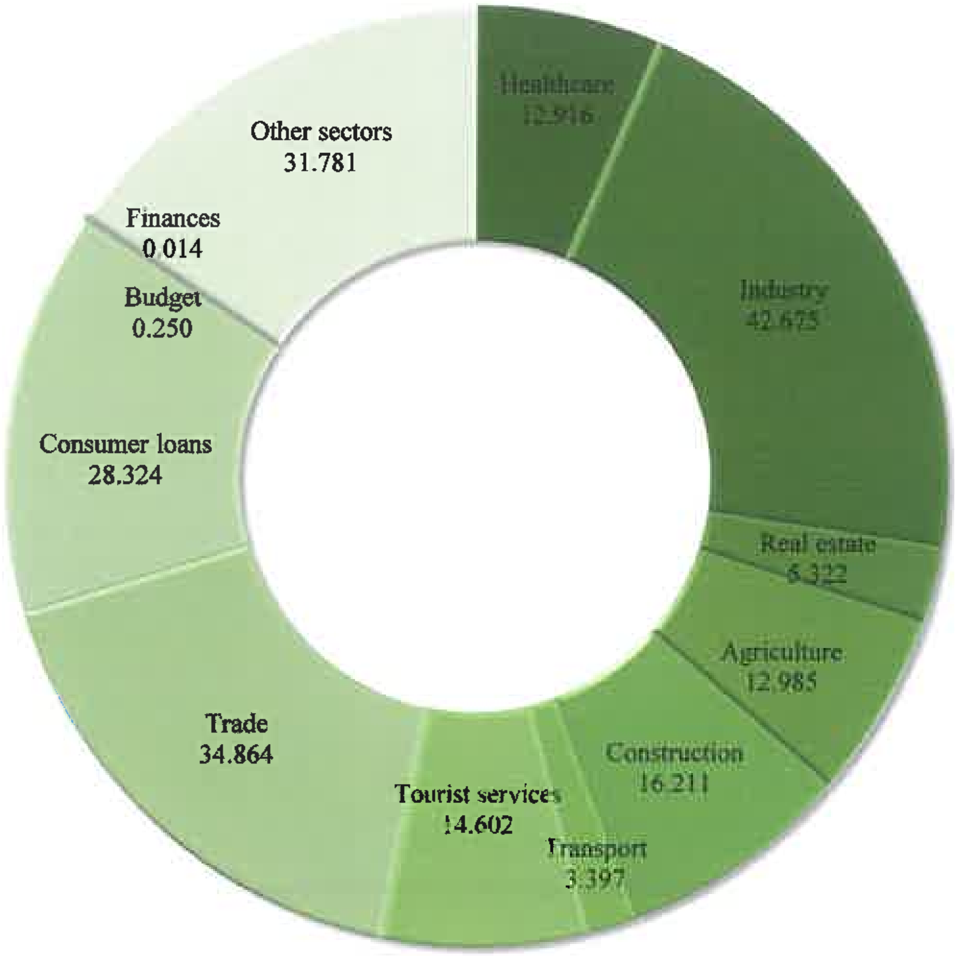
2. *Loan portfolio*

At the end of 2016, the gross balance of the loan portfolio of the Bank (Figure 5) was BGN 196.584 million. After the provisioning for impairment losses in the amount of BGN 20.783 million, the net value of the portfolio amounted to BGN 175.801 million. The negative value of the reported growth was due to the unfavorable credit market conditions and the relatively high credit risk of the environment, but also to the increased activity on the realization of exposures in the "loss" group. The book value of the credit portfolio after impairment in 2016 increased its share in the total asset structure up to 45.40% (in comparison to 42.19% in the previous year).

The loans to corporate clients decreased by BGN 12.619 million (to BGN 151.741 million before impairment) and their share in the gross credit portfolio decreased by 3.64 pp compared to the previous year (to 77.19%), which was due to the increase in the activity of forced collection of loans in the "loss" group in this segment.

The changes in the segment "individuals and households" were moderate. The share of loans in this segment increased from 19.05% of the total value of gross loans in 2015 to 22.05% in 2016. In absolute terms, the segment reported a positive growth of BGN 4.611 million, which is an increase of 11.91% compared to the previous year.

Figure 5. Distribution of the loan portfolio [mln. BGN]



In 2016 the Bank continued to work traditionally with companies from the following sectors: industry, trade, energetics, agriculture, healthcare and others. The most significant share was occupied by loans to the industry sector, which kept its share close to the level of the previous year and at the end of 2016 the loans to the sector reached 20.90% of the gross loans. The next positions were occupied by the trade sector (the share of which decreased from 17.15% to 16.24%), the construction sector (the share of which increased by 4.09 pp up to 12.06%) and the tourism sector, the share of which increased to 7.77% of the gross loans in 2016.

In the past year, the Bank continued to adhere to the moderately conservative lending policy, with new loans being approved for individuals meeting high criteria for reliability and creditworthiness. The regular servicing of the loans by the new customers is indicative of the correct assessment of these criteria. The balance in credit activities was preserved and during this year the new loans for individuals and households accounted for 24.92% of the total amount of newly granted loans, as the share of the new loans for companies and budget institutions was 75.08% (for the previous year these shares were 30.85% and 69.15% respectively).

There were no significant changes in the currency structure of the loan portfolio. The share of loans in the single European currency increased by 1.60 percentage points (up to 47.03% of the book value of the credit portfolio before impairment) at the expense of the contraction in the share of loans in US dollars (by 0.79 pp), in Bulgarian levs (by 0.80 pp) and in Japanese yen (by 0.01 pp). At the end of 2016, the loan portfolio before impairment was allocated as follows: 52.75% was denominated in BGN, 47.03% in EUR and 0.22% in USD.

Table 2. Allocation of the loan portfolio by classification groups

	2016			2015		
	Gross value	IAS Impairment	Book value	Gross value	IAS Impairment	Book value
Regular	120,333	214	120,119	103,919	285	103,634
Watch	22,710	288	22,422	16,866	306	16,560
Nonperformning	4,402	905	3,497	22,717	2,252	20,465
Loss	49,139	19,376	29,763	59,839	20,246	39,593
Total	196,584	20,783	175,801	203,341	23,089	180,252
Classified	76,251	20,569	55,682	99,422	22,804	76,618

Despite the existence of separate positive signals for the recovery of the economy, the domestic and foreign policy instability continue to determine the behavior of Bulgarian companies and households. The slow recovery of their economic status, the difficulties in debt servicing and the persistent uncertainty of the environment put pressure on the rate of lending and this still does not make it possible to compensate for the worsened quality of the portfolio by increasing its volume more intensively. For this reason, despite the success of the measures taken to reduce the share of classified loans during the past year, their share remained relatively high (38.79), which can be explained by the stagnation in the credit activity.

In order to cover the risk of impairment losses on loan receivables, the Bank has allocated provisions in the amount of BGN 20.783 million so far, but due to the improvement of the portfolio's quality, the coverage ratio with accounting provisions decreased from 11.35% to 10.57%. For the loans classified in the groups outside the "regular" group, the provision for impairment provisions increased by 4.04 pp and reached 26.98%. Almost all impairment (93.23%) was accrued on receivables classified in the group "loss" (Table 2).

3. *Securities*

The securities portfolio at the end of 2016 decreased by BGN 7.511 million to BGN 113.875 million. Thus, its share reached 29.41% of the total amount of assets, which is one percentage point more than the previous year. The rate of change was moderate (-6.19%). The retention of a relatively high share of this asset category is explained by the weak credit recovery in the country, which continues to motivate the direction of free resources to the securities market.

The majority of the securities are available for sale and their total value during the past year changed relatively low (by BGN 4.360 million up to BGN 89.085 million). The volume of the trading portfolio registered a comparable negative growth in the amount of BGN 3.151 million (up to BGN 24.790 million)

Table 3. Securities portfolio

	2016	2015
Shares of local companies	216	274
Bulgarian government bonds	4,037	63,880
Eurobonds of local governments	46,766	28,352
Government bonds of foreign governments	17,210	17,511
Eurobonds of foreign governments	3,893	3,824
Corporate bonds of domestic and foreign issuers	3,753	7,622
Accrued impairment for the year	-	(77)
TOTAL	113,875	121,386

The policy aimed at the gradual restructuring of the Bank's assets by limiting the low-yielding assets is reflected in the decrease of the local government securities (Bulgarian government securities and Eurobonds of the local government) by BGN 3.429 million to BGN 88.803 million. Thus, their share in the overall structure of the portfolio reached 77.98%. The foreign government securities declined slightly (to BGN 21.103 million), bringing their share in the overall structure of the securities portfolio to 18.53%.

Over the past year, the Eurobonds of local governments increased most significantly in the Bank's portfolio (with BGN 18.414 million to BGN 46.767 million) and the most significant rate of decline was recorded for the corporate bonds of domestic and foreign issuers, which in 2016 decreased by 50.76% (to BGN 3.753 million). The shares of local enterprises reached BGN 216 thousand.

4. *Attracted funds*

The volume of the funds attracted from clients other than credit institutions decreased by 10.17% in 2016 and at the end of the year reached BGN 341.237 million. The sources of the majority of the attracted funds were individuals and households (Table 4). In 2016, the share of the resources from these sources increased by 3.46 pp (from 64.98% to 68.45% in the overall structure). The deposits of non-financial companies remained second in terms of the share of attracted funds. Over the past year, the segment grew by 0.14 pp (from 27.82% to 27.96%). The funds of budget segment decreased almost by half (by BGN 6.689 million) and at the end of 2016 it occupied 2.14% of the Bank's attracted funds (3.68% in 2015). The change in the attracted funds from non-banking financial institutions was also significant, decreasing by 62.90% in the previous year, which resulted in a decrease of their share in the received funds from 3.51% to 1.45%.

The Bank continued to maintain high liquidity and, therefore, the interest in attracting funds from other banks remained relatively weak. The total value of deposits from credit institutions decreased from BGN 563 thousand in 2015 to BGN 87 thousand at the end of 2016.

Table 4. Structure of attracted funds

	2016			2015		
	Sight and saving deposits	Term deposits	Total	Sight and saving deposits	Term deposits	Total
Accounts of individuals	74,042	159,528	233,570	71,882	174,974	246,856
Budget accounts	6,297	1,009	7,306	13,995	0	13,995
Company accounts	76,274	19,141	95,415	86,920	18,769	105,689
Accounts of non-banking financial institutions	498	4,448	4,946	420	12,912	13,332
TOTAL	157,111	184,126	341,237	173,217	206,655	379,872

In 2016, adjustments were made to the interest rates on the Bank's deposit products with the purpose to optimize the price of the attracted funds, resulting in a change in its structure in favor of the current accounts (as in the previous year), while the share of term deposits declined by 0.44 pp to 53.96%

The changes in the currency structure of the attracted funds were relatively weak and in favor of US dollars, the share of which increased over the past year from 4.78% to 6.03% at the expense of the Euro deposits, which declined from 42.31% to 40.79%. The changes in the shares of other currencies were also relatively weak and at the end of the year the deposits in BGN accounted for 51.98% and the deposits in Japanese yen and other currencies – for 1.11% and 0.09% of the total structure respectively.

5. *Exposure to risk*

As of 31.12.2016 Tokuda Bank AD applies the Standardized Approach under Regulation (EU) No 575/2013 for the calculation of the risk exposures for credit risk. Due to the small volume of financial instruments in the trading portfolio, the capital requirements are calculated in accordance with the requirements of Regulation (EU) No 575/2013 applicable to the banking portfolio. The basic indicator approach is used for the calculation of the amount of the capital with the purpose to cover the operational risk losses.

In 2016, Tokuda Bank AD continued to adhere to a conservative approach to risk management and assessment, including with respect to credit risk, which accounts for 84% of the risk exposure of the Bank as of 31.12.2016. The Bank undertook actions to reduce the risk of loan exposures (mainly with respect to the problem loan portfolio), resulting in the share of risk-weighted assets for credit risk decreasing by 1 pp (to 84% compared to 85% as of 31.12.2015). The total value of credit exposures decreased by BGN 10.714 million (from BGN 175.139 million as of 31.12.2015 to BGN 164.425 million). The total risk exposures decreased by BGN 9.266 million (5%) as compared to 31.12.2015.

In addition to supervisory requirements, Tokuda Bank also calculates the Bank's economic capital, which would ensure its solvency under unfavorable market conditions. An internal capital adequacy analysis (ICAA) is prepared for this purpose.

Table 5. Risk-weighted assets

	31.12.2016		31.12.2015		Change	
	mln. BGN	*Share*	*mln. BGN*	*Share*	*mln. BGN*	*Rate*
For credit risk	164.425	84%	175.139	85%	-10.714	-6%
For market risk	8.25	4%	6.275	3%	1.975	31%
For operational risk	23.798	12%	24.325	12%	-0.527	-2%
Total	**196.473**	**100%**	**205.739**	**100%**	**-9.266**	**-5%**

6. Capital and reserves

As of 31.12.2016, the Bank's capital amounted to BGN 44.652 million. The basic capital according to the capital adequacy requirements of the credit institutions was BGN 42.340 million

The Bank's capital ratios were above the regulatory requirements. Its capital position provided adequate coverage of its risk exposures. The tier 1 capital adequacy increased by 0.86 pp up to 21.66%, which covered the required regulatory requirements.

As of 31.12.2016 the share capital amounted to BGN 68,000,000 /sixty-eight million Bulgarian leva/. The capital was divided into 6,800,000 /six million and eight hundred thousand/ pcs. of registered dematerialized voting shares with a nominal value of BGN 10 /ten Bulgarian leva/ per share and issue value equal to the nominal value.

According to the Shareholders Register, kept by the Central Depository, the shareholders of the Bank as of 31.12.2016 are:

- Tokushukai Incorporated, Japan (holding 99.94% of the capital)
- Gama Holding Group AD, Bulgaria (0.06%)

7. Office network

Due to the unfavorable economic environment and the adherence to a conservative budgeting policy, in the past year the Bank abstained from expanding its office network. Efforts were focused on the optimization of the regional structure and the transfer of presence points to better locations. In 2016, the Burgas and Sofia offices were moved to new locations, and the work places in the cities of Chepelare and Kaspichan were closed down and their assets were transferred to the Smolyan and Shumen offices respectively.

The office network structures were as follows:

- Headquarters
- Offices – 22
- Work places – 5

The territorial units of the Bank provided to their clients professional and high-quality service, timely assistance in the solving of different issues and opportunities for using new products and services.

8. Correspondent relations

The Bank corresponds with all Bulgarian banks, as well as with leading foreign banks: BNP-Paribas SA, Paris; Commerzbank AG, Franufurt/Main; Dresdner Bank AG, Frankfurt/ Main; Bank of China, Beijing; Landesbank Hessen-Thueringen Girozentrale, F/M; Bank of Tokyo-Mitsubishi UFJ, LTD, Tokyo; Sumitomo Mitsui Banking Corporation, Tokyo; Banque Generale du Luxembourg S.A., Luxemburg; Banca Popolare di Milano S.C.A.R.L., Milano; Uniastrum Bank, Moscow; International Bank for Economic Cooperation, Moscow; Unistream Commercial Bank, Moscow; Banco Cooperativo Espanol S.A., Madrid; Credit Suisse, Zurich; Hyposwiss Privatbank AG, Zurich; Wachovia Bank, NA, London; Bank of New York, New York; CITIBANK N.A., New York, etc.

9. Human resources

Human resource is one of the key factors for achieving the strategic goals of Tokuda Bank AD. The management of the Bank is developing a human resources management system by continuously optimizing the processes of personnel administration (planning, selection, appointment, monitoring, evaluation, promotion and release). At the end of 2016, the average number of employees working in the Bank was 253 (255 in 2015).

A key factor for the implementation of the mission and the strategy of the Bank is the quality of its employees – their qualifications, professional skills, loyalty. The employees of the Bank also participated in many forms of training related to their performance, as the upgrading of qualifications is one of the main and reliable tools for performance improvement.

For the purposes of effective human resources management, the internal information system (portal), through which employees are given access to internal company documents and news related to the Bank's activities, is constantly updated.

10. Information technologies

During the past year, the process of optimization of the software platform serving the major data streams in the Bank continued. This contributed to the improvement of the technological processes and the control thereon, the improvement of the customer service quality and the provision of reliable information for the needs of the management of the bank's activities. One of the challenges in this area in 2017 will be the further completion of the system in a way that will help the timely introduction of the new IFRS 9 Financial Instruments, which will enter into force on January 1^{st}, 2018.

III. Outlook for development in 2017

In the process of development of the outlook for 2017, some basic assumptions are laid down regarding the environment in which the Bank will operate (slowdown of the growth of the Bulgarian economy to 3%, retention of the unfavorable investment climate in the country and a slight recovery of the propensity for consumption). In light of this expectations, the Bank intends to maintain a moderately conservative policy in its core business, in order to stabilize its profitability ratios and to create prerequisites for increasing its market share. The main goal set for 2017 is to increase the loan portfolio together with improvement of its quality. For this purpose, credit activity increase is envisaged, and despite the expectations for a slower stabilization of the country's economic growth and investment climate, the projected dynamics of growth can be achieved as the Bank has a relatively small market share and has the potential to maintain lending rates above the average for the system by using the existing market mechanisms.

The guiding principle in the determination of the prospects for development is the maintenance of the risk within a reasonable margin; therefore the main priority of the activity will be the careful selection of suitable clients and the sound assessment and management of the credit risk.

In short, the main priorities of the Bank's development for 2017 can be summarized in the following directions:

- Improvement of the quality of the loan portfolio and optimization of the asset structure while following a policy for acceptable credit risk and its coverage with sufficient capital;
- Improvement of the Bank's efficiency, reduction of the operational risks and establishment of a solid foundation for sustainable growth in the long run;
- Better use of up-to-date information technologies with the purpose to reach a wide range of clients, which in turn will enable the improvement of the quality and the expansion of the range of services offered, as well as the optimization of the staff;
- Strengthening of the activity in the sphere of small-scale lending with a view to achieve a better diversification of the risk and to improve the indicators of return;
- Expansion of the market presence of the Bank by taking active measures in order to increase the popularity of the Tokuda Bank brand and to achieve better recognition among potential clients;
- Provision of a steady operating income with the purpose to ensure higher return on equity;

IV. Information on changes in the share capital, dividend policy and management

1. Changes in the share capital

In 2016, *Tokushukai Incorporated, Japan* acquired the shares of *Garant Co. 97, Bulgaria* (15,000 with a nominal value of BGN 10, representing 0.22% of the Bank's capital) at a price of BGN 3.09 per share pursuant to Ordinance No 32687/2016. The shares of *AUC Establishment, Liechtenstein* (holding 13,300 shares with a nominal value of BGN 10 representing 0.20% of the Bank's capital) were repurchased by the Bank at a price equal to their nominal value, on the basis of a decision of the Shareholders' Assembly of 06.11.2015 and were canceled. At the same time, the same number (13,300) new shares with a nominal value of BGN 10 were issued and transferred to Tokushukai Incorporated, Japan at a price equal to their nominal value, on the basis of a decision of the General Meeting of 06.11.2015. At present, the majority shareholder, which owns 99.94% of the Bank's capital, is Tokushukai Incorporated, Japan. As of 31.12.2016, Tokuda Bank AD does not hold its own shares.

