

TOKUDA BANK GROUP

**ANNUAL CONSOLIDATED REPORT
ON THE ACTIVITIES,
INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATED
FINANCIAL STATEMENTS**

December 31, 2015

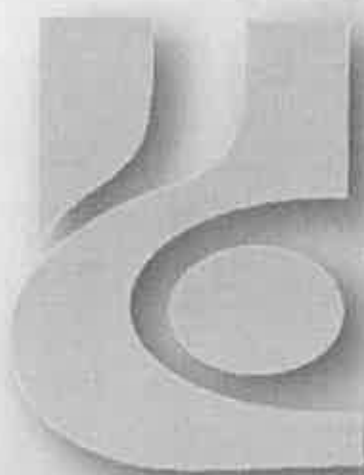
Unofficial translation of the original in Bulgarian

**ANNUAL CONSOLIDATED REPORT
ON THE ACTIVITIES**

FOR 2015

TOKUDA BANK AD

ANNUAL REPORT ON THE ACTIVITY



2015

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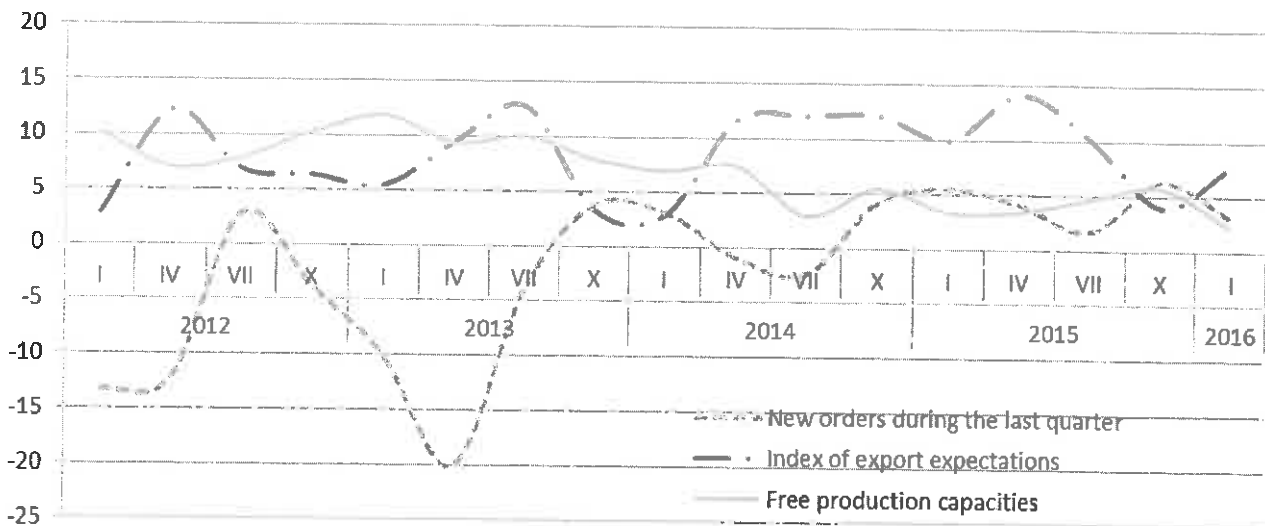
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I. Environment in which Tokuda Bank AD operates in 2015

During the past 2015 the rate of economic growth in the country was unsatisfactory (3% on yearly basis according to preliminary data by the National Statistical Institute), the local market indicators remained unstable (figure 1) and the environment conditions did not contribute in any manner to the recovery of the real economy. In fact, observations indicate that some grounds for positive expectations exist since in the first three quarters of the past 2015 the index of industry export expectations kept levels above 10, the index for new orders followed higher (although varying) trends, and the share of idle production capacity remained without any significant changes. So far, however, the recovery of economy growth runs slowly under the leading role of domestic demand, and, in particular, collective consumption. This, on the other hand, had an unfavorable impact on the banking sector as an unstable production cannot be a source of profit for the credit institutions. Adverse business environment in Bulgaria was stated in many eminent reports (including the reports of the European Commission), which had an immediate negative impact on the behavior of local and foreign investors.

In the last review of the EC on the microeconomic gaps (published in February, 2016) was stated that despite significant improvements following the liquidity crisis in the middle of 2014, the banking sector continues to be potential source of microeconomic risks. Indeed, it seems that the public trust in the banking system gradually recovers and the liquidity and profitability of banks improve. In the sector, however, still there are too many issues related to asset quality and in particular, no appropriate diversification, lending to related parties, etc.

Figure 1 Business environment indicators



Further, we should note that along with adverse conditions of the economic environment the existing conservatism in investment attitude (both of financial intermediaries and their clients) also put pressure on the lending rates, which during 2015 kept low - about 1-2% on an annual base. Lending activity in the country remained low - the amount granted new loans to non-financial companies in 2015 was lower compared to the previous year (although it remained at levels above BGN 1 billion). This trend resulted from continuing weak demand for loans due to the reluctance of firms and households to accumulate new

debts or commit to new investments in the existing uncertain economic environment. At the same time, banks continued to hold relatively prudent lending policy. At the end of 2015, the amount of non-government sector fell by 1.6% compared to the end of 2014. In addition, a decrease in receivables yoy both from non-financial corporations (1.6%) and households (1.3%) was observed. Net sales of loans by commercial banks also had an impact on the dynamics of lending to the non-governmental sector in 2015.

The dynamics of loans to households almost throughout the year was characterized by a tendency to delay the reported growth. In late December, the annual rate reached minus 1.3 percent. The main contribution to negative growth in loans to households caused the category "housing loans". A decline was also observed in the categories of overdraft and "other loans", while the consumer segment during most part of the year marked a slight positive growth.

Most likely, the leading factor in reviving consumer lending this year remains the emergence of urgent expenses such as health care, repayment of debts to the budget or to utility companies, etc.. Overall the population and businesses as well, still have weak motivation to borrow even though interest rates continued to decline, albeit at a slower rates.

Regarding liabilities it could be concluded that two of the trends which have been formed in the beginning of the financial crisis stayed the same, namely: weakening of local resources and increase in the population's savings. The continued growth of funds from residents, as well as the interest conditions in interbank money markets in the country and in the Eurozone continued to act as an incentive for commercial banks to further lower interest rates on deposits during the past year. As of November 2015, the weighted average interest rate on new term deposits of non-financial enterprises" and "households" sectors' reached in total 1.1% (whereas a year earlier the index kept at levels above 2.1%). Decrease in interest rates is reported both on new deposits of households and of non-financial enterprises, with higher downturn in households. In both sectors registered pace of decline was more significant in the first half.

With regard to the 2014 trend of substitution of resources provided by foreign parent banks to their subsidiary banks in the country with a local resource, it should be noted that during the year it was discontinued and at the end of 2015 net foreign assets of banks dropped down to BGN 2.6 billion (compared to BGN 4.2 billion in 2014).

The continued growth of savings (albeit moderating) in lowering interest rates is symptomatic for the adverse business environment. Maintaining high tendency towards savings, despite the continuing reduction in the yield achieved is indicative of the lack of adequate investment alternatives. The reason for this is both a relatively low rate of income under those alternatives and the high degree of risk arising from the uncertainty in the country. The latter creates problems both for economic agents and for banks, which in terms of limited lending have no opportunity to realize the accumulated free resource.

II. Overview of the activity of Tokuda Bank AD in 2015

According to the Bulgarian National Bank, at the end of 2015 Tokuda Bank AD ranked 24th in terms of total assets with a share of assets in the banking system reaching 0.49%. Compared to the assets of the banks in the second group which the Bank belongs to, this share is 1.31%.

The Bank's assets as at December 31, 2015 amount to BGN 427.284 mln. The average amount of the assets remains relatively constant, and for the past period they amount to BGN 434.2 mln., while for the previous two years they are of BGN 427.7 million. and BGN 424.4 mln., respectively.

For 2015 the Bank realized a net loss of BGN 6.845 mln., due to which the potential earnings per share is a negative amount. The reported loss is by 23.37% less than the year before - in 2014 it reached BGN 8.932 mln.

During the past year, the dynamics of the loan portfolio is slow due to the continuing economic stagnation in the country resulting in proper financing projects and investors with good credit standing. At the end of the period, gross loans before impairment decreased to BGN 203.341 mln. The share of loans outside the 'loss' group remains near the recorded one in the previous year and as of December 31 reached 70.57% (74.14% in 2014).