2. Management

In 2016 the Bank retained a two-tier management system. Members of the bodies of the joint-stock company in 2016 were:

Supervisory Board of the Bank

Arthur Stern – Chairman of the Supervisory Board

Tokushukai Incorporated, represented by Eiji Yoshida – Deputy Chairman

Dimitar Vuchev – Member of the Supervisory Board

Management Board of the Bank

Vanya Vassileva – Chairperson of the Management Board and Executive Director;

Maria Sheytanova – Member of the Management Board and Executive Director since 19.01.2016;

Anna Boneva – Member of the Management Board and Executive Director since 25.10.2016;

Boyan Ikonomov – Member of the Management Board and Executive Director until 27.12.2016;

Dimitar Slavchev – Member of the Management Board until 31.10.2016;

The total amount of the remunerations received during the accounting year by the members of the Management and the Supervisory Boards amounted to BGN 499 thousand /four hundred and ninety-nine thousand Bulgarian leva/.

The members of the Management and the Supervisory Boards do not have rights to acquire shares and bonds of the company and the same or related persons have not entered into contracts with the Bank that go beyond the usual business or that significantly deviate from the market conditions.

3. ***Dividend policy***

The Bank has not paid dividends. The annual net loss for 2016 is attributable to losses from past years.

4. ***Events after the date of the statement of financial position***

No significant events have occurred since the date of preparation of the statement of financial position that would result in adjustments or additional disclosures in the separate and consolidated financial statements.

5. ***Participation of the Board Members in other companies***

Supervisory Board:

- Arthur Stern – Chairman of the Supervisory Board: Partner and Manager of Global Prime OOD, UIC: 203874715.
- Tokushukai Incorporated, Tokyo, Japan, through the representative Eiji Yoshida, Deputy Chairman of the Supervisory Board. Mr. Yoshida – no participations.
- Dimitar Vuchev – Member: Member of the Board of Directors of Adamant Capital Partners AD, UIC 200413613; Manager of Delta Capital EOOD, UIC: 175278566; Member of the Board of Directors of America for Bulgaria Foundation (non-profit); Member of the Board of Directors of the Partners Bulgaria Foundation (non-profit).

Management Board:

- Vanya Vassileva – Chairperson of the Management Board and Executive Director: Member of the Management Board of the Atanas Burov Foundation.
- Maria Sheytanova – Executive Director: Partner and Manager of CTM Bulgaria OOD, UIC: 201987988; Chairperson of the Management Board of TMA Bulgaria Association (non-profit), UIC: 176928159.
- Anna Boneva – Executive Director: Partner (70% of the capital) in Fine Line OOD, UIC: 201758352.

V. Responsibility of the management

The annual financial statements comply with the requirements of the legislation and the International Financial Reporting Standards (IFRS) adopted by the European Union and applicable in the Republic of Bulgaria. It gives fair presentation of the Bank's property and financial position.

Upon the preparation of annual financial statements, the management confirms that:

- The financial statements are prepared in accordance with the International Financial Reporting Standards;
- The financial statements is prepared in compliance with the going concern principle and it is fairly presented;
- The accounting policy used is appropriate and is applied consistently;
- The necessary estimates and assumptions made are in line with the prudency principle;
- All necessary measures have been taken to safeguard the Bank's assets and to prevent fraud.

The Annual Activity Report and the Corporate Governance Statement prepared comply with the requirements of Chapter Seven of the Accountancy Act and Article 100n (8) of the Public Offering of Securities Act.

Pursuant to a decision of the Management Board of Tokuda Bank AD:

Vanya Vassileva
Chairperson of the Management Board
and Executive Director

Anna Boneva
Member of the Management Board
and Executive Director

ТОКУДА БАНК АД
СОФИЯ

Sofia, 19.04.2017

Tokuda Bank

CORPORATE GOVERNANCE STATEMENT OF TOKUDA BANK AD

(as per Article 40 of the Accountancy Law and Art. 100m, Para 8 of the Public Offering of Securities Act (POSA))

1. **Information on compliance with the Corporate Governance Code (art. 100m, para 8, p. 1, „a" of POSA)**

   TOKUDA BANK AD (the "Bank") complies, where appropriate, with the National Corporate Governance Code (the "Code") published on the website of the Bulgarian Stock Exchange – Sofia AD (BSE), approved with decision № 461-ККУ from 30.06.2016 by the member of the Financial Supervision Commission (FSC), acting as deputy-chair of the FSC responsible for "Supervision of the Investment Activities" as a code for corporate governance compliant with art. 100m, para 8, p.1, letter "a" from POSA.

   The text of the National Corporate Governance Code is published on the website of the Financial Supervision Commission (www.fsc.bg).

2. **Information about application of additional corporate governance practices (art. 100m, para 8, p. 1, letter „c" of POSA)**

   TOKUDA BANK AD considers that the terms of the National Corporate Governance Code are sufficient to cover the requirements of good corporate governance. Considering this, the Bank does not apply additional corporate governance practices other than those included in the Code.

3. **Description of the main characteristics of the internal control systems and risk management in relation to the financial reporting (art. 100m, para 8, p.3 of POSA)**

   3.1. The Bank has established adequate system for identification, management and control of its risk profile, including:

   - Organizational structure for assessment and management of risk sensitivity;
   - Rules and methods for evaluation and control of risks;
   - Parameters and limits for transactions and operations related to credit, liquidity and market risks;
   - Reliable system for accounting and management information, which allows identification and control of different types of risks.

   The system for risk management has a preventive function for events that may cause losses and control over the amounts of incurred losses.

   The organization for management and control of risks in the Bank is in accordance with the characteristics and the volume of activities, the inherent risks and the level and scope of the management control over the activities. The specific activities included might be listed as follows:

   - Management control and control environment;
   - Risk control;
   - Control activities and segregation of duties;
   - Information and communication;

- Monitoring and correction of deviations.

The strategy for development of the Bank is established by the Supervisory Board. On the basis of the strategy, the risk appetite and risk profile of the Bank are determined so as to define its business model. The business model is subject to the risk appetite within the limits and thresholds established by the Management Board with respect to significant risks, which the Bank faces. Based on the strategy, risk appetite and profile of the Bank, the Management Board approved plan and budget to accomplish the strategy, which includes targets, deadlines and measures to achieve the targets.

The responsible units, whose decisions regarding the management and risks lead to the formation of the risk profile of the Bank are:

1) Supervisory Board – performs overall supervision over risk management; approves the strategy for development of the Bank, on which the risk profile and risk appetite of the institution are based; approves plan, budget and measures for the realization of the strategy and monitors their implementation. It appoints the head of "Risk Monitoring and Management" Department and receives periodic and regular reports by management, including capital management and capital plan.
2) Management Board – responsible for overall approach for risk management and approves plan, budget, principles and specific methods, techniques and procedures for risk management.
3) Risk Monitoring Division – specialized unit in the Bank for risk analysis, management and monitoring. The functions of the Division are independent from the business units and from the units responsible for the functions of compliance and internal audit. The Division reports directly to the Supervisory Board.

Risk Monitoring Division performs activities in the following areas: maintenance of database of information needed for risk assessment; monitoring and control of risks; regular control over compliance with limits; methodological support for other Bank's units related to application of internal rules and procedures for regular assessment and control of risks; compliance with internal rules and procedures for risk management; update of procedures for risk management and tools for controls of the risks in the Bank.

3.2. The main principles and activities, targets, powers and responsibilities, reporting lines and types of audits performed by Internal Audit are regulated by the Rules for organization and activity of the specialized unit Internal Audit in TOKUDA BANK AD. The rules are compliant with the applicable legislation: Law on the Bulgarian National Bank, Law on Credit Institutions, Ordinance № 10 of the BNB on the Internal Control in Banks, Financial Supervision Commission Act, Law on Public Offering of Securities, Special Purpose Investment Companies Act, Law on Measures against Market Abuse with Financial Instruments, Markets in Financial Instruments Act.

The Internal Audit supports the Management and Supervisory Boards in the performance of their function by providing objective, independent and reasonable assurance that the Bank is in condition to achieve internal control environment relevant to its goals. The Internal Audit performs assessment and recommends improvements in the efficiency of the corporate governance system, risk management and control processes by:
a) performs assurance engagements and provides independent and objectively documented opinion regarding:

- Reliability, accuracy, completeness and timeliness of financial reporting and management reporting;
- Efficiency and effectiveness of the operations and achieving of operational and financial goals and safeguarding of assets;

- Compliance with applicable laws and regulations.

b) offers suggestions for remediation of identified deficiencies and weaknesses in the control environment;
c) performs consulting engagement by providing recommendations for improvement of existing practices and procedures and for development of effective control activities in the process of development of new procedures;
d) performs extraordinary audit engagements and audits for fraud prevention.

The Internal Audit reports administratively to the Management Board and functionally to the Supervisory Board of TOKUDA BANK AD, which allows the necessary level of independence and effective performance of its responsibilities. The Head of the Internal Audit has direct and unrestricted access to the Management Board and Supervisory Board.

3.3. Internal Financial Control – ex-ante, current and post control is organized and exercised in the operational work of the Bank. Systems for internal control over financial reporting are established.

Ex-ante control is implemented over all types of accounting operations and precedes the performance of accounting operations to ensure their lawful implementation.

Current control for operations with high level of operating risk is performed in the process of execution of banking transactions and aims to exclude deviations from established rules and procedures for performance of accounting operations, their compliance with legal requirements and timely correction of any errors, etc.

Post control comprises all actions and measures aimed at timely detection of illegal activities and operations, omissions and errors, fraud, waste of assets and other irregularities, which were committed despite the measures included in the ex-ante and current control.

The internal control environment established in the Bank ensures the reliability of the financial information. The functions of control over financial reporting include: organizational and operating independence of the unit responsible for financial reporting from the business units; alignment between the organization structure and the process for control and management of the related risks by strict definition of responsibilities; integrated information systems, which provide detailed breakdowns and report; developed framework of procedures and rules related to financial reporting and information security; definition and monitoring of approval limits and system for internal control processes; independent assessment for compliance performed by Internal Audit.

3.4. Function for measurement and monitoring of risks is performed by Risk Monitoring Division. The Division receives and analyses information for assessment, control and monitoring of the inherent risks in the Bank, including:

- Credit risk;
- Market and liquidity risk;
- Operational risk.

Sources of information for the Department for analysis and evaluation of risks:

- IT system and software used by the Bank – core banking system and software for management of portfolios and risk;
- Business units with respect to new loan proposals and information for monitoring of loan portfolio;
- Liquidity and Money Markets Division about information concerning the securities portfolio of the Bank;

- Legal Division (including Legal Compliance and Anti-money laundering with respect to information for legal risks, including court cases and risk of noncompliance of internal rules and procedures, bank products and other with legal and regulatory framework;
- Bank Security with respect to operational risks, including risks of fraud and other potential risks related to the security of the Bank;
- Chief economist of the Bank with respect to summarized information on daily basis for the development of the deposit base and the attracted funds;
- All employees of the Bank, clients and other external parties with respect to information for operational events and complaints.

Risk Monitoring Division receives requests for analysis and opinion with respect to transactions that lead to additional credit or market risk by:

- New credit exposures;
- Approval of new or change/discontinuance of existing loan or deposit products;
- New deals with securities and acquisition of securities;
- Establishment of correspondence relationships and open of new exposures of the Bank with other banks;
- Other proposals for open/close or change of positions, which might impact the risk exposure of the Bank.

Based on the received proposals, the Division prepares opinion addressed to the respective committees and the Management Board, which perform review and take decision on the proposal in compliance with the internal policies and procedures of the Bank, the rules for activities of the committees and the approved limits for risk taking of different units.

Regarding the Operational risk, the Division collects information from all employees and external clients regarding operational events that have occurred and maintains a database of registered operational events and claims. The information is reviewed regularly by the Risk Committee and the Risk Monitoring Division regularly informs the Management Board regarding any significant operational event and identified deficiencies in the activities, which expose the Bank to operational risk.

The units, which perform functions on taking risks:

- Supervisory Board and Management Board approve measures and tools for implementation of the Bank's strategy in compliance with its risk profile and appetite and provide final approval/rejection of the proposals for new loans, changes in terms of existing loans, measures for exiting of problem exposures, new investments in securities and other assets, etc.;
- Business units, including the office network and units, which provide lending services implement the following:
  - Decisions of the Credit Council and the Management Board for approval of new loans, changes in terms of existing exposures, actions for decreasing of problem exposures, etc., which are taken based on opinions provided by the Risk Monitoring Division;
  - Decisions of the Credit Council and the Management Board for introduction of new loan or deposit products, discontinuance or changes in existing products;
- Liquidity and Money Markets Division implements decisions of the Assets and Liabilities Committee (ALCO) taken based on the opinions provided by Risk Monitoring Division with respect to purchases of securities for the portfolios of the Bank and establishment of correspondence relationships or deposit of funds with other banks.

4. **Information per art. 10, paragraph 1, letter "c", "d", "f", "h" and "i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids (as per art. 100m, para 8, p. 4 of POSA)**

4.1. Significant direct or indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meeting of art. 85 (repealed) of Directive 2001/34/EC.

As of 31.12.2016 TOKUDA BANK AD has no direct or indirect shareholdings within the meaning art. 85 of Directive 2001/34/EC.

As of 31.12.2016 the shareholder structure of TOKUDA BANK AD is as follows:

Shareholder	Number of shares	Share in capita (%)
Tokushukai Incorporated	6 796 250	99,94
Gama Holding Group AD	3 750	00,06
Total	**6 800 00**	**100,00**

Dr. Torao Tokuda is the owner of Tokushukai Incorporated, Tokyo, Japan, and he is the individual who controls the direct shareholder Tokushukai Incorporated because he: 1) owns over 50 percent of the voting rights in the General Meeting of Shareholders and 2) can nominate more than half of the members of the Management Board.

4.2. TOKUDA BANK AD has not issued shares with special rights of controls and has no shareholders, which own shares with special control rights;

4.3. The Statute of TOKUDA BANK AD does not specify restrictions over voting rights of shareholders.

4.4. The rules that establish the appointment or change of the Management and Supervisory Board and changes in the Statute:
- Statute of TOKUDA BANK AD;
- Rules for reporting of conflict of interest and ensuring confidentiality in the transactions and operations of TOKUDA BANK AD;
- Guidelines for the competencies of the members of the Management Board and key employees of TOKUDA BANK AD;
- Rules for selection of members of relevant management unit of TOKUDA BANK AD;
- Rules for activities of the Supervisory Board of TOKUDA BANK AD;
- Rules for activities of the Management Board of TOKUDA BANK AD;

4.5. The powers of the members of the Supervisory Board and Management Board of TOKUDA BANK AD are established in:
- Statute of TOKUDA BANK AD;
- Rules for establishment of the responsibilities of the Management Board of TOKUDA BANK AD;
- Rules for activities of the Management Board of TOKUDA BANK AD;
- Rules for activities of the Supervisory Board of TOKUDA BANK AD.

4.6. According to the Statute, the share capital of TOKUDA BANK AD could be increased by decision of the General Meeting of Shareholders or by decision of the Management Board after approval of the Supervisory Board. The share capital of TOKUDA BANK AD could be decreased by decision of the General Meeting of Shareholders taken by qualified majority of two-thirds of the represented shares. The share capital of the Bank could be decreased only after written pre-approval by BNB according to the legal procedure: 1) through decrease of the nominal value of the shares; 2) through redemption of shares.

5. **Information regarding composition and functions of administrative, management and supervisory units and their committees (as per art. 100m, para 8, p. 5 of POSA)**

TOKUDA BANK AD has a two-tier management system, which includes Supervisory Board and Management Board with the following responsibilities, power and composition:

Supervisory Board (SB) includes individuals and legal entities appointed by the General Meeting of Shareholders of the Bank. SB performs its powers and responsibilities in compliance with the applicable legal requirements, the Bank's Statute, decision of the Shareholders and the Rules for its activities. The SB appoints and releases the members of the Management Board and approves the executive directors.

The members of the Supervisory Board in 2016 and as of the current moment are:
- Mr. Arthur Stern – Chairman of the Supervisory Board;
- Tokushukai Inc., Japan, represented by Mr. Eiji Yoshida – Deputy chairman of the Supervisory Board;
- Mr. Dimitar Voutchev – Member of the Supervisory Board.

The Management Board (MB) includes individuals appointed by the Supervisory Board of the Bank. The MB operates according to the Statute of the Bank and the Rules for its activities and performs tasks and activities required by law, by decision of the Shareholders and the Supervisory Board. The MB is a permanently-functioning collective body for management and representation of the Bank, which operates under the supervision of the Supervisory Board and in compliance with the established vision, goals and strategy of the Bank.

The members of the Management Board are:
- Mrs. Vanya Vassileva – Chairperson of the Management Board and Executive Director;
- Mrs. Maria Sheytanova – Member of the Management Board and Executive Director;
- Mrs. Anna Boneva – Member of the Management Board and Executive Director.

In 2016 due to personnel changes in the Bank, the following members have left the Management Board:
- Boyan Ikonomov is released as a Member of the Management Board and Executive Director from 27.12.2016;
- Dimitar Slavchev is released as a Member of the Management Board from 31.10.2016.

Currently no changes in the Management Board are envisaged.

The members of the Management Board and Supervisory Board have no rights for acquisition of shares or bonds of the Bank, as well as they and their related parties have no concluded contracts with the Bank outside of the ordinary activities or under terms outside the market terms.

Different permanent committees are established (listed below) to the Management Board and Supervisory Board – consulting units for evaluation and taking decision in relation to credit activity, liquidity and securities portfolios, return on assets, risks and other aspects of the Bank's activities.