In 2013, Tokuda Bank established a subsidiary "Tokuda Security" EOOD, with registered share capital at the amount of BGN 25 thousand, which is 100% owned by the Bank. The Bank defines the financial and operating policies of the subsidiary. The results of the subsidiary are recognized in the consolidated financial statements.

1. Operating income and expenses

In 2015, the Bank generated income from core business at the amount of BGN 13.529 mln. (table 1), which is by BGN 1.640 mln. (13.79%) less than the prior year. The measures to reduce and control administrative costs still have an effect on their dynamics during the past period. During the past year the Bank continued to follow its policy of administrative cost restriction. In accordance with this policy management exercised regular cost control and undertook active measures to limit these expenses. As a result of these measures, the ratio between administrative expenses, including depreciation/amortization charges, and net operating income (91.07%) remained relatively close to the prior year level (99.75), although the decrease in some main groups of income. For example, the gross interest income decreased by BGN 1.558 mln., income from fees and commissions - by BGN 121 thousand and trading income dropped down by BGN 11 thousand. The above ratio is supported also by restricting the administrative costs close to the prior year level, as well as decreasing interest expense by BGN 3.411 mln. (from BGN 11.113 mln. to BGN 7.702 mln.)

Administrative expenses increased by BGN 466 thousand (4.10%) compared to those reported in 2014 (BGN 11,366 mln.) and at the end of 2015 reached BGN 11.832 mln. The reported increase is mainly due to the occurrence of extraordinary expenses relating to the procedure for assessing the quality of assets and the contribution of the newly established fund for bank restructuring. Other items of administrative costs remained close to the levels of 2014, since no major reorganizations in the administrative and regional structure of the Bank have been made during the past year.

Changes in the structure of the Bank's total operating income are moderate (see table 1). Net interest income increased by BGN 1.853 mln. due to the decrease in price of attracted funds. In 2015, these income comprise 64.93% of total net income and non-interest income decreased their share to 35.07%. These values for the prior year are 58.30% and 41.70%, respectively.

Table 1. Operating income

	2015	2014
Interest income	13,438	11,367
Interest expense	(7,702)	(11,113)
Net interest income	5,736	2,254
Income from management of debt instruments portfolio	1,497	1,977
Income from management of securities portfolio	141	111
Income from management of other assets portfolio	1,537	1,462
Income from other operations	281	282
Other operating income	142	1,014
Total operating income	11,025	11,494

Interest income on granted loans and other receivables decreased by BGN 564 thousand and amounted to BGN 13.438 mln. and continued to hold the largest share of its total interest income (81.51%). Despite the decrease in revenue in absolute value, for the past year, their share increased by 3.91 percentage points compared to the one recorded in 2014 (77.60%) as a result of the accelerated decrease in interest income from securities.

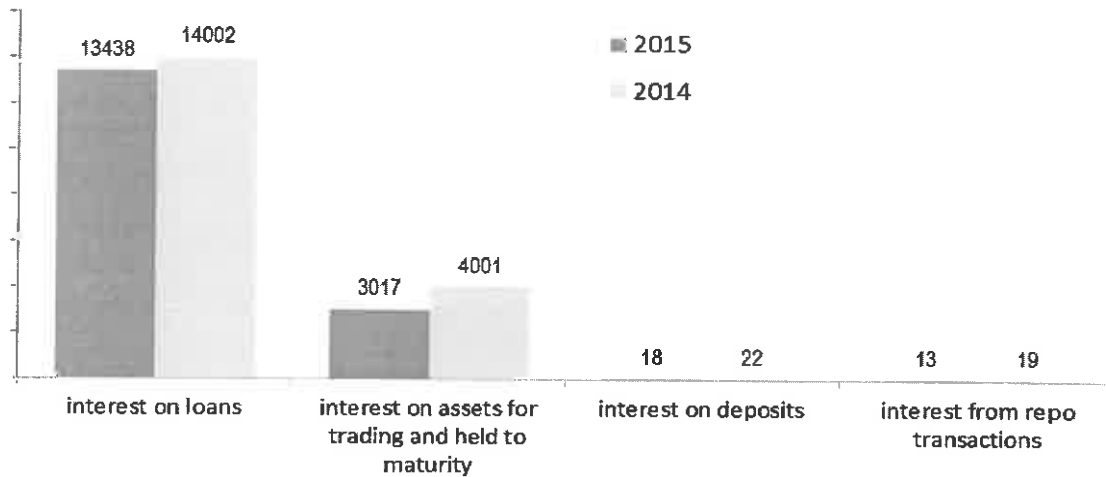
A major factor for the reported shrinkage in the share of income on this indicator by 4.03%, compared to last year is the increase in the high share of classified loans in "loss" group (from 25.86% in 2014 to 29.43% at the end of 2015), which is a serious obstacle to the realization of stable interest income for the Bank.

Interest income from management of debt instruments portfolio (figure 2) indicate noticeable decline (by 24.59% compared to 2014) due to the amortization of the portfolio, leading to the replacement of old (more profitable) issues by new ones with lower yield. The share of this income in total interest income during the year decreased from 22.17% to 18.30%.

Interest income on placed deposits amounts to BGN 17.7 thousand, which is by 19.07% (BGN 4.2 thousand) less than the reported figures for 2014, mainly due to the shrinkage of this group of assets and compared to the average amount of BGN 24.970 mln. For 2014 their volume dropped down to BGN 17.125 mln. for 2015. The effect on revenue is quite weak and commensurate with indicators of changes in volume, since the changes to this group of assets have slow dynamics.

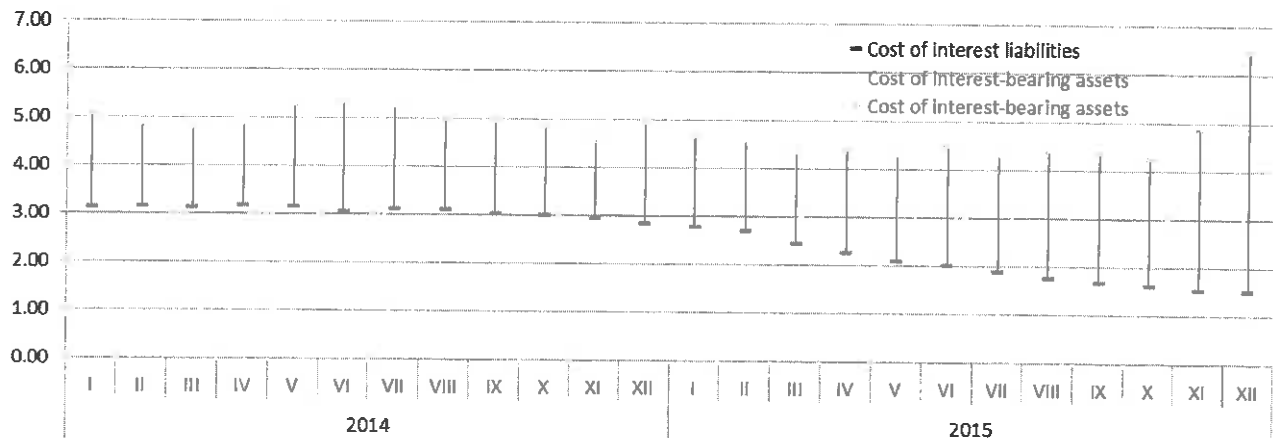
Interest expense in 2015 represent significant portion of the Bank's operating expenses, as the deposit base is formed mainly by individuals and households and as of December 31, 2015 these expenses reached BGN 7.702 mln., indicating a decrease of 30.69% compared to 2014 (when they amounted to BGN 11 113 mln.), as a result of the ongoing effective policy of liabilities and interest expenses management.

Figure 2. Interest from assets held for trading, assets available for sale and assets held to maturity



During the past reporting period there is an increase in the interest spread (figure 3), despite the decrease in income from interest-bearing assets for the period until October. Compared to the weighted average rate of income of 4.96% for 2014 the latter indicator decreased to 4.61% in 2015, due to the bigger share of classified loans with overdue above 180 days on principal and interest and the decrease in interest rates on newly granted loans in order to comply with market conditions and competitive environment. However, this is compensated by the reduced cost of attracted funds, which decreased from 3.07% in 2014 to 2.02% in 2015 as a result of decreased interest rates on attracted funds and maturity of major part of relatively expensive deposits of Bank's customers. Winning new customers from the corporate sector and the public sector had further favorable effect on the price of attracted funds, leading to an increase in the share of current accounts by 5.6 percentage points during the year. The accelerated dynamics of the cost of attracted funds, and the realization of additional income in the last two months of the year (due to the generation of additional income from collected writs) caused an increase in interest spread up to 2.56% cumulatively in 2015., which is 0.67 percentage points higher than the previous year (1.89%).