In 2016 and as of the current date, the structure of the Bank includes the following committees:

Credit Council (CC) in its role as a collective unit to the Management Board performs the following activities in compliance with the approved rules for its activities, the credit policy of the Bank and the applicable legal regulations:

- Reviews and takes decisions for approval of new loan exposures, changes in existing exposures (renegotiated and restructured), taking measures for exiting existing exposures, enforecement of problem exposures of clients or group of related clients with exposures up to 10% of the capital base of the Bank;
- Proposals for review and approval by the Management Board of credit deals for exposures over 10% of the capital base;
- Review and presentation to the Management Board of proposals for foreclosure by the Bank of collateral under problem loans, cession of loans and write off of loans under existing exposures.

The Credit Council is structure in three levels and the power of each level is determined in the "Rules for Activities of the Credit Council of Tokuda Bank AD" and in the "Policy, Rules and Procedures for Credit Activity of Tokuda Bank AD". In its operations, the Credit Council is governed by the requirements of the Law on Credit institutions and other legislation, which regulates the credit actvities, as well as the internal policies and procedures of the Bank.

As of the current date, the member of the Credit Council are as follows:

Third level:

- Vanya Vassileva – Chairperson of the MB and Executive Director – Chairperson of CC;
- Maria Sheytanova – Member of the MB and Executive Director – Deputy-Chairperson;
- Todorina Doktorova – Head of Corporate Banking Division;
- Sabin Simeonov – Head of Risk Monitoring Division;
- Svetozara Stoyanova-Tavityan – Head of Legal Division.

Second level:

- Vanya Vassileva – Chairperson of the MB and Executive Director – Chairperson of CC;
- Todorina Doktorova – Head of Corporate Banking Division;
- Sabin Simeonov – Head of Risk Monitoring Division;
- Emil Krastev – Chief Legal Advisory in Legal Division.

First level:

- Veneta Yancheva – Head of "Credit Risk – small and medium clients" in Risk Monitoring Division;
- Svetozara Stoyanova-Tavityan – Head of Legal Division;
- Regional manager proposing the lending deal.

The Committee for Analysis, Classification and Impairment is the responsible body of the Bank for monitoring, evaluation and classification of financial assets and contingent liabilities, and for assessment of the credit loss and impairment provisions. The Committee takes decisions for classification and assesment of the credit loss of financial assets and determines provisions for contingent liabilities. The Committee analyzes the grounds fr reclassification of credit expsoures and controls the compliance with the requirements and criteria of BNB and the internal policies and procedures in this respect.

The members of the Committee for Analysis, Classification and Impairment are as follows:

- Anna Boneva – Member of the Management Board and Executive Director – Chairperson;
- Svetlin Todorov – Head of Finance and Accounting Division – Member;
- Miglena Ivanova – Head of Loan Administration Division – Member;
- Reny Paneva – Head of Court Receivables– Member;

- Delyan Pehlivanov – Chief expert in Credit risk – corporate clients in Risk Monitoring Division – Member;
- Marina Borisova – Legal advisor in Court receivables– Member.

In 2016 and as of the date of this document, due to personnel changes in the Bank the following members have left the Committee: Vassil Goranov, Emil Krastev, Sasho Zahariev, Boyan Ikonomov. Currently, changes in the Committee' members are not expected.

Assets and Liabilities Committee (ALCO) is the main body for management of the liquidity of TOKUDA BANK AD. It bears direct responsibility for the liquidity state and daily liquidity management based on decisions of the Management Board and for current management of the assets and liabilities. ALCO performs monthly analysis of the existing interest and liquidity risk and presents it to the Management Board. In compliance with ALCO Internal Rules of the Bank, the Committee consists of seven members as follows:

- Executive Director – Chairperson;
- Executive Director – Deputy Chairperson;
- Head of Risk Monitoring Division;
- Head of Corporate Banking Division;
- Head of Retail Banking Division;
- Head of Liquidity and Money Markets Division;
- Chief economist of the Bank.

Currently the members of ALCO are the following:

- Anna Boneva – Member of MB and Executive Director – Chairperson;
- Vanya Vassileva – Chairperson of MB and Executive Director – Member;
- Sabin Simeonov – Head of Risk Monitoring Division – Member;
- Todorina Doktorova – Head of Corporate Banking Division – Member;
- Liliya Shopova – Chief expert in Retail Banking Division – Member;
- Dessislava Nikova – Head of Liquidity and Money Markets Division;
- Grigor Sariiski – Chief economist – Member.

In 2016 and as of the current date due to personnel changes in the Bank, the following members have left ALCO: Dimitar Slavchev and Georgi Evtimov. As of the current date, no changes in the composition of ALCO are envisaged.

Risk Committee is a specialized internal body of the management of TOKUDA BANK in the area of management and control of the exposure of the Bank to credit, market (including interest, liquidity, currency), operational and other risks. The activities of the Risk Committee serve to perform the goals and tasks of the Bank and with its suggestion and decisions, the Risk Committee supports the Management Board and the executive directors for effective risk management. As of the current date the members of the Risk Management Committee are:

- Sabin Simeonov – Head of Risk Monitoring Division – Chairperson;
- Svetlin Todorov – Head of Finance and Accounting – Member;
- Grigor Sariiski – Chief economist – Member;
- Miglena Ivanova – Head of Loan Administration Division – Member;
- Emil Krastev – Chief Legal Advisor in Legal Division.

In 2016 due to personnel changes in the Bank, the following members have left the Risk Committee: Boryana Nenkova-Savcheva and Dimitar Slavchev. Until the current date of 2017 due to personnel changes in the Bank the following members have left the Risk Committee: Biliana Todorova. As of the current date, no changes are envisaged.

The Audit Committee established in compliance with the Law on Independent Audit is a permanent specialized independent consulting body of the Bank, which aims to monitor the effectiveness and adequacy of the financial reporting process, risk management and control, including internal audit by complying with the applicable legislation and good practices. The Audit Committee is appointed by the General Meeting of Shareholders of TOKUDA BANK AD, which determines also its term and the number of members.

The Audit Committee performs its activities according to the approved by the Supervisory Board of the Bank rules for its activities and reports its actvities to the General Meeting of Shareholders once a year together with the approval of the annual financial statements. The Audit Committee monitors the financial reporting and the independent audit of the Bank, the effectiveness of the internal control systems and risk management, recommends the selection of registered external auditor and monitors his independence.

6. Description of the policy for diversity applied with respect to administrative, management and supervisory bodies (as per art. 100m, para 8, p. 6 of POSA)

TOKUDA BANK AD applies policy for diversity by:

- Balanced age and sex structure at all management and control levels;
- Educational level and diverse areas of expertise (finance, law, information technology) in compliance with national regulatory requirements and aimed at including a broad range of expertise and competencies;
- Adequate professional experience for the respective positions with compliance of regulatory requirements by maintaining balance of experience, professionalism, knowledge of the activities, as well as independence and objective presentation of opinions and decisions.

In addition, the diversity in TOKUDA BANK AD is related to the transition between historical traditions and fast adaptation to new technologies in the financial services area.

Vanya Vassileva

Executive Director
Chairperson of the Management Board

Anna Boneva

Executive Director
Member of the Management Board

ТОКУДА БАНК АД
СОФИЯ

INDEPENDENT AUDITOR'S REPORT AND ANNUAL SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2016

Deloitte.

Deloitte Audit OOD
UIC 121145199
103, Al. Stambolijski Blvd.
1303 Sofia
Bulgaria

Tel: +359 (2) 802 3300
Fax: +359 (2) 802 3350
www.deloitte.bg

Делойт Одит ООД
ЕИК 121145199
бул. „Ал. Стамболийски" 103
София 1303
България

Тел: +359 (2) 802 3300
Факс: +359 (2) 802 3350

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Tokuda bank AD

REPORT ON THE AUDIT OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying separate and consolidated financial statements of Tokuda bank AD ("the Bank") and its subsidiary (together "the Group"), which comprise the separate and consolidated statement of financial position as at December 31, 2016, and the separate and consolidated statement of comprehensive income, the separate and consolidated statement of changes in equity and the separate and consolidated statement of cash flows for the year then ended, and notes to the separate and consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate and consolidated financial statements present fairly, in all material respects, the financial position of the Bank/Group as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union ("IFRS").

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 and consolidated financial statements section of our report. We are independent of the Bank/Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of Independent Financial Audit Act (IFAA) that are relevant to our audit of the separate and consolidated financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information Other than the separate and consolidated financial statements and Auditor's Report Thereon

The Management board (the management) are responsible for the other information. The other information comprises the annual report on activities and the corporate governance statement, prepared by the management in accordance with Chapter Seven of the Accountancy act, but does not include the separate and consolidated financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditor's report and to the extent it is specifically stated.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the separate and consolidated financial statements

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

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

The Supervisory Board and Audit Committee (those charged with governance) are responsible for overseeing the Bank's/Group's financial reporting process.

Auditor's Responsibilities for the Audit of the separate and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 Independent Financial Audit Act and 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 and consolidated financial statements.

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional matters, required to be reported by the Accountancy Act and Public Offering of Securities Act

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the Financial Statements and Auditor's Report Thereon", with respect to the annual report on activities and the corporate governance statement, we have also performed the procedures required by the Guidelines of the Professional Organization of Chartered Accountants and Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA), issued on November 29, 2016. These procedures include tests over the existence, the form and the content of the other information in order to assist us in forming an opinion in relation as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 8, p. 3 and 4 of POSA), applicable in Bulgaria.

Opinion under Article 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, in our opinion:

- The information included in the annual report on the activities for the financial year for which the separate and consolidated financial statements have been prepared, is consistent with the separate and consolidated financial statements.
- The annual report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act
- The information required by Chapter Seven of the Accountancy Act and Art. 100(m), para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate and consolidated financial statements have been prepared.

Opinion Under Art. 100m, para 10 in relation to art. 100m, para 8, p. 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed and as a result of the acquired knowledge and understanding of the Bank/Group and the environment in which it operates, in our opinion, the description of the main features of the Bank's/Group's internal control and risk management systems in relation to the financial reporting process as part of the annual report on activities (as element of the content of the corporate governance statement) and the information under Article 10 , paragraph 1, letter "c", "d", "f", "h" and "i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids, included in the corporate governance statement do not contain cases of material misrepresentations.

Deloitte Audit OOD

Assen Dimov
Statutory manager
Registered auditor
April 20, 2017
Sofia

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TOKUDA BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 DECEMBER 2016

(all amounts expressed in BGN thousand)	Note	As at 31 December 2016	As at 31 December 2015	As at 31 December 2016	As at 31 December 2015
		Separate		Consolidated	
ASSETS					
Cash and cash balances with central banks	4	52,160	88,384	52,160	88,384
Loans and receivables from credit institutions	5	17,671	16,625	17,671	16,625
Financial assets held for trading	6	24,790	27,941	24,790	27,941
Financial assets available for sale	7	89,085	93,445	89,085	93,445
Loans and receivables from customers	8	175,801	180,252	175,801	180,252
Non-current assets held for sale	9	7,271	7,135	7,271	7,135
Property, plant and equipment	10	2,656	2,880	2,664	2,890
Intangible assets	10	603	651	606	655
Investment property	11	1,274	-	1,274	-
Investments in subsidiaries	12	25	25	-	-
Other assets	13	15,880	9,946	15,878	9,943
Total assets		**387,216**	**427,284**	**387,200**	**427,270**
LIABILITIES					
Deposits from credit institutions	14	87	563	87	563
Deposits from clients other than credit institutions	15	341,237	379,872	341,231	379,869
Tax liabilities	16	93	89	93	89
Other liabilities	17	1,147	1,496	1,148	1,496
Total liabilities		**342,564**	**382,020**	**342,559**	**382,017**
EQUITY					
Share capital	18	68,000	68,000	68,000	68,000
Reserves	18	4,759	3,632	4,759	3,632
Accumulated loss		(26,368)	(19,523)	(26,379)	(19,532)
Loss for the year		(1,739)	(6,845)	(1,739)	(6,847)
Total equity		**44,652**	**45,264**	**44,641**	**45,253**
Total liabilities and equity		**387,216**	**427,284**	**387,200**	**427,270**

These separate and consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 19 April 2017.

Vanya Vassileva	Maria Sheytanova	Svetlin Todorov
Chairperson of Management Board and Executive Director	Member of Management Board and Executive Director	Finance Director

ТОКУДА БАНК АД СОФИЯ

The accompanying notes are an integral part of these separate and consolidated financial statements.

20.04.2017

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TOKUDA BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
31 DECEMBER 2016

(all amounts expressed in BGN thousand)	Note	Year ended 31 December		Year ended 31 December	
		2016	**2015**	**2016**	**2015**
		Separate		Consolidated	
Interest income	19	13,782	16,486	13,782	16,486
Interest expense	19	(4,088)	(7,702)	(4,088)	(7,702)
Net interest income		9,694	8,784	9,694	8,784
Fee and commission income	20	3,772	3,900	3,772	3,900
Fee and commission expense	20	(291)	(348)	(291)	(348)
Net fee and commission income		3,481	3,552	3,481	3,552
Net trading income	21	791	305	791	305
Other operating income	22	689	888	688	887
Operating income		14,655	13,529	14,654	13,528
Impairments and provisions for losses	24	(3,426)	(8,055)	(3,426)	(8,055)
Personnel costs		(5,962)	(5,492)	(5,987)	(5,517)
Operating lease rentals		(1,047)	(936)	(1,047)	(936)
Other expenses		(5,954)	(5,885)	(5,928)	(5,861)
Operating expenses	23	(12,963)	(12,313)	(12,962)	(12,314)
Loss before income tax		(1,734)	(6,839)	(1,734)	(6,841)
Tax expense	25	(5)	(6)	(5)	(6)
Loss for the year		(1,739)	(6,845)	(1,739)	(6,847)
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods					
Net change in fair value of available for sale financial assets		1,131	2,820	1,131	2,820
Items that will never be reclassified to profit or loss					
Remeasurements of defined benefit liability		(4)	(1)	(4)	(1)
Total other comprehensive income		1,127	2,819	1,127	2,819
Total comprehensive income for the year		(612)	(4,026)	(612)	(4,028)

These separate and consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 19 April 2017.

Vanya Vassileva
Chairperson of Management Board and Executive Director

Maria Sheytanova
Member of Management Board and Executive Director

Svetlin Todorov
Finance Director

The accompanying notes are an integral part of these separate and consolidated financial statements.

ТОКУДА БАНК АД София

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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TOKUDA BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
31 DECEMBER 2016

Separate (all amounts expressed in BGN thousand)	**Share capital**	**Reval. reserve of fin. assets available for sale**	**Reserves**	**Accumu-lated loss**	**Total**
Balance at 1 January 2015	**68,000**	-	**813**	**(19,523)**	**49,290**
Loss for the year	-	-	-	(6,845)	(6,845)
Other comprehensive income for the year	-	2,820	(1)	-	2,819
Remeasurements of defined benefit liability	-	-	(1)	-	(1)
Net revaluation reserve of financial assets available for sale	-	2,820	-	-	2,820
Total comprehensive income for the year	-	2,820	(1)	(6,845)	(4,026)
Balance at 31 December 2015	**68,000**	**2,820**	**812**	**(26,368)**	**45,264**
Loss for the year	-	-	-	(1,739)	(1,739)
Other comprehensive income for the year	-	1,131	(4)	-	1,127
Remeasurements of defined benefit liability	-	-	(4)	-	(4)
Net revaluation reserve of financial assets available for sale	-	1,131	-	-	1,131
Total comprehensive income for the year	-	1,131	(4)	(1,739)	(612)
Balance at 31 December 2016	**68,000**	**3,951**	**808**	**(28,107)**	**44,652**

Consolidated (all amounts expressed in BGN thousand)	**Share capital**	**Reval. reserve of fin. assets available for sale**	**Reserves**	**Accumu-lated loss**	**Total**
Balance at 1 January 2015	**68,000**	-	**813**	**(19,532)**	**49,281**
Loss for the year	-	-	-	(6,847)	(6,847)
Other comprehensive income for the year	-	2,820	(1)	-	2,819
Remeasurements of defined benefit liability	-	-	(1)	-	(1)
Net revaluation reserve of financial assets available for sale	-	2,820	-	-	2,820
Total comprehensive income for the year	-	2,820	(1)	(6,847)	(4,028)
Balance at 31 December 2015	**68,000**	**2,820**	**812**	**(26,379)**	**45,253**
Loss for the year	-	-	-	(1,739)	(1,739)
Other comprehensive income for the year	-	1,131	(4)	-	1,127
Remeasurements of defined benefit liability	-	-	(4)	-	(4)
Net revaluation reserve of financial assets available for sale	-	1,131	-	-	1,131
Total comprehensive income for the year	-	1,131	(4)	(1,739)	(612)
Balance at 31 December 2016	**68,000**	**3,951**	**808**	**(28,118)**	**44,641**

These separate and consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 19 April 2017.

Vanya Vassileva Chairperson of Management Board and Executive Director	Maria Sheytanova Member of Management Board and Executive Director	Svetlin Todorov Finance Director

БАНК ТОКУДА АД София

The accompanying notes are an integral part of these separate and consolidated financial statements.