Figure 3. interest spread components



Non-interest income

Net non-interest income remained close to the levels reported in the prior year, marking a slow decline of BGN 213 thousand (4.30%) and at the end of 2015 reached BGN 4.745 mln.. The largest share in this group still has the net income from fees and commissions (BGN 3.552 thousand) which during the past year decreased by BGN 130 thousand (3.53%) due to the decrease (by BGN 58 thousand) in income from issued guarantees and loan charges. .

In the past year, an increase in income from fees on transfers in BGN and in foreign currency by BGN 120 thousand, amounting in total up to BGN 1.721 mln., was observed. This led to a growth of their share in the total structure of gross income from fees and commissions by 1.98 percentage points

Adverse conditions on the securities market had a negative impact on net income from sales and revaluation of trading portfolio and as a result, they decreased by BGN 124 thousand (13.6%) - from BGN 908 thousand in 2014 to BGN 784 thousand for the past reporting period. The result from foreign currency transactions and revaluation of foreign currency assets and liabilities dropped down by BGN 5 thousand and reached BGN 333 thousand in 2015.

Non-interest expenses

Non-interest expenses of the Bank for 2015 (figure 5) amount to BGN 20, 368 mln., which represents an decrease of BGN 434 thousand or by 2.09% compared to prior year

This group marked an increase in general administrative expenses (including those for services, rent, materials, contributions to the Bulgarian Deposit Insurance Fund and newly established fund for bank restructuring, telecommunications and information technology, security, etc.), which grew by BGN 325 thousand (up to BGN 6.340 mln.).

Depreciation/amortization expenses (BGN 481 thousand) virtually remained unchanged compared to 2014 (as a result of low rate of upgrading technology park) and personnel costs increased by BGN 141 thousand (up to BGN 5.492 mln.), although the administrative structure and office network of the Bank marked no significant changes, and the average number of staff remained relatively constant level (255 persons for the past 2015).

Figure 4. Non-interest expenses

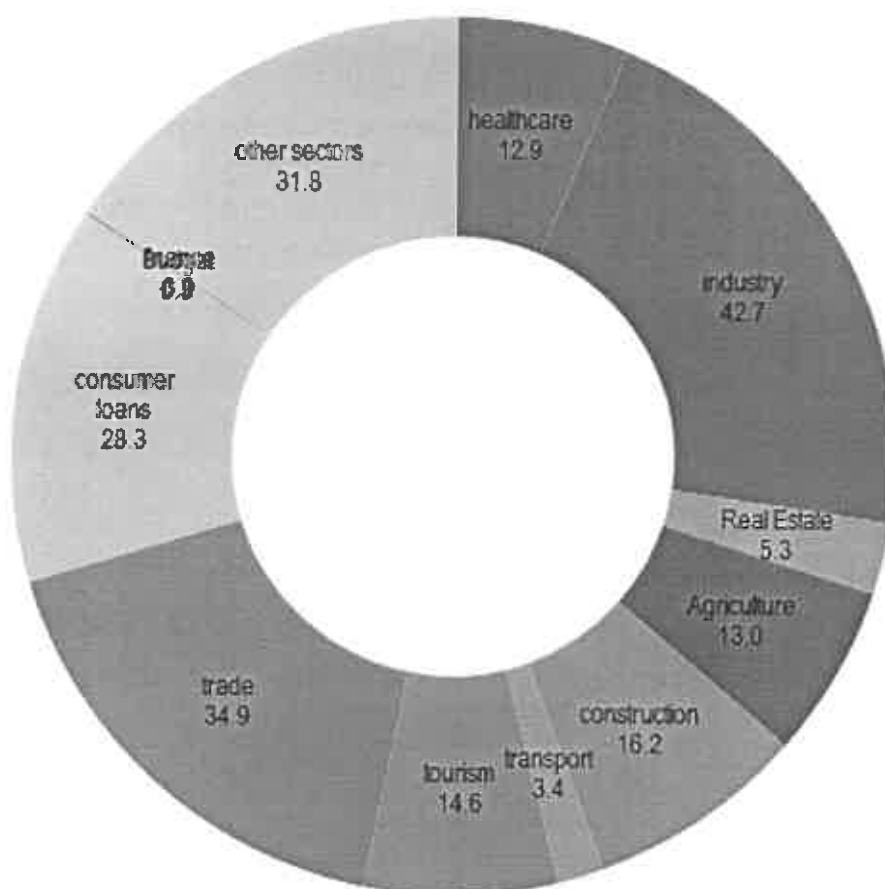


The slow dynamics of the expense in this group caused relatively small changes to its structure. For example, the share of staff costs (including salaries and social security and health insurance contributions) in the total structure of non-interest expenses decreased by 1.24 pp (from 25.72% to 26.96% at the end of last year). The change in the share of general administrative expenses (2.21 pp) is also comparable. The share of depreciation/amortization charges remained unchanged (2.36%), and the provision expense kept zero level of the prior year.

2. Loan portfolio

At the end of 2015 the gross loan portfolio of the Bank (figure 5) amounts to BGN 203.341 mln.. After providing allowances for impairment losses at the amount of BGN 23.089 mln., the net value of the portfolio is BGN 180.252 mln. The weak portfolio growth is due to the unfavorable conditions and the continuing relatively high credit risk of the business environment. In 2015 the carrying amount of the loan portfolio after impairment decreased its share in the total assets' structure to 42.19% (47.15% for the prior year).

Figure 5. Loan portfolio distribution [in BGN million]



Corporate loans decreased to BGN 164.224 mln. and their share in the gross loan portfolio (80.76%) changed slightly compared to the prior year (78.25%), which is a natural result of the maintained balance of the lending activity.

Changes in the consumer loans segment are also moderate. Their share increased from 16.57% of the gross loans in 2014 to 19.05% in 2015. In absolute value the segment reported growth at the amount of BGN 21.437 mln., which represents an increase by 3.85% compared to the prior year values.

In 2015 the Bank continued to work with companies from the sectors of industry, trade, energy, agriculture, healthcare, etc. The largest relative share took loans to the Industry sector, which unlike last year, now increased its share (by 2.02 percentage points to 20.99% of the portfolio), followed by the trade sector (whose share decreased from 17.30% to 17.15%), construction sector (whose share decreased by 0.21 percentage points to 7.97%), and healthcare whose relative share increased to 6.35%.

There are no significant changes in the currency structure of loan portfolio after impairment. The share of loans in the European single currency (EUR) decreased by 4.93 percentage points against the increase of loans in USD (by 0.12 percentage points) and in BGN (by 4.81 percentage points). At the end of 2015 the loan portfolio after impairment is as follows: 53.55% in local currency, 45.43% in EUR and 1.02% in USD.

Despite some positive signs of economic recovery, the consequences of the crisis continued to shape the attitudes of the private sector and households. The deterioration of their economic status and the difficulties in settlement of their obligations, as well as the absence of investment interest, affect negatively the rate of lending and thus preventing the compensation of poor portfolio quality through increasing its volume. During the past year, the Bank followed its policy for granting loans only to individuals meeting high standards for reliability and credit standing, as indicative in this respect is the regular servicing of such loans. However, during the past year a slight increase in classified loans (up to 48.89%) was observed, which is mostly result of the stagnation in lending.

In order to cover the risk of impairment losses on loan receivables at present the Bank has allocated allowances at the amount of BGN 23.089 mln., which lead to the increase of portfolio coverage ratio with accounting provisions from 7.77% to 11.35%. The coverage with allowances for impairment for loans classified in groups other than 'regular' is 22.94%. Almost all impairment (87.69%) is charged on receivables classified as "loss" (table 2).

Table 2. Allocation of loan portfolio to classification groups

	2015			2014		
	Gross amount	Allowances under IAS	Carrying amount	Gross amount	Allowances under IAS	Carrying amount
Regular	103 919	285	103 634	135 383	0	135 383
Watch	16 866	306	16 560	16 293	139	16 154
Non-performing	22 717	2 252	20 465	15 197	113	15 084
Loss	59 839	20 246	39 593	58 207	17 229	40 978
Total	203 341	23 089	180 252	225 080	17 481	207 599
Classified	99 422	22 804	76 618	89 697	17 481	72 216

3. Securities

The securities portfolio as at the end of 2015 increased by BGN 6.182 mln. to BGN 121.386 thousand, and thus its share in the total structure of assets grew to 28.41% of the total assets, which is by 2.24 percentage points more than the prior year. Compared to the prior year such change is relatively

moderate (5.37%). Keeping relatively high share of this asset category can be explained by the general stagnation in lending in the country, still motivating local banks to direct their available resources to securities market. The main part of this category of assets (BGN 93.445 mln.) is classified as available for sale. During the past year the volume of trading portfolio decreased by BGN 2.486 mln. (down to BGN 27.941 mln.) and investment held to maturity were totally reclassified as available for sale.

Table 3. Securities portfolio

	2015	2014
Shares and participation in local companies	86	165
Bulgarian government securities	63 880	77 618
Eurobonds of local governments	28 352	-
Government securities of foreign governments	17 511	19 549
Eurobonds of foreign governments	3 824	-
Corporate bonds of local and foreign issuers	7 622	17 796
Shares of local companies	111	153
Impairment accrued for the year	-	(77)
TOTAL	121 386	115 204

Securities of local government (Bulgarian government securities and Eurobonds of the local government) increased by BGN 14.614 mln., up to BGN 92.232 mln., and their share in the total structure of the portfolio grew to 75.98%. Securities of foreign governments increased by BGN 1.786 mln. (up to BGN 21.335 mln.), Shares of local companies decreased to BGN 111 thousand.

4. Attracted funds

The volume of attracted funds in 2015 (table 4) decreased by 1.94% and at the end of the year reached BGN 379.872 mln., where the source of these funds are individuals and households. In 2015, the share of funds from this source declined by 3.15 percentage points (from 68.14% to 64.98% in the total structure). Also the resource from organizations operating with State budget funds decreased and at the end of 2015 their share comprised 3.68% of the Bank's attracted funds (at 5.08% in 2014).

Similarly is the movement of attracted funds from non-banking financial institutions, which in the past year decreased by 27.80% and their share of borrowed funds declined from 4.77% to 3.51%. Deposits of non-financial companies retained second place, according to their share in attracted funds. Last year the segment increased by 5.81 pp (from 22.02% to 27.82%).

The Bank continues to maintain high liquidity and therefore interest in attracting deposits from banks remains relatively weak, so their volume at the end of the year reached BGN 563 thousand (compared to BGN 149 thousand in 2014).

During the past year repeated adjustments of interest rates on the Bank's deposit products were made in order to optimize interest expenses, which resulted in changes to the structure of attracted funds (as in the previous year) in favor of current accounts and the share of term deposits decreased by 7.09 pp to 54.40%.

Changes in the currency structure of attracted funds are relatively weak and in favor of the US dollar, whose share over the past year increased from 3.61% to 4.78% against deposits in local currency, whose share decreased from 53.33% to 52.01%. Changes in the shares of other currencies are relatively weak and at the year-end deposits in Euro occupied 42.31%, while deposits in Japanese yen and other currencies - 0.83% and 0.08%, respectively, of the total structure.

Table 4. Structure of attracted funds

	2015			2014		
	Sight deposits and saving deposits	Term deposits	Total	Sight deposits and saving deposits	Term deposits	Total
Accounts of individuals	71 882	174 974	246 856	63 439	200 513	263 952
Budget accounts	13 995	0	13 995	19 682	0	19 682
Corporate accounts	86 920	18 769	105 689	65 577	19 714	85 291
Accounts of other non-banking financial institutions	420	12 912	13 332	474	17 991	18 465
TOTAL	173 217	206 655	379 872	149 172	238 218	387 390

5. Equity and reserves

As of December 31, 2015 the share capital of the Bank amounts to BGN 45.264 mln. The total amount of the share capital is BGN 45.264 million.

As of December 31, 2015 the share capital amounts to BGN 68 000 000 /sixty eight million/. It is distributed in 6 800 000 / six million and eight hundred thousand/ registered dematerialized voting shares with face value of BGN 10 / ten / each and issue value equal to nominal.

According to the register of shareholders with the Central Depository, as of December 31, 2015 the shareholders of the Bank are:

- Tokushukai Incorporated, Japan (holder of 99.53% of the share capital)
- "Garant Co Ko 97" AD, Bulgaria (0.22%)
- AUC Establishment, Lichtenstein (0.20%)
- Gama Holding Group AD, Varna (0.05%)

6. Office network

Due to the unfavorable economic environment and by following its conservative budgeting policy, during the past year the Bank refrained from expanding its regional network.

In 2015 an office in Kardzhali was closed; a new office in Kazanlak was opened; Doyran Office was included in the Sofia structure as a remote workplace.

The structure of the office network is as follows:

- Head Office
- Offices – 23
- Remote workplaces – 10

The regional divisions of the Bank provide its customers with professional and quality services, timely assistance for solving various issues and possibilities to benefit of new products and services.

7. Correspondent banking relationships

Correspondents of the Bank are all Bulgarian banks and a number of leading foreign banks abroad - BNP-Paribas SA, Paris; Commerzbank AG, Frankfurt/Main; Dresdner Bank AG, Frankfurt/ Main; Bank of China, Beijing; Landesbank Hessen-Thuringen 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 and other.

8. Human resources

The human resource is a key factor for realizing the strategic goals of the management. The Bank's management develops a system for managing human resources and administration of personnel - planning, selection, recruitment, movement and discharge. In 2015 the average number of employees of the Bank is 255 (compared to 260 in 2014).

A crucial factor in achieving the mission and strategy of the Bank is the quality of personnel - qualifications, professional skills and loyalty. Bank's employees also attend various forms of training and qualification related to their main functions, since the improvement is one of the main tools, which has proven its reliability.

For the purposes of effective human resources management, the internal information system (internal site) is continuously updated, where access is granted to internal company documents and news concerning the Bank.

9. Information technologies

During the past year continued the process for optimization of the implemented in 2012 new software platform, which processes the main data flows of the Bank. The implementation of a new platform contributed to the development of the Bank's technological processes and their control, improvement of the quality of customer services and provision of reliable information to answer of their needs.

III. Development trends in 2016

In determining the prospects for development in the next reporting period, some basic assumptions about the environment in which the Bank will carry out its activity (relatively slow pace of development of the Bulgarian economy and holding the unfavorable investment climate in the country) are set out. Amid such emerging economic environment, the Bank intends to maintain a moderately conservative policy in performing its activities with a view to stabilize profitability indicators and create conditions for increasing its market share. The main objective set for 2016 is to increase the loan portfolio and improve its quality. For this purpose, a strong increase in lending activity is foreseen, and despite the expectations for slow

stabilization of economic growth and investment climate in the country, the pace of dynamics can be achieved, as the Bank has a relatively small market share and has the potential to maintain above average rate of lending by using purely market mechanisms.

A guiding principle in determining the prospects for development is keeping risk at a reasonable level, so that the main priority of activity this year will remain the precise selection of suitable clients and the reasonable assessment and management of credit risk.

In short, the main priorities for the Bank's development for 2016 are summarized in the following areas:

- Keeping the high liquidity of the Bank;
- Improving quality of loan portfolio;
- Promoting sales of new products and services;
- Expanding the market share of the Bank;
- Optimization of the asset structure and following the policy of acceptable credit risk and its coverage with the necessary capital.
- Improving rate of return on assets;
- Ensuring stable operating income to guarantee the achievement of a higher return on share capital;
- Limitation of expenses by their optimization.

IV. Information about changes in share capital, dividend distribution policy and management

1. Changes in share capital

In 2015 Tokushukai Incorporated, Japan acquired the ownership on International Hospital Services Co Ltd., Japan (holder of 99.53% of the Bank's share capital) and as of December 31, 2015 the majority shareholder, owner of 99.53% of the Bank's share capital is Tokushukai Incorporated, Japan.

2. Management

In 2015 the Bank preserved its two-tier management system. The bodies of the joint-stock company in 2015 have the following members:

Supervisory Board of the Bank

Arthur Stern – Chairperson of Supervisory Board.