20.04.2017

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 033 ДЕЛОЙТ ОДИТ ООД

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TOKUDA BANK AD
SEPARATE AND CONSOLIDATED STATEMENT OF CASH FLOWS
31 DECEMBER 2016

(all amounts expressed in BGN thousand)	Note	Year ended 31 December		Year ended 31 December	
	Note	2016	2015	2016	2015
		Separate		Consolidated	
Cash flows from operating activities					
Net loss for the year		(1,739)	(6,845)	(1,739)	(6,845)
Income tax expense		5	6	5	6
Depreciation/amortization		560	481	560	481
Net impairments and provisions for losses		3,426	8,055	3,426	8,055
Net interest income		(9,694)	(8,784)	(9,694)	(8,784)
Dividend income		(28)	(19)	(28)	(19)
Gain on disposal of property, plant and equipment		(37)	(21)	(37)	(21)
Accruals		172	22	172	22
Interest income received		15,820	16,112	15,820	16,112
Interest expense paid		(4,341)	(7,923)	(4,341)	(7,923)
Dividend income received		28	19	28	19
Currency revaluation of investments held to maturity		-	(284)	-	(284)
Cash flows from oper. profit before changes in the oper. assets and liabilities		**4,172**	**819**	**4,172**	**819**
Decrease in Trading securities		3,086	2,592	3,086	2,592
Decrease in Financial assets available for sale		4,507	11,099	4,507	11,099
Decrease in loans and receivables from customers		1,794	15,889	1,794	15,889
(Increase)/ Decrease of non-current assets held for sale		(136)	165	(136)	165
Increase in Investment property		(1,424)	-	(1,424)	-
Increase of other assets		(7,459)	(79)	(7,459)	(79)
Increase/(Decrease) of deposits from credit institutions		(476)	413	(476)	413
(Decrease) of deposits from clients other than credit institutions		(38,397)	(7,326)	(38,397)	(7,326)
(Decrease) of other liabilities		(594)	(1,895)	(594)	(1,895)
Net cash flow generated by operating activities		**(39,099)**	**20,858**	**(39,099)**	**20,858**
Cash flows from investing activities					
Payments for acquisition of investment held to maturity		-	(30,734)	-	(30,734)
Proceeds from investments held to maturity		-	13,290	-	13,290
Payments for acquisition of property, plant and equipment		(811)	(153)	(811)	(153)
Proceeds from sale of property, plant and equipment		678	104	678	104
Payments for acquisition of intangible assets		(118)	(237)	(118)	(237)
Net cash flow used in investing activities		**(251)**	**(17,730)**	**(251)**	**(17,730)**
Net (decrease)/increase of cash and cash equivalents		**(35,178)**	**3,947**	**(35,178)**	**3,947**
Cash and cash equivalents at the beginning of the year		**105,009**	**101,062**	**105,009**	**101,062**
Cash and cash equivalents at the end of the year	27	**69,831**	**105,009**	**69,831**	**105,009**

These separate and consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 19 April 2017.

Vanya Vassileva
Chairperson of Management Board
and Executive Director

Maria Sheytanova
Member of Management Board
and Executive Director

Svetlin Todorov
Finance Director

ТОКУДА БАНК АД София

The accompanying notes are an integral part of these separate and consolidated financial statements.

20.04.2017

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1. ORGANIZATION AND OPERATIONS

Tokuda Bank AD (the Bank), UIC 813155318, is a joint stock company registered in the Republic of Bulgaria on December 27, 1994. The Bank's registered address is 21, Georg Washington Street, Sofia. The consolidated financial statements of Tokuda Bank Group present the financial statement of Tokuda Bank AD (The Bank) and its controlled subsidiary "Tokuda Security" EOOD (Subsidiary) as a reporting entity (the Group).

As of December 31, 2016 the issued share capital amounts to BGN 68,000,000 (sixty eight million levs), comprising 6,800,000 (six million and eight hundred thousands) registered voting shares with face value of BGN 10 (ten) per share.

As of December 31, 2016 the major shareholder of the Bank is Tokushukai Incorporated, holding 99.94% of the Bank's capital.

The Bank holds a banking license issued by the Bulgarian National Bank (BNB) to perform all banking activities allowed by the Bulgarian legislation.

The 2016 and 2015 the activities of the Bank/Group mainly consists of rendering of banking services related to granting loans to private companies, attracting deposits from customers, servicing of client payments both locally and internationally, performing transactions with government securities and securities under repurchase agreements, as well as other financial services in Bulgaria.

The Bank has a two-tier management system, consisting of Management Board and Supervisory Board. The members of the Management Board are Executive Directors of the Bank.

In 2016 the Bank/Group operates through its Head Office and 27 offices, points of services and representative offices (2015: 29). As of December 31, 2016 the Bank has 259 employees (2015: 266). As of December 31, 2016 the Group has 262 employees (2015:269).

2. BASIS FOR PREPARATION OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS

2.1. General

These financial statements have been prepared for general purposes for the year ended December 31, 2016. The financial statements are presented in thousand Bulgarian Levs (BGN'000).

These separate and consolidated financial statements have been prepared in accordance with the Bulgarian national legislation. The Bank's operations are regulated by the Law on Credit Institutions, BNB Ordinances, applicable regulations of the European Union. BNB supervises and monitors the compliance with the banking legislation.

The Bank owns 100% the subsidiary Tokuda Security EOOD, Sofia, Republic of Bulgaria.

2.2. Accounting convention

These financial statements have been prepared on the historical cost convention, except for the securities held for trading, investments available for sale and derivatives, which are presented at fair value (see note 3.2). Loans, receivables and financial assets held to maturity are presented at amortized cost.

These separate and consolidated financial statements are prepared in all material aspects in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and the interpretations, issued by the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the European Union (EU) and applicable in the Republic of Bulgaria.

2. BASIS FOR PREPARATION OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3. Changes in IFRS

Initial application of new amendments to the existing standards effective for the current reporting period

The following amendments to the existing standards and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations - adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation - adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Bearer Plants - adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements - adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank/Groups's financial statements.

Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements, the following new standards and amendments to standards issued by IASB and adopted by the EU are not yet effective:

- IFRS 9 "Financial Instruments" - adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

2. BASIS FOR PREPARATION OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3. Changes in IFRS (continued)

New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretation, which were not endorsed for use in EU as at the date of publication of these financial statements (the effective dates stated below is for IFRS in full):

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the EU has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),
- 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 and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).

The Bank/Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Bank/Group in the period of initial application, except for IFRS 9 Financial instruments and IFRS 16 Leases.

IFRS 9 Financial instruments is effective for annual periods beginning on or after 1 January 2018 and uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39.

The main changes introduced by IFRS 9 are as follows:

- Classification and measurement - IFRS 9 introduces a new approach to the classification of financial assets based on the characteristics of the cash flows of the financial instruments and business model under which the respective financial asset is held.
- Impairment - A new impairment model is introduced based on recognition of expected credit losses, which will lead to earlier recognition of credit losses and higher impairment levels. A loan loss allowance for either 12-month expected credit losses or lifetime expected credit losses is required.
- Hedge accounting – can more closely reflect risk management with more qualifying hedging instruments and hedged items. Retrospective assessment of hedge effectiveness is no longer required and the prospective test is based on the principle of economic relationship. Significantly changed model of hedge accounting is introduced, with expanded information that should be disclosed about the risk management activities

2. BASIS FOR PREPARATION OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.3. Changes in IFRS (continued)

In 2017 the Bank started a project, which has to ensure the smooth transition to the requirements to the new standard. The project will consist of several phases, which include currents state assessment and gap analysis, review of the current probability of default methodology and its adjustment to the requirements of the standard, design of new impairment methodology and estimation of the financial impact, identification of the necessary changes in the internal policies and processes.

At the current state of the project the exact financial impact from the implementation of the requirements of IFRS 9 could not be estimated. It will depend on the expected credit losses methodology and the corresponding risk parameters. It is expected that the project will be completed by the end of the third quarter of 2017.

IFRS 16 introduces a comprehensive model for the identification of lease agreements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees except for short-term leases and leases of low value assets.

The right-of-use asset s initially measured at cost and subsequently measured at acquisition cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst other

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease of finance lease

The Bank/Group is currently assessing its potential impact of IFRS 16 on the financial statements.

Hedge accounting for a portfolio of financial assets and liabilities whose principles have not been adopted by the EU remains unregulated.

According to the Bank/Group's estimates, the application of hedge accounting to a portfolio of financial assets or liabilities pursuant to **IAS 39: "Financial Instruments: Recognition and Measurement"** would not significantly impact the financial statements, if applied as at the reporting date.

2.4. Going concern

The Bank/Group's financial statements have been prepared under the going concern assumption. As a result of the operations executed by the Bank/Group in prior reporting periods, losses have been accumulated that may cast doubt about the Bank/Group's ability to continue as a going concern. Despite the accumulated losses, the Management has analysed the ability of the Bank/Group to continue its operations and has undertaken actions to strengthen its positions through optimization of the banking products and services, improvements of the assets structure and expenses and increase of share capital, which will create conditions for generating future income.

2.5. Principles of consolidation

All acquisitions are accounted for using the purchase method of accounting as set out in IFRS 3 from the date on which the Bank/Group effectively obtains control of the acquiree. The Group has incorporated into its consolidated statement of comprehensive income the results of operations of the acquiree and has also recognised in the consolidated statement of financial position the assets acquired and the liabilities assumed and contingent liabilities of the acquiree as well as any goodwill arising on the acquisition.

2. BASIS FOR PREPARATION OF THE SEPARATE AND CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2.5. Principles of consolidation (continued)

The results of subsidiaries acquired or disposed during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

In preparing the consolidated financial statements, the financial statements of the Bank and its subsidiary are combined on a line-by-line basis by adding together like items of assets, liabilities, equity, income and expenses. Where necessary, adjustments are made to the financial statements of the subsidiary to bring its accounting policies into line with those used by the Bank.

For consolidation purposes, all intergroup balances and intergroup transactions, income and expenses are eliminated in full.

Non-controlling interest in net assets and profit or loss of subsidiaries are presented separately from those possessed by the Group.

Goodwill incurred in business combinations is reviewed for impairment annually or more often if any events or changes in the circumstances provide indications for impairment. In these consolidated financial statements no goodwill was recognized from business combinations.

Entities in which the Group has significant influence, but not control (associates), are included in the consolidated financial statements at acquisition cost. Significant influence is defined as the right to participate in the financial and operating decisions of the associate, but not to control these decisions. As of December 31, 2016 and 2015 the Group has no associates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Accounting estimates and accounting assumptions

The presentation of financial statements requires management to apply certain accounting estimates and reasonable assumptions that affect the reported carrying amount of assets and liabilities as of the date of the financial statements, as well as the amount of revenues and expenses during the reporting period and to disclose contingent assets and liabilities. These estimates and assumption are based on the information available at the date of the preparation of the separate and consolidated financial statements and the actual results may differ from these estimates.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.1. Accounting estimates and accounting assumptions (continued)

The accounting assumptions and estimates applied in these financial statements are as follows:

- Allowance for impairment of loans and receivables from customers – to determine the amount of allowance for impairment of loans and receivables from customers the Bank/Group measures the recoverable amount of the assets. This process requires assumptions related to expected future cash flows, collateral values, and anticipated time of collateral realization. Note 29.2 describes the process applied by the Bank/Group to manage the credit risk and to determine the allowance for impairment of loans and receivables.
- Measurement of fair value of financial assets and financial liabilities carried at fair value – note 29.5 discloses detailed information for the main methods and assumptions for measurement and disclose of fair value;
- Useful lives of property, plant and equipment and intangible assets – the Bank/Group reviews the useful lives of these assets at the end of each reporting period and changes their useful lives, if needed. In 2016 there were no changes in the useful lives of these assets.
- Impairment Analysis of non-current assets held for sale, investment property, other assets acquired from nonperforming loans – the Bank/Group reviews annually these assets for impairment, based mainly on external appraisals. When determining the fair value the independent appraisers use: comperative value method, capitalization of income method, depreciated replacement method, depending on the type of the appraised asset.

In 2016 the Bank/Group continued its operations in uncertain market environment. As a result, the amount of impairment losses on loans and advances, financial assets available for sale, other financial instruments, as well as the values of other accounting estimates in subsequent reporting periods may differ substantially from those measured and reported in these separate and consolidated financial statements. The recoverability of the loans and the adequacy of the recognized impairment losses, as well as the maintaining of the Bank/Group's liquidity ratios depend on the financial position of the borrowers and their ability to settle their obligations at contracted maturity in subsequent reporting periods. The Bank/Group's management applies the necessary procedures to manage these risks, as disclosed in note 29.

3.2. Financial assets

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are securities, which upon initial recognition are designated as measured at fair value through profit or loss. This group includes financial assets with quoted prices in an active market. Securities measured at fair value through profit or loss are subsequently revalued at fair value.

Differences between the carrying amounts of securities sold and their selling price is recorded in the statement of comprehensive income as net gain or loss on dealings with financial assets at fair value through profit or loss. Any changes in the securities' fair value are reported in statement of comprehensive income as profit or loss. Interest earned, whilst holding the securities, is reported as gain on dealings in financial assets at fair value through profit or loss.

As of December 31, 2016 and 2015 the Bank/Group has no such assets.

Financial assets and liabilities held for trading

These are financial assets and liabilities, as well as all derivatives (excluding those, presented as hedging instruments), which were either acquired for the purpose of generating profit from short-term fluctuations in price or dealer's margin, or for the purpose of generating short-term profit from sales. These financial instruments are initially recognized and subsequently measured at fair value. Subsequent revaluations are based on market quotations. All realized gains on transactions with such financial instruments, as well as gains or losses on subsequent revaluations are included in the statement of comprehensive income. As of December 31, 2016 financial assets held for trading consist of Bulgarian government securities . As of December 31, 2015 financial assets held for trading consist mainly of Bulgarian government securities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Financial assets (continued)

Purchase and sale of financial assets held for trading are recognized at transaction date, i.e. the date on which the Bank/Group engages to purchase or sale the asset.

The Bank/Group uses derivative financial instruments both to meet the financial needs of its customers, acting as an agent, and in its own transactions. These instruments include open market foreign currency transactions, open market security purchase and sale transactions, open market forward exchange rate agreements and currency swaps. Subsequent to initial recognition and measurement, financial instruments are remeasured at each reporting date and reported at their fair value. Changes in fair value of derivatives held for trading are included in the statement of comprehensive income.

As of December 31, 2016 and 2015 there are no transactions with derivative financial instruments that qualify for hedge accounting under the specific rules of IAS 39.

Investments held to maturity

Investments held to maturity are investments with fixed or determinable payments and fixed maturity, which the Bank/Group has the positive intention and ability to hold until maturity. These securities are initially recognized at cost, including any transaction costs. Investments held to maturity are subsequently measured at amortized cost using the effective interest rate method.

Acquisitions and derecognition of financial assets classified as investment held to maturity are recognized on transaction date, i.e. when the Bank/Group commits to buy the asset or the asset matures.

Financial assets available for sale

Financial assets available for sale are those non-derivative financial assets that are not classified as loans and receivables, investments held to maturity or financial assets, measured at fair value through profit or loss.

These assets are valued at fair value, based on quoted market prices in an active market. Equity securities for which there is no market price information are presented at acquisition cost and are reviewed for impairment, which is recognized in statement of comprehensive income.

Dividends from equity investments are recognized as income at the time when the Bank/Group has the right to receive them.

Sales and acquisitions of financial assets available for sale are recognized on transaction date, i.e. when the Bank/Group commits to buy or sale the asset.

Loans and receivables

The accounting policy with regards to loans and receivables is described in note 3.3.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash in hand, placements with central banks, loans and receivables from credit institutions – on sight or with original maturity up to 3 months.

Derecognition and netting of financial assets

A financial asset is derecognized on the value date when the Bank/Group no longer has control over the contractual rights and transfers substantially all risks of ownership of the asset such as: the Bank/Group realizes the rights, the rights expire, or when the rights are bought out. A financial liability is derecognized when it is paid off.

Financial assets and financial liabilities are netted and the net carrying amount is reported in the statement of financial position when the Bank/Group is legally entitled to offset the recognized amounts and the transactions are to be settled on a net basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Financial assets (continued)

Off-balance financial instruments

In its operations the Bank/Group has off-balance sheet financial instruments comprising mainly financial guarantees and letters of credit. Such financial instruments are reported in the statement of financial position upon utilization of the funds.

Impairment of financial assets

As of the end of each reporting period, the Bank/Group reviews whether there are any indications for impairment of individual financial asset or a group of financial assets. A financial asset or a group of financial assets are impaired only when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows have been affected.

The objective evidence for impairment includes:

- Significant financial difficulties suffered by the issuer /borrower;
- Non-performance of an agreement, including default payment or delay payment of principal or interest;
- Debt restructuring due to economic or legal reasons resulting from financial difficulties of the issuer/debtor;
- Probability of bankruptcy or other financial reorganization of the issuer/debtor;
- Disappearance of an active financial market of the financial asset due to finance difficulties of the issuer/debtor.

The disappearance of an active market for certain securities, i.e. the securities are no longer traded, is not in itself evidence for impairment. The decrease of the credit rating of a certain issuer, as well as the decrease in fair value of a financial asset below its acquisition cost is not in themselves evidence for impairment without the existence of other indicators.

3.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market and are not classified in the other groups. These financial assets are carried at amortized cost, by using the effective interest rate method, less allowance for impairment and uncollectability.

The allowance for impairment and uncollectability is measured considering the specific risk of the asset. In determining the level of the impairment required, management considers a number of factors including domestic economic conditions, the composition of the loan portfolio and prior irregular and non-performing debt experience, quality and liquidity of collateral.

The allowance for impairment and uncollectability is determined as the difference between the carrying amount of a financial asset and its estimated recoverable amount. For portfolios of expositions with similar credit risk characteristics and no objective evidence of impairment, the Bank/Group estimates portfolio impairments (incurred but not reported loss).

Any difference between the carrying amount and recoverable amount of the financial asset (loss on impairment and uncollectability) is reported in the statement of comprehensive income for the period when it occurs. A reversal of any loss on impairment and uncollectability is reported as income for the respective period. Recoveries of amounts previously written off are treated as income when received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4. Receivables and payables under repurchase agreements (repo deals)

The Bank/Group enters into agreements for temporary sale of securities with repurchase clause on future date at fixed price.

Receivables and liabilities under repurchase agreements are recognized at cost, which represents the funds placed/obtained by the Bank/Group, secured by the value of the securities, together with the accrued to the moment interest receivable/payable.

Securities sold with repurchase clause are not derecognized from the statement of financial position and are reported as financial assets held for trading. The difference between the sale price and repurchase price is considered as interest and is accrued proportionally for the term of the agreement.

3.5. Investment property

Investment property includes buildings, that the Bank/Group holds for earning rentals or for capital appreciation, or both. The Bank/Group uses the fair value model for the measurement of the investment property after recognition. The assets in this category are reviewed at least annually for impairment, based mainly on external appraisals.

3.6. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

Operating lease
Leases where a significant portion of the risks and rewards of ownership of the asset are retained by the lessor are classified as operating leases. The payments made under operating leases are charged to the separate and consolidated income statement on a straight-line basis over the period of the lease and are presented as rent expenses. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place. Assets leased out by the Bank/Group under operating leases are included in the separate and consolidated statement of financial position based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income under lease contracts is recognized on a straight-line basis over the lease term and are presented as 'other operating income/expenses' in the separate and consolidated income statement.