Tokushukai Incorporated, Japan, represented by Eiji Yoshida – Deputy Chairperson of the Supervisory Board.

Dimitar Vuchev - member of Supervisory Board.

Management Board of the Bank

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

Kiril Pendev – member of the Management Board and Executive Director until December 1, 2015;

Boyan Ikonov – member of the Management Board and Executive Director;

Dimitar Slavchev – member of the Management;

The total remuneration received by the members of the Management and the Supervisory Boards during the reporting period amounts to BGN 350 thousand (three hundred fifty thousand) (respectively, BGN 328 thousand in 2014).

The members of the Management and the Supervisory Boards do not have rights to acquire shares and bonds of the Bank. Also neither they, nor related to them persons have signed with the Bank contracts, which are beyond the regular activity or significantly deviate from the market conditions.

3. Dividend distribution policy

The Bank paid no dividends. The net profit for the year is allocated to cover losses from prior years.

V. Responsibility of the Management

The annual financial statements have been prepared in compliance with the statutory requirements and the International Financial Reporting Standards (IFRS), as adopted by the European Union and applicable in the Republic of Bulgaria. They give a true and fair view of the financial position of the Bank.

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

- They have been prepared in compliance with the International Financial Reporting Standards;
- The annual financial statements have been prepared under going concern assumption and are fairly presented;
- The adopted accounting policies are adequate and have been consistently applied;
- The required estimates and assumptions have been made on the basis of the prudence concept;
- The management has undertaken all necessary measures to protect the assets of the Bank and to prevent fraud.

By virtue of decision of the Management Board of Tokuda Bank AD:


Vanya Vassileva

Chairperson of Management Board and
Executive Director


Boyan Ikonov

Member of Management Board and
Executive Director

Sofia, April 5, 2016



**INDEPENDENT AUDITOR'S REPORT AND
ANNUAL CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2015**

*This document is a translation of the original Bulgarian text,
in case of divergence the Bulgarian text shall prevail.*

INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of
Tokuda Bank AD**

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Tokuda Bank AD (“the Bank”) and its subsidiary (together “the Group”), which comprise the consolidated statement of financial position as of December 31, 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Group as of December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with IFRS, as adopted by the European Union.

Other reports on legal and regulatory requirements - Annual consolidated report on the activities of the Group according to the Accountancy Act

Pursuant to the requirements of the Bulgarian Accountancy Act, we have read the accompanying Annual consolidated report on the activities of the Group, prepared by the Group's management. The Annual consolidated report on the activities of the Group is not a part of the financial statements. The historical financial information presented in the Annual consolidated report on the activities of the Group prepared by the management is consistent, in all material aspects with the financial information disclosed in the consolidated financial statements of the Group as of December 31, 2015, prepared in accordance with IFRS, as adopted by the European Union. Management is responsible for the preparation of the Annual consolidated report on the activities of the Group dated April 6, 2016.

Deloitte Audit

Deloitte Audit OOD



Sylvia Peneva
Statutory Manager
Registered Auditor

Sofia
April 6, 2016



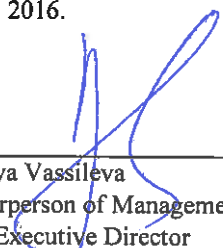
TOKUDA BANK GROUP

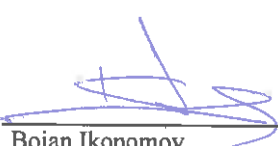
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2015

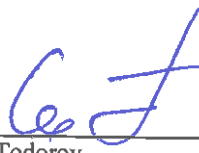
All amounts are in thousand BGN, unless otherwise stated

	Note	As at 31 December	
		2015	2014
ASSETS			
Cash and cash balances with central banks	4	88,384	89,985
Loans and advances to credit institutions	5	16,625	11,077
Financial assets held for trading	6	27,941	30,427
Financial assets available for sale	7	93,445	88
Loans and advances to customers	8	180,252	207,599
Investments held to maturity	9	-	84,689
Non-current assets held for sale	12	7,135	3,752
Property, plant and equipment	10	2,890	3,173
Intangible assets	10	655	549
Other assets	11	9,943	8,960
Total assets		427,270	440,299
LIABILITIES			
Deposits from credit institutions	13	563	149
Deposits from clients other than credit institutions	14	379,869	387,388
Tax liabilities	15	89	83
Other liabilities	16	1,496	3,398
Total liabilities		382,017	391,018
EQUITY			
Share capital	17	68,000	68,000
Reserves	17	3,632	813
Accumulated loss		(19,523)	(10,599)
Loss for the year		(6,847)	(8,933)
Total equity		45,253	49,281
Total liabilities and equity		427,270	440,299

These consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 06 April 2016.


Vanya Vassileva
Chairperson of Management Board
and Executive Director


Boian Ikonov
Member of Management Board
and Executive Director


Svetlin Todorov
Finance Director



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

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.



TOKUDA BANK GROUP

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

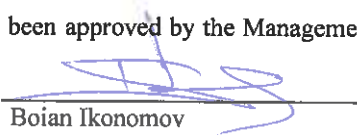
for the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

	Note	Year ended 31 December	
		2015	2014
Interest income	18	16,486	18,044
Interest expense	18	(7,702)	(11,113)
Net interest income		<u>8,784</u>	<u>6,931</u>
Fee and commission income	19	3,900	4,021
Fee and commission expense	19	(348)	(339)
Net fee and commission income		<u>3,552</u>	<u>3,682</u>
Net trading income	20	305	700
Other operating income	21	887	574
Operating income		<u>13,528</u>	<u>11,887</u>
Impairments and provisions for losses	23	(8,055)	(8,943)
Personnel costs		(5,517)	(5,376)
Operating lease rentals		(936)	(1,040)
Other expenses		(5,861)	(5,442)
Operating expenses	22	<u>(12,314)</u>	<u>(11,858)</u>
Loss before income tax		<u>(6,841)</u>	<u>(8,914)</u>
Tax expense	24	(6)	(19)
Loss for the year		<u>(6,847)</u>	<u>(8,933)</u>
Other comprehensive income			
Items that may be reclassified to profit or loss			
Net change in fair value of available for sale financial assets		2,820	-
Items that will never be reclassified to profit or loss			
Remeasurements of defined benefit liability		(1)	-
Total other comprehensive income		<u>2,819</u>	<u>-</u>
Total comprehensive income for the year		<u>(4,028)</u>	<u>(8,933)</u>

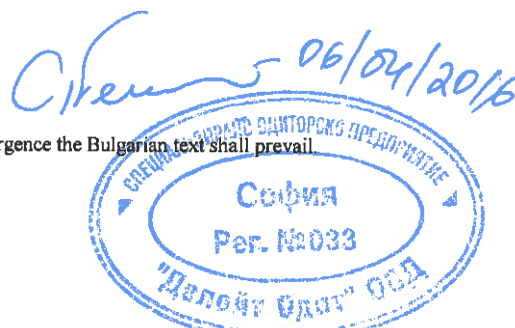
These consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 06 April 2016.


 Vanya Vassileva
 Chairperson of Management Board
 and Executive Director


 Boian Ikonov
 Member of Management Board
 and Executive Director


 Svetlin Todorov
 Finance Director

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



TOKUDA BANK GROUP


CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
AS OF DECEMBER 31, 2015

All amounts are in thousand BGN, unless otherwise stated

	Share capital	Revaluation reserve of financial assets available for sale	Reserves	Accumulated loss	Total
Balance at 1 January 2014	68,000	-	813	(10,599)	58,214
Loss for the year	-	-	-	(8,933)	(8,933)
Other comprehensive income for the year	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(8,933)	(8,933)
Balance at 31 December 2014	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

These consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 06 April 2016.