Finance lease
Leases where the lessee has substantially all the risks and rewards of ownership of the asset are classified as finance leases. When assets are leased out under a finance lease, the present value of the minimum lease payments is recognized as a receivable. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance lease receivables underfunded participation in finance lease contracts are included in loans and advances to customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. Property, plant and equipment and intangible assets

Property (land and buildings) is reported in the statement of financial position at acquisition cost less accumulated depreciation/amortization and impairment loss, if any. Upon first-time adoption of IFRS the Bank/Group has determined the fair value of property held as of that date and treated this fair value as deemed cost of the property as of the date of transition to IFRS. Deemed cost is considered acquisition cost of these properties as of this date.

Equipment and fixtures and fittings are reported at acquisition cost less accumulated depreciation and impairment loss, if any. Acquisition cost includes purchase price and all direct costs for acquisition.

Intangible assets are reported at acquisition cost less accumulated amortization and impairment loss, if any.

Leasehold improvements for rented offices are amortized in accordance with the rent agreement term.

Property, plant, equipment and intangible assets are periodically reviewed for impairment when indicators for impairment exist. When the carrying amount of the asset is higher than its expected recoverable amount, the asset is impaired and the Bank/Group recognizes impairment loss. When the fixed assets are sold the difference between the carrying amount and the sale price is reported as profit or loss in the current period.

Depreciation of property and equipment is accrued according to the straight-line method and during the expected useful life of the respective assets at the following annual rates:

Buildings, investment properties	2%
Machinery and equipment	20%
Computers	20%
Vehicles – automobiles	15%
Fixtures and fittings	15%
Software	15%
Leasehold improvements	According to the term of the agreement but not higher than 33.3%

3.8. Interest income and expense

Interest income and expense is recognized on a time proportion basis, using the effective interest rate method by amortization of any difference between the amount at initial recognition of the respective asset or liability and the amount at maturity.

The effective interest rate method is a method for determining the amortized cost of a financial instrument and for allocation of its income/expense for a certain period of time. The effective interest rate is the interest which exactly discounts the expected future cash inflows or outflows (including all fees received and other margins or rebates) for the expected life of the financial instrument or, when appropriate for a shorter period, to its carrying amount.

Interest income from possession of financial assets, reported at fair value, is reported as interest income from financial assets at fair value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Fees and commissions

Fees and commissions consist mainly of fees for payment transactions in Bulgarian Levs and foreign currency, fees for servicing deposit accounts, fees for opening of letters of credit and issuing of bank guarantees. The fees and commissions for granting and handling of short and long-term loans, which represent an integral part of the effective income, are recognized as a correction of the interest income. The fees and commissions received under long-term loans are deferred for the period of the loans.

3.10. Foreign currency transactions

Transactions, denominated in foreign currencies, have been translated into BGN at the rates of BNB on the date of transaction. Receivables and payables in foreign currencies are revaluated on a daily basis. Receivables and payables denominated in foreign currencies are translated into BGN at reporting date using closing exchange rates of BNB on that date.

Currency	31.12.2016	31.12.2015
US Dollars	1.85545	1.79007
Euro	1.95583	1.95583

Effective from 1999 the exchange rate of the Bulgarian Lev is fixed to the Euro, official currency of the European Union, at a rate of EUR 1 = BGN 1.95583.

Net gains or losses resulting from change in exchange rates, arisen from revaluation of receivables, liabilities and from settlement of foreign currency transactions are recognized in the statement of comprehensive income in the period they occurred.

3.11. Employee benefits

Employee benefits are all forms of consideration given by the Bank/Group in exchange for service rendered by the employees.

Employee benefits include:

- Basic remuneration for service;
- Remuneration above the basic one according to the applied plans for service payment;
- Additional remuneration for prolonged service, overtime and internal replacement;
- Other specific additional remuneration according to individual labour contract;
- Social security contributions and other benefits, including for paid sick leave, maternity leave and others;
- Annual paid leave and other compensated leaves.

According to the requirements of the Labor Code upon termination of labour contract entities in the country are obliged to pay compensation at the amount of 2 to 6 salaries depending on the employee's length of service in the Bank/Group.

In accordance with IAS 19 Employee Benefits the Bank/Group recognizes liabilities for retirement benefits, which are calculated by licensed actuary using the Projected Unit Credit Method (see note 17). The amount reported in the statement of financial position represents the present value of the long-term liabilities of the Bank/Group for retirement benefits.

3.12. Taxation

The Bank/Group accrues taxes in accordance with the Bulgarian legislation. Income tax is computed on the basis of taxable profit for the period, calculated in compliance with the requirements of the tax legislation, related to tax payment/refunding.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.12. Taxation (continued)

Tax effect, related to transactions or other events, which are reported in the statement of comprehensive income, is also reported in the statement of comprehensive income, and the tax effect related to transactions or other events, which are reported directly to equity, is also reported directly to equity.

A deferred tax liability is recognized for all taxable temporary differences unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. This does not apply to cases where the deferred tax asset arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Deferred taxes are recognized as income or expense and are included in the net profit for the period except to the extent that the tax arises from a transaction or event which is recognized in the same or different period, directly in equity. Deferred taxes are charged or credited directly to equity when the tax relates to items that are credited or charged in the same or a different period, directly to equity.

3.13. Fair value of financial assets and liabilities

Fair values represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal market at the measurement date under current market condition. Fair value under IFRS 13 is an exit price regardless of whether the price is directly observable or estimated using another valuation technique.

The Bank/Group uses the following hierarchy to measure and disclose the fair value of financial instruments through valuation technique:

- Level 1: quoted (unadjusted) prices of active markets for identical assets or liabilities;
- Level 2: other techniques based on inputs, which has significant effect on the reported fair value and are observable either directly or indirectly;
- Level 3: techniques which have significant effect on the reported fair value and use inputs that are not based on observable market data.

Note 29.5 presents information about fair value of financial assets and liabilities.

3.14. Provisions and contingent liabilities

The amount of provisions for guarantees, credit agreements, pending legal proceedings and other off-balance sheet commitments is recognized as an expense and a liability when the Bank/Group has present legal or constructive obligations, which have arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and a reasonable estimate of the amount of the resulting liability can be made. Any loss resulting from recognition of provision for liabilities is recognized in the statement of comprehensive income for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15. Assets acquired from collaterals

Assets acquired from collaterals which the Bank/Group does not intend to use in the course of its business, and which are not investment properties are presented as "Other assets" in accordance with IAS 2 "Inventories" (see also Note 13). These assets are collaterals which the Bank/Group acquired from borrowers who became insolvent. The Bank/Group's policy is to sell the acquired collaterals when the Bank/Group finds profitable enough market for them.

3.16. Non-current assets held for sale

Non-current assets held for sale are property and other non-current assets, which the Bank/Group intends to realize through a sale transaction, rather than through continuing use. Assets are classified in this category if they meet the following criteria:

- The asset is available for immediate sale
- The sale is highly probable, including:
    - Management is committed to plan to sell the asset;
    - Active program to locate a buyer and complete the plan is initiated;
    - The asset is actively marketed for sale at a price close to its current market value;
    - Sale is expected to take place within one year after the asset's classification as held for sale.

Certain circumstances may extend the period to complete the sale beyond one year, if the delay is caused by events and circumstances beyond the Bank/Group's control and there is sufficient evidence that the Bank/Group remains committed to its plan to sell the asset and undertakes actions to respond to the circumstances which caused the delay.

The Bank/Group classifies as non-current asset held for sale assets acquired as collateral under non-performing loans. Initially, the assets are recognized at acquisition cost including direct transaction costs. After their initial recognition assets are recognized at the lower of their carrying amount or fair value, less costs to sell. These assets are not depreciated.

3.17. Comparative information

The presentation and classification of items in the separate and consolidated financial statements is retained in different reporting periods to ensure comparability of information. The comparative information in the separate and consolidated financial statements is changed if any of the following factors apply:

- As a result of a significant change in the Bank/Group's operations or after reviewing the financial statements management has determined that other presentation or classification will be more appropriate;
- Certain IFRS requires change in presentation;
- Correction of error from prior reporting period;
- Change in accounting policy.

If any of these factors apply, the comparative information for each reporting period is changed to achieve comparability of information.

4. CASH AND CASH BALANCES WITH CENTRAL BANKS

separate and consolidated in BGN thousand	2016	2015
Cash in hand	7,233	8,295
Cash with the Central bank	44,927	80,089
Total	52,160	88,384

Cash with the Central bank as of December 31, 2016 and 2015 include minimum non-interest bearing reserves at the amount of BGN 23,861 thousand and BGN 39,117 thousand respectively, reserve guarantee fund for securing the payments through the system for gross settlement in real time - RINGS in accordance with the requirements of the Central bank amounting to BGN 269 thousand and BGN 141 thousand, respectively. There are no limitations imposed by the Central bank for using the minimum reserves. The amount of the reserves depends on the deposits attracted by the Bank.

5. LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS

Loans and receivables from credit institutions by types of counterparty are as follows:

separate and consolidated in BGN thousand	2016	2015
Nostro accounts with domestic credit institutions	488	281
Deposits with domestic credit institutions	12,946	8,552
Nostro accounts with foreign credit institutions	4,237	7,792
Total	17,671	16,625

Deposits to credit institutions as of December 31, 2016 and 2015 have maturity within 3 months.

6. FINANCIAL ASSETS HELD FOR TRADING

separate and consolidated in BGN thousand	2016	2015
Bulgarian government bonds	9,912	19,746
Eurobonds of local governments	14,748	8,084
Shares and participations of domestic enterprises	130	111
Total	24,790	27,941

7. FINANCIAL ASSETS AVAILABLE FOR SALE

separate and consolidated in BGN thousand	2016	2015
Shares and participations of domestic enterprises	163	163
Allowance for impairment	(77)	(77)
Bulgarian government bonds	32,125	44,134
Eurobonds of local governments	32,018	20,268
Foreign government securities	17,210	17,511
Eurobonds of foreign governments	3,893	3,824
Corporate bonds of domestic and foreign issuers	3,753	7,622
	89,085	93,445

As of December 31, 2016 securities with carrying amount of BGN 12,072 thousand are pledged as collateral with BNB to secure attracted funds from the State budget

8. LOANS AND RECEIVABLES FROM CUSTOMERS

8.1. Analysis by type of customers

separate and consolidated in BGN thousand	2016	2015
Private entities	145,645	164,224
Households and individuals	43,299	38,731
State budget	1,501	250
Financial entities	13	14
Finance lease corporate clients	6,126	122
	196,584	203,341
Allowance for uncollectibility	(20,783)	(23,089)
Total	175,801	180,252

8.2. Analysis by sectors

Information for allocation of loans and receivables from customers in accordance with the internal classification of the Bank/Group is, as follows:

separate and consolidated in BGN thousand	2016	2015
Consumer loans	26,678	28,324
Manufacturing	41,082	42,675
Construction	23,709	16,211
Trade	31,927	34,864
Agriculture	10,978	12,985
Health sector	10,535	12,916
Tourism	15,267	14,602
Transportation	2,968	3,397
Operations with real estate	3,483	5,322
Finance	13	14
State budget	1,501	250
Other sectors	28,443	31,781
	196,584	203,341
Allowance for uncollectibility	(20,783)	(23,089)
Total	175,801	180,252

In 2016 and 2015 receivables on loans written-off against allowances for impairment and uncollectibility are at the amount of BGN 3,974 thousand and BGN 341 thousand.

Movement of impairment losses is as follows:

separate and consolidated	2016	2015
in BGN thousand	Loans and receivables	Loans and receivables
Balance as at January 1	**23,089**	**17,481**
Additional allowances for impairment losses	4,962	9,217
Reversals	(3,294)	(3,268)
Written off receivables	(3,974)	(341)
Balance as at December 31	20,783	23,089

8. LOANS AND RECEIVABLES FROM CUSTOMERS (CONTINUED)

8.2. Analysis by sectors (continued)

Analysis of the lease receivables of corporate clients

Lease receivables are as follows:

separate and consolidated in BGN thousand	2016	2015
Not later than 1 year	69	122
Later than 1 year but not later than 5 years	505	-
Later than 5 years	8,920	-
Gross investment in finance leases, receivable	9,494	122
Less: Unearned future finance income on finance leases	(3,368)	-
Net investment in finance leases	6,126	122

separate and consolidated in BGN thousand	2016	2015
Not later than 1 year	2	122
Later than 1 year but not later than 5 years	504	-
Later than 5 years	5,620	-
Finance lease receivables	6,126	122
Allowance for uncollectible minimum lease payments receivable included in the provision	-	122

9. NON-CURRENT ASSETS HELD FOR SALE

separate and consolidated in BGN thousand	2016	2015
Balance at the beginning of the year	7,135	3,752
Acquisitions during the year	6,837	6,558
Disposals during the year	(1,388)	(165)
Transferred to assets acquired from ordinary activities (non-performing loans)	(5,658)	(1,973)
Transferred from assets acquired from ordinary activities (non-performing loans)	345	-
Allowance for impairment	-	(1,037)
Balance at the end of the year	7,271	7,135

10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Separate in BGN thousand	Land and buildings	Office equipment	Vehicles	Fixture and fittings	Other assets	Intangible assets	Assets under construction	Total
Cost								
01 January 2015	2,746	2,389	973	560	455	866	79	8,068
Additions	-	114	-	3	36	237	-	390
Disposals	-	(146)	-	(19)	(15)	-	(79)	(259)
Sold	-	(22)	(75)	(7)	-	-	-	(104)
Transfers	-	-	-	-	-	-	-	-
31 December 2015	2,746	2,335	898	537	476	1,103	-	8,095
Additions	-	676	-	70	65	118	-	929
Disposals	-	(326)	-	(67)	(13)	(2)	-	(408)
Sold	(768)	-	-	-	-	-	-	(768)
Transfers	-	-	-	-	-	-	-	-
31 December 2016	1,978	2,685	898	540	528	1,219	-	7,848
Accumulated depreciation/amortization								
01 January 2015	(567)	(1,947)	(824)	(457)	(246)	(322)	-	(4,363)
Charged during the year	(60)	(159)	(41)	(34)	(57)	(130)	-	(481)
Written off	-	166	75	24	15	-	-	280
31 December 2015	(627)	(1,940)	(790)	(467)	(288)	(452)	-	(4,564)
Charged during the year	(45)	(220)	(41)	(28)	(60)	(166)	-	(560)
Written off	130	324	-	66	13	2	-	535
31 December 2016	(542)	(1,836)	(831)	(429)	(335)	(616)	-	(4,589)
Net book value								
31 December 2015	2,119	395	108	70	188	651	-	3,531
31 December 2016	1,436	849	67	111	193	603	-	3,259

10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS (CONTINUED)

Consolidated in BGN thousand	Land and buildings	Office equipment	Vehicles	Fixture and fittings	Other assets	Intangible assets	Assets under construction	Total
Cost								
01 January 2015	2,746	2,389	984	564	455	871	79	8,088
Additions	-	114	-	3	36	237	-	390
Disposals	-	(146)	-	(19)	(15)	-	(79)	(259)
Sold	-	(22)	(75)	(7)	-	-	-	(104)
Transfers	-	-	-	-	-	-	-	-
31 December 2015	2,746	2,335	909	541	476	1,108	-	8,115
Additions	-	676	-	70	65	118	-	929
Disposals	-	(326)	-	(67)	(13)	(2)	-	(408)
Sold	(768)	-	-	-	-	-	-	(768)
Transfers	-	-	-	-	-	-	-	-
31 December 2016	1,978	2,685	909	544	528	1,224	-	7,868
Accumulated depreciation/amortization								
01 January 2015	(567)	(1,947)	(826)	(458)	(246)	(322)	-	(4,366)
Charged during the year	(60)	(159)	(42)	(35)	(57)	(131)	-	(484)
Written off	-	166	75	24	15	-	-	280
31 December 2015	(627)	(1,940)	(793)	(469)	(288)	(453)	-	(4,570)
Charged during the year	(45)	(220)	(43)	(28)	(60)	(167)	-	(563)
Written off	130	324	-	66	13	2	-	535
31 December 2016	(542)	(1,836)	(836)	(431)	(335)	(618)	-	(4,598)
Net book value								
31 December 2015	2,119	395	116	72	188	655	-	3,545
31 December 2016	1,436	849	73	113	193	606	-	3,270

11. INVESTMENT PROPERTY

separate and consolidated in BGN thousand	2016	2015
Balance at the beginning of the year	-	-
Acquisitions during the year	197	-
Transferred from assets acquired from ordinary activities (non-performing loans)	1,227	-
Allowance for impairment	(150)	-
Balance at the end of the year	1,274	-

Fair value of the investment property has been categorized as fair value Level 3 based on the input data used in the valuation techniques. The independent appraisers have used the comparative value method for the determination of the fair value.

The investment property of the Bank as at 31 December 2016 consists of commercial properties rented for a period of one year with prolongation option for another period and one month termination notice. Rental income from investment property for 2016 is at the amount of BGN 17 thousand.

12. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are as follows:

in BGN thousand	Share		Carrying amount	
Company	**2016**	**2015**	**2016**	**2015**
„Tokuda Security" EOOD	100%	100%	25	25
Total			25	25

In the separate financial statements Investments in subsidiaries are presented at carrying amount (cost) in these separate financial statements. The subsidiary was established in 2013.

The summarized financial information of the subsidiary as of December 31, 2016 and 2015 is, as follows:

„Tokuda Security" EOOD	**2016**	**2015**
Total assets	18	17
Total liabilities	(4)	(3)
Net assets	14	14
Bank's share in the net assets of the subsidiary	100%	100%

13. OTHER ASSETS

in BGN thousand	**2016**	**2015**	**2016**	**2015**
	Separate		Consolidated	
Assets acquired from non-performing loans	15,819	10,840	15,819	10,840
Allowance for impairment of assets acquired by the non-performing loans	(3,300)	(1,744)	(3,300)	(1,744)
Other assets	1,313	1,581	1,313	1,581
Impairment of other assets	(1,185)	(1,393)	(1,185)	(1,393)
VAT recoverable	1,221	-	1,221	-
Deferred expenses	150	196	150	196
Guarantee deposits	65	68	63	65
Advance payments	1,797	398	1,797	398
Total	15,880	9,946	15,878	9,943

13. OTHER ASSETS (CONTINUED)

Movement of impairment of assets and other assets acquired by non-performing loans is presented in the tables below:

Movement of impairment of other assets	**2016**	**2015**	**2016**	**2015**
	Separate		Consolidated	
Balance as of 1 January	1,393	1,409	1,393	1,409
Additional allowances for impairment losses	3	21	3	21
Reversals	(34)	(37)	(34)	(37)
Written off receivables	(177)	-	(177)	-
Balance as of 31 December	1,185	1,393	1,185	1,393

Movement of impairment of other assets	**2016**	**2015**	**2016**	**2015**
	Separate		Consolidated	
Balance as of 1 January	1,744	660	1,744	660
Impairment losses related to assets reclassified from held for sale	-	-	-	-
Additional allowances for impairment losses	1,556	1,084	1,556	1,084
Balance as of 31 December	3,300	1,744	3,300	1,744

14. DEPOSITS FROM CREDIT INSTITUTIONS

separate and consolidated in BGN thousand	**2016**	**2015**
Deposits from credit institutions	87	563
	87	563

Term deposits from credit institutions received as of December 31, 2016 and 2015 have maturity within 3 months.

15. DEPOSITS FROM CLIENTS OTHER THAN CREDIT INSTITUTIONS

in BGN thousand	**2016**	**2015**	**2016**	**2015**
	Separate		Consolidated	
Individuals accounts				
- Demand and savings accounts	74,042	71,882	74,042	71,882
- Term	159,528	174,974	159,528	174,974
	-	-	-	-
State budget funds	-	-	-	-
- Demand accounts	6,297	13,995	6,297	13,995
- Term	1,009	-	1,009	-
	-	-	-	-
Corporate accounts	-	-	-	-
- Demand accounts	76,274	86,920	76,268	86917
- Term	19,141	18,769	19,141	18,769
	-	-	-	-
Other non-bank financial institutions accounts	-	-	-	-
- Demand accounts	498	420	498	420
- Term	4,448	12,912	4,448	12,912
	341,237	379,872	341,231	379,869

16. TAX ASSETS AND LIABILITIES

16.1. Tax assets

As of December 31, 2016 and 2015 the Bank/Group does not recognize deferred tax assets on accumulated tax loss of BGN 12,087 thousand and BGN 12,805 thousand respectively, due to the fact that there is uncertainty regarding future taxable profits against which it can be utilized. In 2016 the Bank deducted tax loss realized in 2012 amounting to BGN 716 thousand.

31 December 2016 unrecognized deferred tax assets are as follows:

Tax loss occurred in	Amount	Unrecognized tax asset	Expiring in
2012	491	49	2017
2013	1,725	173	2018
2014	8,114	811	2019
2015	1,757	176	2020
Total	12,087	1,209	

Other temporary differences	Amount	Unrecognized tax asset
Revaluation on financial assets available for sale	3,950	395
Impairment on assets	3,779	378
Provisions for lawsuite and other liabilities to personnel	241	24
	7,970	797

16.2. Tax liabilities

As of December 31, 2016 and 2015 tax liabilities consist of deferred tax liabilities, arisen from the following temporary tax differences:

separate and consolidated in BGN thousand	2016	2015
Deferred tax assets:		
Unused paid leave	17	14
Long-term employee benefits	26	25
Total deferred tax assets	43	39
Deferred tax liabilities:		
Differences between accounting and tax amortization and depreciation	(136)	(128)
Total deferred tax liabilities	(136)	(128)
Deferred tax liabilities, net	(93)	(89)

Deferred tax assets and liabilities as of December 31, 2016 and 2015 are calculated using tax rate of 10 % according to the Corporate Income Tax Act and applicable for the periods when the temporary differences are expected to be realized.

17. OTHER LIABILITIES

in BGN thousand	2016 Separate	2015	2016 Consolidated	2015
Ongoing bank transfers	174	436	174	436
Unused paid leave	144	116	144	116
Long-term employee benefits	263	251	263	251
Provisions for lawsuite	83	-	83	-
Other liabilities	483	693	484	693
	1,147	1,496	1,148	1,496

Ongoing bank transfers represent liabilities on money transfers ordered by customers in the last day of 2016 and 2015 respectively, with value date within two days. The transfers are processed up to the second working day of 2017 and 2016, respectively.

According to the provisions of the Labor Code, the Bank/Group is obliged to compensate employees upon retirement with two gross salaries. If the employee has worked for the Bank/Group in the last ten years the compensation amounts to six gross salaries. As of December 31, 2016 and 2015 the Bank/Group has accrued long-term employee benefits at the amount of BGN 263 thousand and BGN 251 thousand, respectively. The provision amount has been determined by a licensed actuary.

Underlying assumptions used by the licensed actuary at determining the present value of the liability are as follows:

- Demographic assumptions;
- Mortality table and disability probability;
- Turnover rate – 0.24;
- Financial assumptions, salary growth;
- Discount rate – due to the long-term nature of the payable, annual discount rate of 2.91 % has been applied.

18. EQUITY AND RESERVES

18.1. Share capital

As of December 31, 2016 and 2015 the Bank/Group's share capital is fully paid in and is distributed in registered, voting shares, as follows:

in BGN thousand	2016	2015
Number of shares	6,800	6,800
Share nominal in BGN	10	10
Share capital	68,000	68,000

As of December 31, 2016 and 2015 the Bank/Group's shareholder structure is as follows:

	2016	%	2015	%
Tokushukai Incorporated	6,796,250	99.94	6,767,950	99.53
Garant and Co 97 AD	-	0.00	15,000	0.22
A U C Establishment	-	0.00	13,300	0.20
MM Holding AD	3,750	0.06	3,750	0.06
Total shares	6,800,000	100	6,800,000	100

In 2016 Tokushukai Incorporated acquired the shares of Garant and Co 97 AD. In 2016 the Bank bought back the shares of A U C Establishment and withdrew them, as the same number of new shares, acquired by Tokushukai Incorporated, were issued.

18. EQUITY AND RESERVES (CONTINUED)

18.2. Reserves

According to the Bulgarian legislation the entities from the Group are required to establish Reserve Fund by distribution of part of its profit until the amount of the reserve becomes 1/10 or higher of the share capital, as determined by the Bank's Statute.

The Reserve Fund is used only for covering losses for the current or previous years. When the amount of the reserves is higher than 1/10 (or the higher proportion determined by the Bank's statute) of the share capital, the excess can be used for share capital increase.

As of December 31, 2016 and 2015 reserves include Reserve Fund at the amount of BGN 808 thousand and BGN 812 thousand, respectively. The revaluation reserve of financial assets available for sale is at the amount of BGN 3,951 thousand (2015: 2,820)

19. INTEREST INCOME/EXPENSE

separate and consolidated in BGN thousand	2016	2015
Interest income		
Interest from financial assets held for trading	610	818
Interest from loans and receivables from credit institutions	43	18
Interest from repo deals	-	13
Interest from loans and receivables from customers	10,763	13,438
Interest from financial assets available for sale	2,366	2,199
	13,782	16,486

separate and consolidated in BGN thousand	2016	2015
Interest expenses		
Interest on deposits from credit institutions	-	1
Interest on other deposits	4,012	7,701
Interest on assets	76	-
	4,088	7,702

20. FEE AND COMMISSION INCOME/EXPENSE

separate and consolidated in BGN thousand	2016	2015
Fee and commission income		
Fees and commission income under money transfers	1,570	1,650
Fees receipts under accounts opening and closing	549	500
Fees and commission income under loan transactions	298	270
Fees income under servicing cards	412	375
Commission income under cash balances	309	347
Service guarantees	88	139
Other	546	619
	3,772	3,900

20. FEE AND COMMISSION INCOME/EXPENSE (CONTINUED)

Fee and commission expense	2016	2015
Fees for service of cards	193	227
Fees for money transfers	6	28
Insurances fees	15	22
Fees for opening and servicing of accounts	30	29
Fees to register securities	25	18
Other	22	24
	291	348
Net fee and commission income	3,481	3,552

21. NET PROFIT ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

separate and consolidated in BGN thousand	2016	2015
Gain from sale of securities held for trading	15	-
Gain/(loss) from revaluation of securities held for trading	468	(82)
Gain from foreign exchange differences	308	387
	791	305

22. OTHER OPERATING INCOME

in thousand BGN	2016 Separate	2015	2016 Consolidated	2015
Net gains / (losses) from foreign currency revaluation	2	(54)	2	(54)
Profit from revaluation from investment securities available for sale	322	865	322	865
Dividends	28	19	28	19
Net loss from disposed assets other than held for sale	(3)	(5)	(3)	(5)
Gain from non-current assets held for sale	164	8	164	8
Other operating income	176	55	175	54
	689	888	688	887

23. OPERATING EXPENSES

in thousand BGN	2016 Separate	2015	2016 Consolidated	2015
Personnel costs	5,962	5,492	5,987	5,517
Depreciation and amortisation	560	481	563	484
Operating lease rentals	1,047	936	1,047	936
Payments to Deposit Insurance Fund	999	1,661	999	1,661
Payments to Restructuring of banks fund	332	343	332	343
Other expenses	4,063	3,400	4,034	3,373
	12,963	12,313	12,962	12,314

24. IMPAIRMENT AND PROVISIONS FOR LOSSES

Net expenses of depreciation in 2016 and 2015 are presented in the table below:

separate and consolidated in BGN thousand	2016	2015
Impairment loss on		
Loans and advances to customers	1,668	5,949
Investment property	150	-
Non-current assets held for sale	-	1,037
Other assets	1,525	1,069
Provisions for lawsuite	83	-
Net Impairments and provisions for losses	**3,426**	**8,055**

25. INCOME TAX EXPENSE

Current tax expense represents taxes due under the Bulgarian legislation according to the applicable tax rate of 10 % for 2016 and 2015. Deferred tax income/expense arises as a result of a change in the carrying amount of deferred tax assets and liabilities.

Reconciliation between tax expense and the accounting profit is as follows:

in BGN thousand	2016	2015	2016	2015
	Separate		Consolidated	
Current tax expense	-	-	-	-
Deferred tax expense	(5)	(6)	(5)	(6)
Total tax expenses	(5)	(6)	(5)	(6)
Reconciliation between loss before tax and tax expense:				
Loss before income tax	(1,734)	(6,839)	(1,734)	(6,841)
Income tax at applicable tax rate of 10 % for 2016 (10% for 2015)	173	684	173	684
Tax effect of nondeductible expenses	(13)	(20)	(13)	(20)
Effect of unrecognized deferred tax asset on tax losses available for carryforward	72	(176)	72	(176)
Tax effect of revaluation of financial assets available for sale	(113)	(282)	(113)	(282)
Effect of other temporary differences, for which no deferred tax asset is recognized	(124)	(212)	(124)	(212)
Tax expenses	(5)	(6)	(5)	(6)

26. RELATED PARTIES

As of December 31, 2016 and 2015 the Bank/Group has receivables from, payables to and contingent commitments to related parties, as follows:

Related parties and balances (in BGN thousand)	2016	2015	2016	2015
	Separate		Consolidated	
Majority shareholder				
Deposits received	20,245	27,118	20,245	27,118
Companies under common control				
Deposits received	8,551	27,486	8,551	27,486
Key management personnel				
Loans granted	20	30	20	30
Deposits received	4	30	4	30
Subsidiaries				
Deposits received	5	3		
Other receivables	3	3		

Income from and expenses for related party transactions, generated by the Bank/Group in 2016 and 2015 are as follows:

Related parties and type of transactions (in BGN thousand)	2016	2015	2016	2015
	Separate		Consolidated	
Majority shareholder				
Income from foreign exchange differences	2	6	2	6
Interest expense	2	11	2	11
Companies under common control				
Income from fees and commissions	10	233	10	233
Income from foreign exchange differences	-	20	-	20
Income from services	-	3	-	3
Interest expense	30	239	30	239
Expenses for fees and commissions	-	2	-	2
Key management personnel				
Other expenses	-	1	-	1
Subsidiaries				
Income from services	1	1		
Expenses for services	44	41		

The remuneration to Supervisory Board members in 2016 are at the total amount of BGN 43 thousand (2015: BGN 41 thousand). The remuneration to the Management Board members in 2016 are at total amount of BGN 456 thousand (2015: BGN 370 thousand).

27. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

Cash and cash equivalents for the purposes of the statement of cash flows consist of the following balances:

separate and consolidated in BGN thousand	**2016**	**2015**
Cash in hand (note 4)	7,233	8,295
Cash with the Central bank (note 4)	44,927	80,089
Nostro accounts with domestic credit institutions (note 5)	488	281
Nostro accounts with foreign credit institutions (note 5)	4,237	7,792
Loans and deposits to credit institutions with original maturity up to three months (note 5)	12,946	8,552
Total cash and cash equivalents in the statement of cash flows	**69,831**	**105,009**

28. COMMITMENTS AND CONTINGENCIES

Bank's commitments and contingencies consist of guarantees issued, unutilized loan commitments.

separate and consolidated in BGN thousand	**2016**	**2015**
Guarantees	3,894	5,017
Undrawn credit commitments	21,523	16,347
	25,417	**21,364**

29. FINANCIAL RISK MANAGEMENT

The risk for the Bank/Group related to financial instruments is the possibility that the actual proceeds from financial instruments could differ from the expected proceeds. The specifics of banking operations requires the Bank/Group to apply adequate systems for timely identification and management of different types of risk, with special focus on risk management procedures, mechanisms for maintaining risks within reasonable limits, optimal liquidity, portfolio diversification. The main risk management objective is presentation and analysis of the types of risk exposures of the Bank/Group in a comprehensive and conclusive manner.

The risk management system has preventive functions with regard to loss prevention and control of the amount of incurred losses and includes:

- risk management policy;
- rules, methods and procedures for risk assessment and risk management;
- risk management organizational structure;
- parameters and limits for transactions and operations;
- procedures for reporting, assessment, notification and subsequent control of risks.

The main underlying principles in the Bank/Group's risk management policy are:

- segregation of responsibilities between those taking the risk and those managing it;
- the principle of "prudence", which assumes the reporting of the simultaneous occurrence of the worst case for each of the risk-weighted assets;
- the principle of risk management at source.

The risk management organizational structure is centralized and structured in terms of competency levels as follows:

- Management board - determines the acceptable risk levels of the Bank/Group within the adopted business strategy;
- Specialized collective committees – approve the framework and parameters of the Bank/Group's operations with respect to risk management;
- Executive directors – control the process of approval and implementation of adequate policies and procedures within risk management strategy, adopted by the Bank/Group;
- Heads of structural units within the Bank/Group - implement the adopted risk management policy within the operations of the respective organizational units.

The main types of financial risks the Bank/Group is exposed to are credit risk, liquidity risk and market risk, which includes interest, currency and price risk.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial assets and liabilities

The tables below sets out the carrying amounts and fair values of the financial assets and financial liabilities:

As of 31 December 2016 separate in BGN thousand	Trading	Loans and receiv-ables	Financial assets available for sale	Other amortised cost	Total carryng amount	Fair value
Financial assets						
Cash and balances with Central Bank	-	52,160	-	-	52,160	52,160
Loans and advances to banks	-	17,671	-	-	17,671	17,671
Loans and advances to customers	-	175,801	-	-	175,801	177,616
Financial assets held for trading	24,790	-	-	-	24,790	24,790
Financial assets available for sale	-	-	89,085	-	89,085	89,085
Total assets	24,790	245,632	89,085	-	359,507	361,322
Financial liabilities						
Deposits from banks	-	-	-	87	87	87
Due to customers	-	-	-	341,237	341,237	342,489
Other financial liabilities	-	-	-	174	174	174
Total liabilities	-	-	-	341,498	341,498	342,750

As of 31 December 2015 separate in BGN thousand	Trading	Loans and receiv-ables	Financial assets available for sale	Other amortised cost	Total carryng amount	Fair value
Financial assets						
Cash and balances with Central Bank	-	88,384	-	-	88,384	88,384
Loans and advances to banks	-	16,625	-	-	16,625	16,625
Loans and advances to customers	-	180,252	-	-	180,252	181,716
Financial assets held for trading	27,941	-	-	-	27,941	27,941
Financial assets available for sale	-	-	93,445	-	93,445	93,445
Total assets	27,941	285,261	93,445	-	406,647	408,111
Financial liabilities						
Deposits from banks	-	-	-	563	563	563
Due to customers	-	-	-	379,872	379,872	383,806
Other financial liabilities	-	-	-	436	436	436
Total liabilities	-	-	-	380,871	380,871	384,805

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.1. Financial assets and liabilities (continued)

As of 31 December 2016 consolidated in BGN thousand	Trading	Loans and receiv-ables	Financial assets available for sale	Other amortised cost	Total carryng amount	Fair value
Financial assets						
Cash and balances with Central Bank	-	52,160	-	-	52,160	52,160
Loans and advances to banks	-	17,671	-	-	17,671	17,671
Loans and advances to customers	-	175,801	-	-	175,801	177,616
Financial assets held for trading	24,790	-	-	-	24,790	24,790
Financial assets available for sale	-	-	89,085	-	89,085	89,085
Total assets	24,790	245,632	89,085	-	359,507	361,322
Financial liabilities						
Deposits from banks	-	-	-	87	87	87
Due to customers	-	-	-	341,237	341,237	342,489
Other financial liabilities	-	-	-	174	174	174
Total liabilities	-	-	-	341,498	341,498	342,750

As of 31 December 2015 consolidated in BGN thousand	Trading	Loans and receiv-ables	Financial assets available for sale	Other amortised cost	Total carryng amount	Fair value
Financial assets						
Cash and balances with Central Bank	-	88,384	-	-	88,384	88,384
Loans and advances to banks	-	16,625	-	-	16,625	16,625
Loans and advances to customers	-	180,252	-	-	180,252	181,716
Financial assets held for trading	27,941	-	-	-	27,941	27,941
Financial assets available for sale	-	-	93,445	-	93,445	93,445
Total assets	27,941	285,261	93,445	-	406,647	408,111
Financial liabilities						
Deposits from banks	-	-	-	563	563	563
Due to customers	-	-	-	379,869	379,869	383,806
Other financial liabilities	-	-	-	436	436	436
Total liabilities	-	-	-	380,868	380,868	384,805

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.2. Credit risk

Credit risk is the risk of loss due to the probability that counterparty will be unable to settle its obligations when they are due. The Bank/Group manages the credit risk by setting limits on the maximum credit risk exposure to a debtor, to a group of related parties, by relevant business sectors. Adequate collateral and guarantees are required in order to reduce the credit risk, according to the adopted internal credit rules.

Cash and cash balances with the Central bank at the amount of BGN 52,160 thousand and BGN 88,384 thousand, respectively as of December 31, 2016 and 2015 do not bear credit risk to the Bank/Group due to their nature and the fact that they are at the Bank/Group's disposal.