Vanya Vassileva
Chairperson of Management Board
and Executive Director


Boian Ikononov
Member of Management Board
and Executive Director

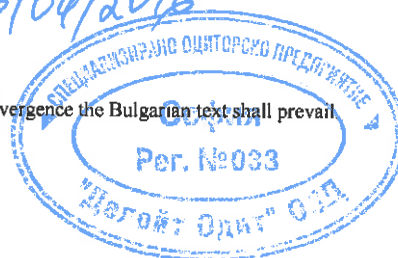

Svetlin Todorov
Finance Director



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



06/04/2016



TOKUDA BANK GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

	Note	Year ended 31 December	
		2015	2014
Cash flows from operating activities			
Net loss for the year		(6,847)	(8,933)
Income tax expense		6	19
Amortization		484	495
Net impairments and provisions for losses		8,055	8,943
Net interest income		(8,784)	(6,931)
Dividend income		(19)	(31)
(Gain)/Loss on disposal of property, plant and equipment		(21)	38
Provisions		22	138
Interest income received		16,112	19,922
Interest expense paid		(7,923)	(11,560)
Dividend income received		19	31
Currency revaluation of investments held to maturity		(284)	(587)
Cash flows from operating profit before changes in the operating assets and liabilities		820	1,544
Decrease in Trading securities		2,592	7,776
Decrease in Financial assets available for sale		2	-
Decrease/(Increase) in loans and receivables from customers		15,889	(5,555)
(Increase)/Decrease of non-current assets held for sale		165	(1,291)
Increase of other assets		(79)	(1,358)
Decrease of receivables under repurchase agreements		-	(1,456)
Decrease of financial liabilities held for trading		-	(1,370)
Increase/(Decrease) of deposits from credit institutions		413	(782)
Increase/(Decrease) of deposits from clients other than credit institutions		(7,327)	34,329
Increase/(Decrease) of other liabilities		(1,895)	1,338
Net cash flow (used in)/generated by operating activities		9,760	31,631
Cash flows from investing activities			
Payments for acquisition of investment held to maturity		(30,734)	(26,462)
Proceeds from investments held to maturity		13,290	17,922
Proceeds from financial assets available for sale		11,097	8,066
Payments for acquisition of property, plant and equipment		(153)	(285)
Proceeds from sale of property, plant and equipment		104	3
Payments for acquisition of intangible assets		(237)	(45)
Net cash flow used in investing activities		(6,633)	(801)
Cash flows from financing activities			
Repayments of borrowings		-	(38)
Net cash flow used in financing activities		-	(38)
Net increase of cash and cash equivalents		3,947	32,336
Cash and cash equivalents at the beginning of the year		101,062	68,726
Cash and cash equivalents at the end of the year	26	105,009	101,062

These consolidated financial statements have been approved by the Management Board of Tokuda Bank AD on 06 April 2016.

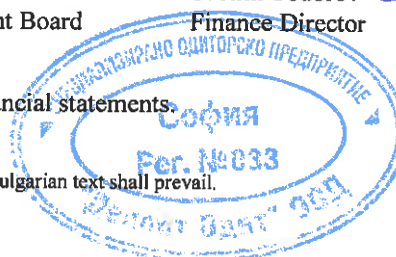
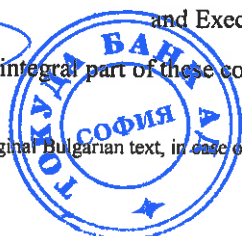
Vanya Vassileva
Chairperson of Management Board
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Svetlin Todorov
Finance Director

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

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.



Свобода 06/04/2016

TOKUDA BANK GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

1. ORGANIZATION AND OPERATIONS

These 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).

Tokuda Bank AD (the Bank) is a joint stock company registered in the Republic of Bulgaria on December 27, 1994. The Bank's registered address is 3, Graf Ignatiev Street, Sofia.

As of December 31, 2015 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, 2015 the major shareholder of the Bank is Tokushukai Incorporated, holding 99.72%.

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

The 2015 and 2014 activity of the Bank 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. Two of the members of the Management Board are Executive Directors of the Bank.

In 2015 the Group operates through its Head Office and 29 offices, points of services and representative offices (2014: 29). As of December 31, 2015 the Bank has 258 employees (2014: 263).

2. BASIS FOR PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 General

These consolidated financial statements have been prepared for general purposes for the year ended December 31, 2015. The consolidated financial statements are presented in thousand Bulgarian Levs (BGN'000).

These consolidated financial statements have been prepared in accordance with the Bulgarian national legislation. The Groups'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.

Tokuda Bank AD is a parent company in the preparation of these consolidated financial statements and as of December 31, 2015 The Bank owns 100% the subsidiary Tokuda Security EOOD, Sofia, Republic of Bulgaria. The investment in the individual financial statements of the Bank is disclosed at cost.

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 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.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

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

2.3 Changes in IFRS

Initial application of new amendments to the existing Standards and Interpretations effective for the current financial period

The following new 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 financial period:

- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on December 18, 2014 (amendments are to be applied for annual periods beginning on or after January 1, 2015),
- IFRIC 21 “Levies” adopted by the EU on June 13, 2014 (effective for annual periods beginning on or after June 17, 2014).

The adoption of these amendments to the existing standards and interpretation has not led to any changes in the Group’s accounting policy.

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 amendments to the existing standards issued by IASB and adopted by the EU were in issue but not yet effective:

- 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 December 17, 2014 (amendments are to be applied for annual periods beginning on or after February 1, 2015),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants - adopted by the EU on November 23, 2015 (effective for annual periods beginning on or after January 1, 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 December 2, 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions - adopted by the EU on December 17, 2014 (effective for annual periods beginning on or after February 1, 2015),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations adopted by the EU on November 24, 2015 (effective for annual periods beginning on or after January 1, 2016).
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative – adopted by the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements - adopted by the EU on December 18, 2015 (effective for annual periods beginning on or after January 1, 2016),
- 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 December 15, 2015 (amendments are to be applied for annual periods beginning on or after January 1, 2016).

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 IASB except from the following new standards and amendments to the existing standards, which were not endorsed for use in EU as at the date of publication of financial statements:

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

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

2.3. Changes in IFRS (continued)

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after January 1, 2018);
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after January 1, 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 15 “Revenue from Contracts with Customers” and further amendments (effective for annual periods beginning on or after January 1, 2018),
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- 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 (effective for annual periods beginning on or after January 1, 2016),
- 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 (effective for annual periods beginning on or after January 1, 2016),

The Group anticipates that the adoption of these standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application, except:

- IFRS 9 Financial Instruments 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 approach in IFRS 9 is based on how the Group manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the Group’s estimates, application of hedge accounting for the 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 Group’s financial statements have been prepared under the going concern assumption. As a result of the operations executed by the Group in prior reporting periods, losses have been accumulated that may cast doubt about the Group’s ability to continue as a going concern. Despite the accumulated losses, the Management has analysed the ability of the 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.

The consolidated financial statements of the Group incorporate the financial statements of Tokuda Bank AD and Tokuda Security EOOD (subsidiary, over which the Bank has control and owns 100% of the capital). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The Parent company is the entity that directly or indirectly, owns more than half of the voting rights or the power to govern the financial and operating policies of another entity (subsidiary).

The subsidiary is the entity, in which the Group directly or indirectly owns more than half of the voting rights or has the power to govern its financial and operating policies. Subsidiaries are consolidated from the date, on which effective control is obtained by the Group and ceases to be consolidated from the date, on which it is assumed that the control is disposed and transferred out of the Group.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

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 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.

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, 2015 and 2014 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 consolidated financial statements and the actual results may differ from these estimates.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

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 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 28.2 describes the process applied by the 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 28.5 discloses detailed information for the main methods and assumptions for measurement and disclosure of fair value;
- Useful lives of property, plant and equipment and intangible assets – the Group reviews the useful lives of these assets at the end of each reporting period and changes their useful lives, if needed. In 2015 there were no changes in the useful lives of these assets.

The entire 2015 passed in the conditions of the continuing economic crisis which determines that the Group continues 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 consolidated financial statements. The recoverability of the loans and the adequacy of the recognized impairment losses, as well as the maintaining of the 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 Group's management applies the necessary procedures to manage these risks, as disclosed in note 28.

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, 2015 and 2014 the 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, 2015 financial assets held for trading consist of Bulgarian government securities. As of December 31, 2014 financial assets held for trading consist mainly of Bulgarian government securities.

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

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2. Financial assets (continued)

The 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, 2015 and 2014 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 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 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 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 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 Group no longer has control over the contractual rights and transfers substantially all risks of ownership of the asset such as: the 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 Group is legally entitled to offset the recognized amounts and the transactions are to be settled on a net basis.

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2 Financial assets (continued)

Off-balance financial instruments

In its operations the 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 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 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.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.4 Receivables and payables under repurchase agreements (repo deals)

The 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 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. 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 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 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%

3.6. 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.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.7. 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.

3.8. 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	31.12.2015	31.12.2014
US Dollars	1.79007	1.60841
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.

3.9. Employee benefits

Employee benefits are all forms of consideration given by the 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 Group.

In accordance with IAS 19 Employee Benefits the Group recognizes liabilities for retirement benefits, which are calculated by licensed actuary using the Projected Unit Credit Method (see note 16). The amount reported in the statement of financial position represents the present value of the long-term liabilities of the Group for retirement benefits.

3.10. Taxation

The 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.

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.10. 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.

3.11. 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 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 28.5 presents information about fair value of financial assets and liabilities.

3.12. 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 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.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.13. Assets acquired from collaterals

Assets acquired from collaterals which the 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 11). These assets are collaterals which the Group acquired from borrowers who became insolvent. The Group's policy is to sell the acquired collaterals when the Group finds profitable enough market for them.

3.14. Non-current assets held for sale

Non-current assets held for sale are property and other non-current assets, which the 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 Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset and undertakes actions to respond to the circumstances which caused the delay.

The 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.

3.15. Comparative information

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

- As a result of a significant change in the 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.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

4. CASH AND CASH BALANCES WITH CENTRAL BANKS

in BGN thousand	2015	2014
Cash in hand	8,295	8,188
Cash with the Central bank	80,089	81,797
Total	88,384	89,985

Cash with the Central bank as of December 31, 2015 and 2014 include minimum non-interest bearing reserves at the amount of BGN 39,117 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 141 thousand and BGN 157 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:

in BGN thousand	2015	2014
Nostro accounts with domestic credit institutions	281	204
Deposits with domestic credit institutions	8,552	49
Nostro accounts with foreign credit institutions	7,792	10,824
Total	16,625	11,077

Deposits to credit institutions as of December 31, 2015 and 2014 have maturity within 3 months.

6. FINANCIAL ASSETS HELD FOR TRADING

in BGN thousand	2015	2014
Bulgarian government bonds	19,746	28,240
Eurobonds of local governments	8,084	-
Corporate bonds of domestic and foreign issuers	-	2,034
Shares and participations of domestic enterprises	111	153
Total	27,941	30,427

7. FINANCIAL ASSETS AVAILABLE FOR SALE

in BGN thousand	2015	2014
Shares and participations of domestic enterprises	163	165
Allowance for impairment	(77)	(77)
Bulgarian government bonds	44,134	-
Eurobonds of local governments	20,268	-
Foreign government securities	17,511	-
Eurobonds of foreign governments	3,824	-
Corporate bonds of domestic and foreign issuers	7,622	-
Total	93,445	88

On December 31, 2015 all held to maturity investments were reclassified (note 9). As of December 31, 2015 securities with carrying amount of BGN 20,702 thousand are pledged as collateral with BNB to secure attracted funds from the State budget

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

All amounts are in thousand BGN, unless otherwise stated

8. LOANS AND RECEIVABLES FROM CUSTOMERS

8.1. Analysis by type of customers

in BGN thousand	2015	2014
Private entities	164,224	176,127
Households and individuals	38,731	37,294
State budget	250	278
Financial entities	14	5,263
Finance lease	122	6,118
	<u>203,341</u>	<u>225,080</u>
Allowance for uncollectibility	(23,089)	(17,481)
Total	<u>180,252</u>	<u>207,599</u>

8.2. Analysis by sectors

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

in BGN thousand	2015	2014
Consumer loans	28,324	29,186
Manufacturing	42,675	42,688
Construction	16,211	18,412
Trade	34,864	38,945
Agriculture	12,985	12,504
Health sector	12,916	13,421
Tourism	14,602	18,795
Transportation	3,397	3,642
Operations with real estate	5,322	3,596
Finance	14	5,263
State budget	250	278
Other sectors	31,781	38,350
	<u>203,341</u>	<u>225,080</u>
Allowance for uncollectibility	(23,089)	(17,481)
Total	<u>180,252</u>	<u>207,599</u>

In 2015 and 2014 receivables on loans written-off against allowances for impairment and uncollectibility are at the amount of BGN 341 thousand and BGN 1,907 thousand.

Movement of impairment losses is as follows:

in BGN thousand	2015	2014
	Loans and receivables	Loans and receivables
Balance as at January 1	17,481	12,400
Additional allowances for impairment losses	9,217	12,373
Reversals	(3,268)	(5,385)
Written off receivables	(341)	(1,907)
Balance as at December 31	<u>23,089</u>	<u>17,481</u>

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

For the year ended December 31, 2015

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9. INVESTMENTS HELD TO MATURITY

in BGN thousand	2015	2014
Bulgarian government bonds	=	49,378
Foreign government securities	-	19,549
Corporate bonds of domestic and foreign issuers	=	15,762
Total	-	84,689

As of December 31, 2014 securities with carrying amount of BGN 22,907 thousand respectively, are pledged as collateral with BNB to secure attracted funds from the State budget.

On December 31, 2015 pursuant to the decision of the Management board all held to maturity investments were reclassified as financial assets available for sale. The difference between the carrying amount and the fair value (BGN 3,017 thousand positive and BGN 197 thousand negative revaluation) of the reclassified debt instruments as of December 31, 2015 is accounted for as revaluation reserve. The net positive revaluation reserve as of December 31, 2015 is at the amount of BGN 2,820 thousand.

TOKUDA BANK GROUP

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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All amounts are in thousand BGN, unless otherwise stated

10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

in BGN thousand	Land and buildings	Office equipment	Vehicles	Fixture and fittings	Other assets	Intangible assets	Assets under construction	Total
Cost								
01 January 2014	2,746	2,650	984	572	593	848	79	8,472
Additions	-	170	-	40	75	47	-	332
Disposals	-	(427)	-	(49)	(213)	(24)	-	(713)
Sold	-	(2)	-	(1)	-	-	-	(3)
Transfers	-	(2)	-	2	-	-	-	-
31 December 2014	2,746	2,389	984	564	455	871	79	8,088
Accumulated depreciation/amortization								
01 January 2014	-	114	-	3	36	237	-	390
Charged during the year	-	(146)	-	(19)	(15)	-	(79)	(259)
Written off	-	(22)	(75)	(7)	-	-	-	(104)
Transfers	-	-	-	-	-	-	-	-
31 December 2015	2,746	2,335	909	541	476	1,108	-	8,115
Net book value								
01 January 2014	(507)	(2,216)	(784)	(457)	(366)	(214)	-	(4,544)
Charged during the year	(60)	(158)	(42)	(49)	(56)	(130)	-	(495)
Written off	-	427	-	48	176	22	-	673
31 December 2014	(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)
Net book value								
31 December 2014	2,179	442	158	106	209	549	79	3,722
31 December 2015	2,119	395	116	72	188	655	-	3,545

TOKUDA BANK AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

11. OTHER ASSETS

in BGN thousand	2015	2014
Assets acquired from non-performing loans	10,840	8,867
Allowance for impairment of assets acquired by the non-performing loans	(1,744)	(660)
Other assets	1,581	1,680
Impairment of other assets	(1,393)	(1,409)
Vat recoverable	-	234
Deferred expenses	196	122
Guarantee deposits	65	67
Advance payments	398	59
Total	9,943	8,960

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	2015	2014
Balance as of 1 January	1,409	-
Additional allowances for impairment losses	21	1,409
Reversals	(37)	-
Written off receivables	-	-
Balance as of 31 December	1,393	1,409

Movement of impairment of assets acquired from non-performing loans	2015	2014
Balance as of 1 January	660	94
Impairment losses related to assets reclassified from held for sale	-	98
Additional allowances for impairment losses	1,084	468
Balance as of 31 December	1,744	660

TOKUDA BANK AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

12. NON-CURRENT ASSETS HELD FOR SALE

in BGN thousand	2015	2014
Balance at the beginning of the year	3,752	7,455
Acquisitions during the year	6,558	1,291
Disposals during the year	(165)	-
Transferred assets, acquired from ordinary activities (non-performing loans)	(1,973)	(4,993)
Allowance for impairment	(1,037)	(1)
Balance at the end of the year	7,135	3,752

In 2015 the Group terminated defaulted finance lease contract and acquired back assets at the amount of BGN 5,987 thousand. In 2014 the Group acquired assets worth BGN 1,200 thousand of a contract for transfer of ownership rather than performance.

13. DEPOSITS FROM CREDIT INSTITUTIONS

in BGN thousand	2015	2014
Deposits from credit institutions	563	149
	563	149

Term deposits from credit institutions received as of December 31, 2015 and 2014 have maturity within 3 months.