Loans and receivables from credit institutions at the amount of BGN 17,671 thousand and BGN 16,625 thousand, respectively as of December 31, 2016 and 2015 represent mostly deposits in first-class international and Bulgarian financial institutions with maturity up to 7 days. The Bank/Group manages the credit risk associated with advances to banks as sets limits on exposure to counterparty.

Financial assets held for trading at the amount of BGN 24,790 thousand and BGN 27,941 thousand as of December 31, 2016 and 2015, respectively, bear mainly market risk to the Bank/Group, which is described in note 29.4. The maximum exposure to credit risk on these instruments is their carrying amount.

Financial assets available for sale are at the amount of BGN 89,085 thousand and 93,445 thousand as of December 31, 2016 and 2015 The maximum exposure to credit risk on these instruments is their carrying amount.

The Bank/Group's contingent and non-cancellable arrangements comprise issued guarantees and unutilized funds under loans agreed which amount as disclosed in note 28 represents the maximum credit exposure of the Bank/Group.

Loans and advances to customers with carrying amount of BGN 175,801 thousand and BGN 180,252 thousand, respectively as of December 31, 2016 and 2015 expose the Bank/Group to credit risk. The exposure of the Bank/Group to that risk is determined on the basis of individual assessment of each loan, as the Bank/Group applies the criteria for assessment and classification of risk exposures according to the Policy for impairment of financial assets and contingent liabilities.

The competent body for monitoring, assessment and classification of financial assets and contingent liabilities and determination of impairment losses and provisions is the Committee for analysis, classification and provisioning (CACP), which performs its activities according to rules set by the Management board.

The classification defined the methodology for allowances for impairment estimation is in line with the classification according to the rules set out in the regulations 2014/680 and 2015/1278. The management considers the expositions as non-performing and performing.

Non-performing exposure is one that has significant breaches in its servicing or there is evidence that the financial position of the debtor is deteriorated to the extent that current and anticipated proceeds are insufficient to pay all its debts to the Bank/Group and other creditors and when the Bank/Group expects to incur losses. Non-performing is also exposure for which the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral regardless of the existence of any past due amount or of the number of days past due, with the exception of exposures where the realization of collateral is set in the initial loan agreement repayment schedule. Additionally, an exposure is classified as non-performing when it satisfies any of the following criteria:

- has accumulated arrears on principal or interest more than 90 days;
- the exposure is individually impaired;
- the financial position of the debtor has substantially deteriorated, which may jeopardize repayment;
- debtor has been declared bankrupt or is in liquidation procedure and there is risk of leaving unsatisfied creditors;
- the balance sheet receivable is subject to legal proceedings or is granted to the Bank/Group by the court but is not collected.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.2. Credit risk (continued)

Performing exposure is exposure that cannot be classified as non-performing.

Restructured exposure is exposure in respect of which restructuring measures have been applied. The restructuring measures consist of concessions towards a debtor that is experiencing difficulties in meeting its financial commitments. An exposure is not regarded to be restructured when there are no indications that the debtor experience difficulties in meeting its financial commitments. The Modifications in the terms of the contract which applies concessions towards debtor that is experiencing difficulties in meeting its financial commitments may include, but are not necessarily limited to a reduction in the interest rate, principal, accrued interest or rescheduling of principal and/or interest repayment dates.

For portfolios of expositions with similar credit risk characteristics and no objective evidence of impairment, the Bank/Group calculates portfolio impairments (incurred but not reported loss). The impairment amount is calculated taking into account the probability of default, the amortized amount (before impairment) of the exposure, the expected cash inflow from eligible collateral realisation (discounted at the effective interest rate) and the loss identification period.

The impairment amount of significant exposures (whose BGN equivalent of the amortized amount before impairment and unutilized amount exceeds BGN 500 000) with objective evidence of impairment is determined individually on the basis of the expected cash flows from the exposure, as the impairment loss is the difference between the carrying amount of the exposure and its recoverable (present) value (present value of expected cash flows).

The impairment amount of insignificant (whose currency equivalent of amortized cost before impairment and undigested portion does not exceed 500 000 lev) performing exposures with no objective evidence of impairment is determined individually or on a portfolio basis.

To minimize the credit risk in the lending process the Bank/Group applies detailed procedures with respect to the analysis of the economic ground of each project, types of accepted collaterals for the Bank/Group, control over disbursed funds and the related administration. The Bank/Group has adopted and monitors the compliance with the limits for credit exposure by sectors. The objective of these limits is to minimize the loan portfolio concentration, which would lead to increased credit risk

Information on exposure classification groups is as follows:

2016 separate and consolidated in BGN thousand	Loan granted			Unutilized commitment	Issued letters of guarantee		
Group	Amount	% Share	Allowance	Amount	Amount	% Share	Allowance
Performing	143,043	72.76	502	21,516	3,894	100.00	-
Non-performing	53,541	27.24	20,281	7	-	-	-
Total	**196,584**	**100.00**	**20,783**	**21,523**	**3,894**	**100.00**	-

2015 separate and consolidated in BGN thousand	Loan granted			Unutilized commitment	Issued letters of guarantee		
Group	Amount	% Share	Allowance	Amount	Amount	% Share	Allowance
Performing	120,785	59.40	591	16,347	5,017	100.00	-
Non-performing	82,556	40.60	22,498	-	-	-	-
Total	**203,341**	**100.00**	**23,089**	**16,347**	**5,017**	**100.00**	-

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.2. Credit risk (continued)

The loans granted by the Bank/Group and receivables from customers can be summarized in the following table:

separate and consolidated in BGN thousand	Loans and advances to customers 2016	 2015
Assets at amortised cost		
Individually impaired		
Non-performing	35,264	54,319
Carrying amount before impairment	35,264	54,319
Impairment loss	(13,132)	(14,957)
Carrying amount	**22,132**	**39,362**
Collectively impaired		
Regular	15,292	27,073
Non-performing	10,883	14,928
Carrying amount before impairment	26,175	42,001
Impairment loss	(7,651)	(8,132)
Carrying amount	**18,524**	**33,869**
Past due but not impaired		
Regular	11,038	17,871
Non-performing	7,350	3,566
Carrying amount before impairment	18,388	21,437
Carrying amount	**18,388**	**21,437**
Neither past due nor impaired		
Regular	116,713	75,841
Non-performing	44	9,743
Carrying amount before impairment	116,757	85,584
Carrying amount	**116,757**	**85,584**
Total carrying amount	**175,801**	**180,252**

An analysis of past due and individually impaired loans and advances to customers is given in the table below:

	2016		2015	
separate and consolidated in BGN thousand	**Past due but not impaired**	**Impaired**	**Past due but not impaired**	**Impaired**
Without arrears	-	14,895	-	51,714
Arrears up to 30 days	8,769	1,601	16,080	5,822
Arrears from 31 to 60 days	1,164	600	1,123	7,364
Arrears from 61 to 90 days	1,294	173	757	262
Arrears from 91 to 180 days	1,092	1,143	992	1,013
Arrears over 180 days	6,069	43,027	2,485	30,145
Carrying amount before impairment	18,388	61,439	21,437	96,320
Impairment loss	-	(20,783)	-	(23,089)
Carrying amount	**18,388**	**40,656**	**21,437**	**73,231**

The impaired exposures include exposures for which the Bank/Group has accounted for impairment.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.2. Credit risk (continued)

The following table presents the Bank/Group's portfolio by type of collateral:

separate and consolidated in BGN thousand	2016	2015
Secured by cash and government securities	1,440	5,569
Secured by mortgage	148,269	143,525
Pledge of machinery and equipment	6,123	8,650
Pledge of receivables	13,590	15,523
Other collaterals	24,532	26,563
No collateral	2,630	3,511
Impairment loss	(20,783)	(23,089)
Total	**175,801**	**180,252**

The table below provides information on the credit quality of other financial assets. To determine the quality of these assets are used Fitch's ratings, where this is not available is represented equivalent rating of another rating agency (S & P).

separate and consolidated in BGN thousand	2016	2015
Cash and cash balances with central banks:		
rating BBB	52,160	88,384
Total cash and cash balances with central banks	**52,160**	**88,384**
Loans and receivables from credit institutions		
rating A+	3,738	-
rating A	-	7,468
rating BBB+	4,454	4,654
rating BBB	499	324
rating BBB-	6,217	-
rating BB+	2,467	180
rating BB	-	3,850
rating B	290	148
no rating	6	1
Total loans and receivables from credit institutions	**17,671**	**16,625**
Financial assets held for trading:		
rating BBB-	24,660	27,830
no rating	130	111
Total financial assets held for trading	**24,790**	**27,941**
Financial assets available for sale		
rating A	1,787	
rating BB	6,428	10,085
rating BB+	1,820	6,341
rating BBB	61,982	
rating BBB-	15,016	76,933
no rating	2,052	86
Total financial assets available for sale	**89,085**	**93,445**

Loans and receivables from credit institutions with no rating are those of local banks, which have no official credit rating.

Financial assets held for trading with no rating are mainly corporate bonds and shares of domestic issuers for which there are no official credit rating.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.2. Credit risk (continued)

Concentration of credit risk

A significant percentage of the loan portfolio of the Bank/Group is concentrated in a limited number of borrowers. Despite the regulatory restrictions on large exposures, there is a risk that the Bank/Group's activities, its financial position and the result of its operations are negatively affected if some of the largest borrowers do not settle their obligations. Information on large exposures of the Bank/Group other than exposures to credit institutions (exposures which represent 10% or more of the Bank's capital base) at their carrying amount as of December 31, 2016 and 2015 is presented in the table below:

	2016		2015	
separate and consolidated	BGN'000	% of the capital base	BGN'000	% of the capital base
The largest total exposure to customer group	8,245	19.47%	8,377	19.58%
Total amount of the five largest exposures	32,301	76.29%	33,652	78.67%
Total amount of all exposures - over 10% of the capital	66,872	157.94%	47,311	110.60%

Concentration of credit risk by economic sectors is disclosed in note 8.

29.3. Liquidity risk

Liquidity risk arises from the maturity gap of the assets and liabilities and the lack of sufficient funds of the Bank/Group to meet its obligations on its current financial liabilities, as well as to provide funding to increase the financial assets and the potential claims on off-balance sheet commitments.

Liquidity risk is the risk of inability of the Bank/Group to meet its current and potential liabilities, associated with payments when they fall due, without incurring unacceptable losses.

The Bank/Group's operations require stable cash flows to replace the existing deposits when they expired (at maturity) and to satisfy customer demand for additional loans.

In liquidity management, the Bank/Group also considers commitments related to the not-utilized portion of loans granted and the level of all contingent liabilities.

To ensure the liquidity policy, the Bank/Group takes the following measures:
- develops rules and procedures for liquidity management;
- defines adequate liquid assets;
- develops an information system for monitoring the liquidity, based on the maturity table, regulated by Ordinance № 11 of the BNB;
- forms liquidity measurement indicators;
- appoints a liquidity regulation body and defines its responsibilities and tasks;
- establishes a system for management and control of liquidity risk;
- develops scenarios for the Bank/Group's action in normal circumstances - "going concern" and in a period of "liquidity crisis";
- regulates the mandatory information for the current management needs, as well as for the reporting to the BNB.

The main parameters of the Bank/Group's liquidity policy are determined by the Management Board, and the overall organization of its implementation is assigned to the Assets and Liabilities Management Committee.

The main body for liquidity management of the Bank/Group is the Assets and Liabilities Management Committee. It is directly responsible for the liquidity status and its ongoing management, based on the decisions of the Management Board, as well as for the ongoing management of assets and liabilities. The Committee meets at least once a month, and if necessary (at the risk of a liquidity crisis) it meets daily, in order to overcome any liquidity difficulties.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.3. Liquidity risk (continued)

The control and regulation of the liquidity for the Bank/Group as a whole and by bank offices is carried out centralized by "Liquidity and markets" Department.

The level of liquid funds and the level of liquid funds for maintenance are monitored. On that basis the Bank/Group monitors its ratio of available liquid funds to loans and other receivables.

The Bank/Group maintains high amount of liquid assets in the form of cash in hand and cash balances with the Central bank, which guarantee Bank's ability to meets its liquidity requirements. As of December 31, 2016 and 2015 cash and cash balances with Central Bank represent 13% and 21%, respectively of total assets of the Bank/Group.

As an additional instrument to provide high liquidity, the Bank/Group uses loans granted and advances to credit institutions. These comprise mostly of deposits in first-class international and Bulgarian credit institutions with maturity up to 7 days. As of December 31, 2016 and 2015 loans and receivables from credit institutions represent 4% and 5%, respectively of total assets of the Bank/Group.

Government securities, issued by the Republic of Bulgaria, owned by the Bank/Group and not pledged as collateral as of December 31, 2016 and 2015 represent 19% and 16%, respectively of total assets. By maintaining above 40% (2015: 44%) of its assets in highly liquid assets, the Bank/Group ensures the ability to meet its all payment needs on matured financial liabilities.

The gross cash outflow of financial liabilities of the Bank/Group is as follows:

As of 31 December 2016 separate in BGN thousand	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Deposits from credit institutions	87	-	-	-	-	87
Deposits from customers other than credit institutions	185,722	26,097	103,081	25,749	3,872	344,521
Other financial liablilities	174	-	-	-	-	174
Total financial liabilities	185,983	26,097	103,081	25,749	3,872	344,782

As of 31 December 2015 separate in BGN thousand	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities	563	-	-	-	-	563
Deposits from credit institutions	200,300	39,553	106,414	37,138	-	383,405
Other financial liablilities	436	-	-	-	-	436
Total financial liabilities	201,299	39,553	106,414	37,138	-	384,404

As of 31 December 2016 consolidated in BGN thousand	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Deposits from credit institutions	87	-	-	-	-	87
Deposits from customers other than credit institutions	185,716	26,097	103,081	25,749	3,872	344,515
Other financial liablilities	174	-	-	-	-	174
Total financial liabilities	185,977	26,097	103,081	25,749	3,872	344,776

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.3. Liquidity risk (continued)

As of 31 December 2015 consolidated in BGN thousand	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Financial liabilities	563	-	-	-	-	563
Deposits from credit institutions	200,297	39,553	106,414	37,138	-	383,402
Liabilities under repurchase agreements (repo deals)	436	-	-	-	-	436
Total financial liabilities	**201,296**	**39,553**	**106,414**	**37,138**	**-**	**384,401**

The financial liabilities of the Bank/Group are mainly formed by attracted funds on deposits – retail and corporate. Large portion of them as of December 31, 2016 –54% (2015: 52%) are with residual term within one month. Traditionally, in the Republic of Bulgaria the customers prefer to sign a deposit agreement with one month term and to renegotiate it regularly for longer period. As a result, one month deposits are practically a long-term and relatively permanent resource of the Bank/Group.

29.4. Market risk

Market risk is the risk that changes in the market prices of financial assets, interest or currency rates may have an adverse effect on the Bank/Group's financial results. Market risk arises on opened exposures in interest, currency and equity instruments, as all of them are sensitive to general and specific market movements and affect the profitability of the Bank/Group. Market exposure is managed by the Bank/Group, in accordance with risk limits, adopted by the management.

The Bank/Group manages its financial instruments, considering the changing market conditions. Exposure to market risk is managed in accordance with risk limits, set by the Bank/Group's management by transactions with financial instruments or by opening a compensating position to hedge the risk.

To minimize the sources of market risk, the Bank/Group has adopted limits for investments in financial instruments as follows:

- Foreign government securities - may be purchased only if they have a credit rating not lower than BBB/positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness. Maximum level of exposure - 10%;
- Corporate bonds, issued by banks - at issuer's credit rating not lower than BBB/positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness and total exposure - 20%;
- Corporate shares - the total exposure cannot exceed 1% of the total portfolio of securities;
- Corporate bonds - can only be purchased if they have a credit rating not lower than BBB/ positive perspective on Standard & Poor's or an equivalent assessment of creditworthiness. Otherwise, a precise analysis of quantitative and qualitative factors is performed to support the decision for their acquisition. Maximum level of exposure - 20%.

Market risk management includes:

- Determination of securities and money market placements ratio. This ratio is dynamic variable and as the ratio of investment/trading portfolio, it is determined, according to the maturity structure of the Bank/Group's attracted funds, cash inflows and outflows, liquidity needs, income level and objectives of the Bank/Group.
- Risk/return ratio analysis.

In accordance with principles and objectives adopted, the Bank/Group applies approaches to market risk management as follows:

- VaR analysis, Duration of financial instruments and standardized interest rate shocks analysis to identify and analyse the effect of various risk factors on the value and profitability of the portfolio, in order to determine the optimal risk/return ratio;
- The Bank/Group analyses the risk/return ratio, and at given level of risk the instrument with higher return is selected; at given level of return, the instrument with lower risk is selected.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.4. Market risk (continued)

The Assets and Liabilities Management Committee develops alternative action plans in circumstances of increased market risk, due to sudden changes in market conditions within the limits, provided for different types of operations. The Committee monitors and suggests actions to divert from the usual limits in order to overcome such situations.

To assess the interest rate sensitivity of the commercial portfolio, the Bank/Group uses the modified duration of the portfolio, calculated on a daily basis.

To assess the potential impact of possible extreme fluctuations in interest rates on the value of trading portfolio, the Bank/Group analyses the effect of certain standardized interest rate shocks. The price change in parallel shift of the yield curve by 200 basis points should not exceed 5% of the capital base, calculated in the last quarter.

29.4.1. Interest rate risk

Interest rate risk is the probability of possible changes in the net interest income or net interest margin, due to fluctuations in the general market interest rate levels. The interest rate risk management of the Bank/Group aims to minimize the risk of decrease in the net interest income as a result of changes in interest rate levels.

The Bank/Group uses the GAP analysis method (gap analysis, misbalance method) to measure and assess the interest rate risk, allocating the interest-bearing assets and liabilities in time ranges, depending on the moments of their revaluation (for instruments with floating interest rate) and maturity (for instruments with fixed interest rate). Using this method the management of the Bank/Group identifies the sensitivity of the expected income and expenses to changes in interest rates. The Gap analysis method aims to determine the exposure of the Bank/Group, as a total amount and by separate types of financial assets and liabilities, in relation to expected interest rate fluctuations and their effect on the net interest income. It assists the management of assets and liabilities and is also an instrument for securing sufficient and stable net interest profitability. The management assesses the exposure of the Bank/Group's portfolio to interest rate risk and its sensitivity to this type of risk as moderate in view of the volumes and structure of the operations.

In interest rate risk management, the Bank/Group applies policy and procedures, according to the nature and complexity of its operations. By managing the interest rate risk, the Bank/Group aims at stable spread between the interest income and expense to provide an adequate profitability and maximum value at acceptable level of risk.

The interest rate risk management of the Bank/Group is based on the assessment of the amount and sensitivity of the exposure to fluctuations in the market interest rates and the probability for occurrence of such fluctuations. The Bank/Group has established a system for measurement of interest rate risk, which covers all sources of interest rate risk and assesses the effect of the fluctuations in interest rates.

Interest rates for assets and liabilities denominated in BGN are usually determined on the basis of the movement of the basic interest rate determined by the Central Bank (BNB). Interest rates for assets and liabilities denominated in EUR are based on the quoted prices of the European central bank.

In cases of assets and liabilities with floating interest rates, the Bank/Group is exposed to risk of fluctuations in the reference rates, which are used to estimate the interest rates, and which are determined based on floating interest rate indices, such as the basic interest rate or six-month LIBOR.

The Bank/Group uses the approaches to interest rate risk management, depending on the circumstances by applying the misbalance method, as follows:

- Balance – providing parity between the sensitivity of the interest-bearing assets and liabilities.
- Restructuring of the portfolios of assets and liabilities when cyclical fluctuations in interest rates occur.
- Determining the amount of the interest rates, and their type (fixed or floating) on the assets and liabilities of the Bank/Group depending on the trends for development on the domestic and international financial markets.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.4. Market risk (continued)

29.4.1. Interest rate risk (continued)

Performing its activities, The Bank/Group aims to achieve a positive misbalance in relation to the maturity of the assets and liabilities and a balanced position regarding the sensitivity of the interest-bearing assets and liabilities.

The interest-bearing assets and liabilities of the Bank/Group are, as follows:

As of 31 December 2016 separate in BGN thousand	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest-bearing assets						
Loans and receivables from credit institutions	17,671	-	-	-	-	17,671
Financial assets held for trading	1,637	-	-	8,405	14,748	24,790
Loans and receivables from customers	157,421	124	2,619	1,656	13,981	175,801
Financial assets available for sale	-	1,787	-	40,708	46,590	89,085
Total interest-bearing assets	176,729	1,911	2,619	50,769	75,319	307,347
Interest-bearing liabilities						
Deposits from credit institutions	87	-	-	-	-	87
Deposits from client other than credit institutions	185,711	26,036	102,189	24,809	2,492	341,237
Total interest-bearing liabilities	185,798	26,036	102,189	24,809	2,492	341,324
Mismatch between interest-bearing assets and liabilities, net	**(9,069)**	**(24,125)**	**(99,570)**	**25,960**	**72,827**	

As of 31 December 2015 separate in BGN thousand	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest-bearing assets						
Loans and receivables from credit institutions	16,625	-	-	-	-	16,625
Financial assets held for trading	2,188	7,980	-	9,455	8,318	27,941
Loans and receivables from customers	169,600	144	2,639	995	6,874	180,252
Investments held to maturity	-	16,834	2,050	46,051	28,510	93,445
Total interest-bearing assets	188,413	24,958	4,689	56,501	43,702	318,263
Interest-bearing liabilities						
Deposits from credit institutions	563	-	-	-	-	563
Deposits from client other than credit institutions	200,283	39,455	105,199	34,935	-	379,872
Total interest-bearing liabilities	200,846	39,455	105,199	34,935	-	380,435
Mismatch between interest-bearing assets and liabilities, net	**(12,433)**	**(14,497)**	**(100,510)**	**21,566**	**43,702**	

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.4. Market risk (continued)

29.4.1. Interest rate risk (continued)

As of 31 December 2016 consolidated in BGN thousand	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest-bearing assets						
Loans and receivables from credit institutions	17,671	-	-	-	-	17,671
Financial assets held for trading	1,637	-	-	8,405	14,748	24,790
Loans and receivables from customers	157,421	124	2,619	1,656	13,981	175,801
Financial assets available for sale	-	1,787	-	40,708	46,590	89,085
Total interest-bearing assets	176,729	1,911	2,619	50,769	75,319	307,347
Interest-bearing liabilities						
Deposits from credit institutions	87	-	-	-	-	87
Deposits from client other than credit institutions	185,705	26,036	102,189	24,809	2,492	341,231
Total interest-bearing liabilities	185,792	26,036	102,189	24,809	2,492	341,318
Mismatch between interest-bearing assets and liabilities, net	**(9,063)**	**(24,125)**	**(99,570)**	**25,960**	**72,827**	

As of 31 December 2015 consolidated in BGN thousand	Up to 1 month	From 1 to 3 moths	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Total
Interest-bearing assets						
Loans and receivables from credit institutions	16,625	-	-	-	-	16,625
Financial assets held for trading	2,188	7,980	-	9,455	8,318	27,941
Loans and receivables from customers	169,600	144	2,639	995	6,874	180,252
Investments held to maturity	-	16,834	2,050	46,051	28,510	93,445
Total interest-bearing assets	188,413	24,958	4,689	56,501	43,702	318,263
Interest-bearing liabilities						
Deposits from credit institutions	563	-	-	-	-	563
Deposits from client other than credit institutions	200,283	39,455	105,199	34,935	-	379,872
Total interest-bearing liabilities	200,846	39,455	105,199	34,935	-	380,435
Mismatch between interest-bearing assets and liabilities, net	**(12,433)**	**(14,497)**	**(100,510)**	**21,566**	**43,702**	

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.4. Market risk (continued)

29.4.1. Interest rate risk (continued)

The average effective interest rates on the interest-bearing financial instruments of the Bank/Group are as follows:

separate and consolidated in BGN thousand	Year ended 31.12.2016	Year ended 31.12.2015
Interest-bearing assets		
Loans and receivables from credit institutions	0.19	0.11
Financial assets held for trading	2.33	2.44
Loans and receivables from customers	5.54	6.49
Investments held to maturity	2.52	2.66
Interest-bearing liabilities		
Deposits from credit institutions	-	0.48
Deposits from clients other than credit institutions	1.16	2.02

29.4.2. Currency risk

Currency risk is the possibility to realize losses for the Bank/Group due to changes in foreign currency exchange rates.

In the Republic of Bulgaria the exchange rate of the BGN is fixed to the EUR by the Currency Board Act. The open positions of the Bank/Group in EUR bear no currency risk for the Bank/Group.

The currency risk is the risk of negative effect of the fluctuations of prevailing exchange rates on the financial position and the cash flows of the Bank/Group. The main part of the assets and liabilities of the Bank/Group are denominated in EUR and BGN. The Bank/Group has significant foreign currency transactions in Japanese yen (JPY), since part of the deposit base of the Bank/Group is in this currency. The Bank/Group does not hold open positions in currencies other than EUR.

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.4. Market risk (continued)

29.4.2. Currency risk (continued)

The foreign currency structure of financial assets and liabilities by carrying amount is as follows:

As of 31 December 2016 separate in BGN thousand	BGN	EUR	USD	JPY	Other	Total
Assets						
Cash and cash balances with Central banks	25,249	25,943	715	48	205	52,160
Loans and receivables from credit institutions	348	381	13,108	3,738	96	17,671
Financial assets held for trading	8,171	16,273	346	-	-	24,790
Financial assets available-for-sale	18,148	64,882	6,055	-	-	89,085
Loans and receivables from customers	92,577	82,876	336	12	-	175,801
Total assets	144,493	190,355	20,560	3,798	301	359,507
Liabilities						
Deposits from credit institutions	-	10	77	-	-	87
Deposits from client other than credit institutions	177,365	139,201	20,572	3,800	299	341,237
Other financial liabilities	6	167	1	-	-	174
Total liasbilities	177,371	139,378	20,650	3,800	299	341,498
Net exposure	(32,878)	50,977	(90)	(2)	2	18,009

As of 31 December 2015 separate in BGN thousand	BGN	EUR	USD	JPY	Other	Total
Assets						
Cash and cash balances with Central banks	45,636	41,420	951	148	229	88,384
Loans and receivables from credit institutions	181	4,555	8,817	2,987	85	16,625
Financial assets held for trading	9,456	18,037	448	-	-	27,941
Financial assets available-for-sale	22,902	64,741	5,802	-	-	93,445
Loans and receivables from customers	96,516	81,893	1,832	11	-	180,252
Total assets	174,691	210,646	17,850	3,146	314	406,647
Liasbilities						
Deposits from credit institutions	-	469	94	-	-	563
Deposits from client other than credit institutions	197,556	160,711	18,146	3,146	313	379,872
Other financial liabilities	1	379	55	1	-	436
Total liasbilities	197,557	161,559	18,295	3,147	313	380,871
Net exposure	(22,866)	49,087	(445)	(1)	1	25,776

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.4. Market risk (continued)

29.4.2. Currency risk (continued)

As of 31 December 2016 consolidated in BGN thousand	BGN	EUR	USD	JPY	Other	Total
Assets						
Cash and cash balances with Central banks	25,249	25,943	715	48	205	52,160
Loans and receivables from credit institutions	348	381	13,108	3,738	96	17,671
Financial assets held for trading	8,171	16,273	346	-	-	24,790
Financial assets available-for-sale	18,148	64,882	6,055	-	-	89,085
Loans and receivables from customers	92,577	82,876	336	12	-	175,801
Total assets	144,493	190,355	20,560	3,798	301	359,507
Liabilities						
Deposits from credit institutions	-	10	77	-	-	87
Deposits from client other than credit institutions	177,365	139,201	20,572	3,800	299	341,237
Other financial liabilities	6	167	1	-	-	174
Total liasbilities	177,371	139,378	20,650	3,800	299	341,498
Net exposure	(32,878)	50,977	(90)	(2)	2	18,009

As of 31 December 2015 consolidated in BGN thousand	BGN	EUR	USD	JPY	Other	Total
Assets						
Cash and cash balances with Central banks	45,636	41,420	951	148	229	88,384
Loans and receivables from credit institutions	181	4,555	8,817	2,987	85	16,625
Financial assets held for trading	9,456	18,037	448	-	-	27,941
Financial assets available-for-sale	22,902	64,741	5,802	-	-	93,445
Loans and receivables from customers	96,516	81,893	1,832	11	-	180,252
Total assets	174,691	210,646	17,850	3,146	314	406,647
Liasbilities						
Deposits from credit institutions	-	469	94	-	-	563
Deposits from client other than credit institutions	197,556	160,711	18,146	3,146	313	379,872
Other financial liabilities	1	379	55	1	-	436
Total liasbilities	197,557	161,559	18,295	3,147	313	380,871
Net exposure	(22,866)	49,087	(445)	(1)	1	25,776

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.4. Market risk (continued)

29.4.3. Price risk

Price risk is related to the fluctuations in market prices of financial assets and liabilities, which can cause losses for the Bank/Group. The main risk for the Bank/Group is the decrease of market prices of the financial instruments held for trading owned by the Bank/Group, which can lead to decrease of the profit for the period. As described in note 6, the main part of the investments of the Bank/Group is in Bulgarian government securities, which do not bear significant price risk.

29.4.4. Sensitivity to market risk

In accordance with the adopted objectives and principals, the Bank/Group applies: VaR (Value-at-risk) analysis, Duration analysis and Standardized interest rate shocks for identify and analyse the effect of different risk factors on the value and the profitability of the portfolio, and thus manages to find the optimal ratio risk to income.

As of December 31, 2016 the Bank/Group performed analysis of its interest rate sensitivity on the basis of the assumption of increase by 200 basis points of the interest rate, applied to the interest rate misbalance. In addition, the Bank/Group has performed sensitivity analysis to decrease of the interest rate margin in view of the recent negative trend with respect to this indicator. The analysis shows that further decrease of the interest rate margin by 0.20% would result in an additional loss at the amount of BGN 672 thousand (2015: BGN 764 thousand).

To evaluate the effect of potentially possible extreme fluctuations of interest rates, the Bank/Group analyses the effect of several Standardized interest rate shocks. The price fluctuation in the parallel shift of the yield curve by 100 basis points should not exceed 5% of the capital base calculated in the last quarter.

29.5. Fair value

IFRS 7 Financial instruments: Disclosure requires information for the measurement of fair value of financial assets and liabilities that are not reported at fair value in the statement of financial position.

The following table summarizes the information for the assets measured at fair value in the statement of financial position:

2016 separate and consolidated (all amounts are in BGN thousand)	**Carrying amount**	**Level 1 – quoted market price**	**Level 2 – technique for evaluation – observable market data**	**Level 3 - technique for evaluation – not observable market data**	**Fair value not available**
Assets measured at fair value					
Financial assets held for trading	24,790	130	24,660	-	-
Financial assets available for sale	89,085	-	88,999	-	86
Total	113,875	130	113,659	-	86

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.5. Fair value (continued)

2015 separate and consolidated (all amounts are in BGN thousand)	**Carrying amount**	**Level 1 – quoted market price**	**Level 2 – technique for evaluation – observable market data**	**Level 3 - technique for evaluation – not observable market data**	**Fair value not available**
Assets measured at fair value					
Financial assets held for trading	27,941	111	27,830	-	-
Financial assets available for sale	93,445	-	93,359	-	86
Total	121,386	111	121,189	-	86

The fair value of loans to customers with floating interest rate approximates their carrying amount. The fair value of loans with fixed interest rate is based on the Bank/Group's current interest rates.

As of 31 December 2016 separate in BGN thousand	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash balances at central banks	52,160	-	-	52,160
Loans and advances to credit institutions	17,671	-	-	17,671
Loans and advances to customers	-	-	177,616	177,616
Total	69,831	-	177,616	247,447
Financial liabilities				
Deposits from credit institutions	87	-	-	87
Deposits from clients other than credit institutions	-	342,489	-	342,489
Other financial liabilities	-	-	174	174
Total	87	342,489	174	342,750

As of 31 December 2015 separate in BGN thousand	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash balances at central banks	88,384	-	-	88,384
Loans and advances to credit institutions	16,625	-	-	16,625
Loans and advances to customers	-	-	181,716	181,716
Total	105,009	-	181,716	286,725
Financial liabilities				
Deposits from credit institutions	563	-	-	563
Deposits from clients other than credit institutions	-	383,806	-	383,806
Other financial liabilities	-	-	436	436
Total	563	383,806	436	384,805

29. FINANCIAL RISK MANAGEMENT (CONTINUED)

29.5. Fair value (continued)

As of 31 December 2016 consolidated in BGN thousand	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash balances at central banks	52,160	-	-	52,160
Loans and advances to credit institutions	17,671	-	-	17,671
Loans and advances to customers	-	-	177,616	177,616
Total	69,831	-	177,616	247,447
Financial liabilities				
Deposits from credit institutions	87	-	-	87
Deposits from clients other than credit institutions	-	342,489	-	342,489
Other financial liabilities	-	-	174	174
Total	87	342,489	174	342,750

As of 31 December 2015 consolidated in BGN thousand	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and cash balances at central banks	88,384	-	-	88,384
Loans and advances to credit institutions	16,625	-	-	16,625
Loans and advances to customers	-	-	181,716	181,716
Total	105,009	-	181,716	286,725
Financial liabilities				
Deposits from credit institutions	563	-	-	563
Deposits from clients other than credit institutions	-	383,806	-	383,806
Other financial liabilities	-	-	436	436
Total	563	383,806	436	384,805

30. OTHER REGULATORY DISCLOSURES

According to the requirements of Art. 70, paragraph 6 of the Law on Credit Institutions, banks are obliged to disclose certain quantitative and qualitative data related to key financial and other parameters separately for the Republic of Bulgaria to other countries - EU Member States and third countries in which the Bank has subsidiaries or has established branches.

As disclosed in note 1, Tokuda Bank operates under a banking license granted by BNB, under which it may accept deposits in local and foreign currency, to extend loans in local and foreign currency, open and maintain nostro accounts in foreign currency, abroad to conduct transactions with securities, foreign currency, and to perform other banking operations and transactions authorized by the Law on Credit Institutions.

The Bank has no subsidiaries and branches registered outside the Republic of Bulgaria.

30. OTHER REGULATORY DISCLOSURES (CONTINUED)

Summary quantitative indicators on an individual basis, related to statutory disclosures required by the Law on Credit Institutions, are as follows:

separate	2016	2015
Operating income	14,655	13,529
Loss before income tax	(1,734)	(6,839)
Tax expense	(5)	(6)
Return on assets (%)	-0.44%	-1.57%
Equivalent number of employees full-time at 31 December	259	266
Received state subsidies	-	-

consolidated	2016	2015
Operating income	14,654	13,528
Loss before income tax	1,131	(6,841)
Tax expense	(5)	(6)
Return on assets (%)	-0.44%	-1.57%
Equivalent number of employees full-time at 31 December	262	269
Received state subsidies	-	-

Return on assets is calculated based on the average monthly values of the assets.

The Bank provides services as an investment intermediary under the provisions of the Public Offering of Securities Act. As investment intermediary the Bank/Group must meet certain requirements to protect the interests of customers under the Markets in Financial Instruments Directive and Ordinance 38 issued by the Financial Supervision Commission. The Bank/Group has established and applies an organization rules and internal control procedures related to the execution and performance of contracts by customers with information requests from clients, record keeping and preservation of clients' assets in accordance with Regulation 38, Art. 28-31.

31. CAPITAL MANAGEMENT

The Bank is subject to regulations in relation to meeting the requirements for capital adequacy in accordance with the Bulgarian legislation. In Bulgaria the authorized share capital of a bank shall not be less than BGN 10 million and there is an additional requirement that at any time the equity (the capital base) of the Bank should not fall below the required minimum.

The Bank monitors and analyses on monthly basis its capital position and prepares quarterly reports for supervisory purposes, which are presented to the BNB in compliance with legal requirements. Capital management policy aims to provide an adequate coverage of risks arising in the normal course of banking activities, as well as risks of unforeseen circumstances. The main priority in the management of capital is compliance with the regulatory requirements for capital adequacy and maintenance of sufficient capital, which covers risks assumed and provides sufficient capital buffer for unforeseen events.

As of December 31, 2016 the capital adequacy ratios of the Bank exceeded the minimum regulatory ratios.

32. EVENTS AFTER THE REPORTING DATE

There are no events after the reporting date that would require either adjustments or additional disclosures in the financial statements.