14. DEPOSITS FROM CLIENTS OTHER THAN CREDIT INSTITUTIONS

in BGN thousand	2015	2014
Individuals deposits		
- Demand and savings deposits	71,882	63,439
- Term deposits	174,974	200,513
State budget funds		
- Demand deposits	13,995	19,682
Corporate deposits		
- Demand deposits	86,917	65,575
- Term deposits	18,769	19,714
Other non-bank financial institutions deposits		
- Demand deposits	420	474
- Term deposits	12,912	17,991
	379,869	387,388

TOKUDA BANK AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

15. TAX ASSETS AND LIABILITIES

15.1. Tax assets

As of December 31, 2015 and 2014 the Group does not recognize deferred tax assets on accumulated tax loss of BGN 12,805 thousand and BGN 11,048 thousand respectively, due to the fact that there is uncertainty regarding future taxable profits against which it can be utilized.

31 December 2015 unrecognized deferred tax assets are as follows:

Tax loss occurred in	Amount	Unrecognized tax asset	Expiring in
2012	1,208	121	2017
2013	1,725	173	2018
2014	8,115	811	2019
2015	1,757	176	2020
Total	12,805	1,281	

Other temporary differences	Amount	Unrecognized tax asset
Financial assets available for sale	2,819	282
Impairment on assets	2,781	278
	5,600	560

15.2. Tax liabilities

As of December 31, 2015 and 2014 tax liabilities consist of deferred tax liabilities, arisen from the following temporary tax differences:

in BGN thousand	2015	2014
Deferred tax assets:		
Unused paid leave	14	14
Long-term employee benefits	25	26
Total deferred tax assets	39	40
Deferred tax liabilities:		
Differences between accounting and tax amortization and depreciation	(128)	(123)
Total deferred tax liabilities	(128)	(123)
Deferred tax liabilities, net	(89)	(83)

Deferred tax assets and liabilities as of December 31, 2015 and 2014 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.

TOKUDA BANK AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

16. OTHER LIABILITIES

in BGN thousand	2015	2014
Ongoing bank transfers	436	715
Unused paid leave	116	120
Impairment for long-term employee benefits	251	258
Liabilities to Commercial bank Victoria AD	-	1,847
Other liabilities	693	458
	1,496	3,398

Ongoing bank transfers represent liabilities on money transfers ordered by customers in the last day of 2015 and 2014 respectively, with value date within two days. The transfers are processed up to the second working day of 2016 and 2015, respectively.

As of December 31, 2014 liabilities to Commercial bank Victoria AD represent amounts due under two contracts for the assignment of loans.

According to the provisions of the Labor Code, the Group is obliged to compensate employees upon retirement with two gross salaries. If the employee has worked for the Group in the last ten years the compensation amounts to six gross salaries. As of December 31, 2015 and 2014 the Group has accrued long-term employee benefits at the amount of BGN 251 thousand and BGN 258 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 – 0.21;
- Financial assumptions, salary growth;
- Discount rate – due to the long-term nature of the payable, annual discount rate of 2.91 % has been applied.

17. EQUITY AND RESERVES

17.1. Share capital

As of December 31, 2015 and 2014 the Group's share capital is fully paid in and is distributed in registered, voting shares, as follows:

in BGN thousand	2015	2014
Number of shares	6,800	6,800
Share nominal in BGN	10	10
Share capital	68,000	68,000

In 2015 International Hospital Services merged into Tokushukai Incorporated.

As of December 31, 2015 and 2014 the Group's shareholder structure is as follows:

	2015	%	2014	%
International Hospital Services	-	0.00	6,767,950	99.53
Tokushukai Incorporated	6,767,950	99.53	-	0.00
Garant and Co 97 AD	15,000	0.22	15,000	0.22
A U C Establishment	13,300	0.20	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

TOKUDA BANK AD
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2015

17. EQUITY AND RESERVES (CONTINUED)

17.2. Reserves

According to the Bulgarian legislation the companies within 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 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 Statute) of the share capital, the excess can be used for share capital increase.

As of December 31, 2015 and 2014 reserves include Reserve Fund at the amount of BGN 812 thousand and BGN 813 thousand, respectively. The revaluation reserve of financial assets available for sale is at the amount of BGN 2,820 thousand (2014: nil)

18. INTEREST INCOME/EXPENSE

in BGN thousand	2015	2014
A. Interest income		
Interest from financial assets held for trading	818	1,029
Interest from loans and advances to credit institutions	18	21
Interest from repo deals	13	19
Interest from loans and advances to customers	13,438	14,003
Interest from investments held to maturity	2,199	2,972
	<u>16,486</u>	<u>18,044</u>

in BGN thousand	2015	2014
B. Interest expenses		
Interest on deposits from credit institutions	1	1
Interest on deposits from clients other than credit institutions	7,701	11,110
Interest on loans received	-	2
	<u>7,702</u>	<u>11,113</u>

19. FEE AND COMMISSION INCOME/EXPENSE

in BGN thousand	2015	2014
Fee and commission income		
Fees and commission income under money transfers	1,612	1,552
Fees receipts under accounts opening and closing	500	481
Fees and commission income under loan transactions	270	456
Fees income under servicing cards	375	331
Commission income under cash balances	347	276
Service guarantees	139	197
Other	657	728
	<u>3,900</u>	<u>4,021</u>

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19. FEE AND COMMISSION INCOME/EXPENSE (CONTINUED)

	2015	2014
Fee and commission expense		
Fees for service of cards	227	205
Fees for money transfers	28	28
Insurances fees	22	26
Fees for opening and servicing of accounts	29	24
Fees to register securities	18	14
Other	24	42
	<u>348</u>	<u>339</u>
Net fee and commission income	<u>3,552</u>	<u>3,682</u>

20. NET PROFIT/ (LOSSES) ON FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

in thousand BGN	2015	2014
Loss from sale of securities held for trading	-	(16)
Loss from revaluation of securities held for trading	(82)	(61)
Gain from foreign exchange differences	387	777
	<u>305</u>	<u>700</u>

21. OTHER OPERATING INCOME / (EXPENSE)

in thousand BGN	2015	2014
Net losses from foreign currency revaluation	(54)	(438)
Profit from sale of investment securities available for sale	865	809
Dividends	19	31
Net loss from disposed assets other than held for sale	(5)	(4)
Gain from non-current assets held for sale	8	-
Other operating income	54	176
	<u>887</u>	<u>574</u>

22. OPERATING EXPENSES

in thousand BGN	2015	2014
Personnel costs	5,517	5,376
Depreciation and amortisation	484	495
Operating lease rentals	936	1,040
Payments to Deposit Insurance Fund	1,661	1,685
Payments to Bank Restructuring Fund	343	-
Other expenses	3,373	3,262
	<u>12,314</u>	<u>11,858</u>

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23. IMPAIRMENT AND PROVISIONS FOR LOSSES

Net expenses of depreciation in 2015 and 2014 are presented in the table below:

in BGN thousand	2015	2014
Impairment loss on		
Loans and advances to customers	5,949	6,988
Other assets available for resale	-	77
Non-current assets held for sale	1,037	1
Other assets	1,069	1,877
Net Impairments and provisions for losses	8,055	8,943

24. INCOME TAX EXPENSE

Current tax expense represents taxes due under the Bulgarian legislation according to the applicable tax rate of 10 % for 2015 and 2014. 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	2015	2014
Current tax expense	-	-
Deferred tax expense	(6)	(19)
Total tax expenses	(6)	(19)

Reconciliation between loss before tax and tax expense:

Loss before income tax	(6,841)	(8,914)
Income tax at applicable tax rate of 10 % for 2015 (10% for 2014)	684	891
Tax effect of non-deductible expenses	(20)	(52)
Effect of unrecognized deferred tax asset on tax losses available for carry forward	(176)	(811)
Tax effect of revaluation of financial assets available for sale	(282)	-
Effect of other temporary differences, for which no deferred tax asset is recognized	(212)	(47)
Tax expenses	(6)	(19)

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25. RELATED PARTIES

As of December 31, 2015 and 2014 the Group has receivables from, payables to and contingent commitments to related parties, as follows:

Related parties and balances (in BGN thousand)	2015	2014
Majority shareholder		
Deposits received	27,118	656
Companies under common control		
Deposits received	27,486	41,589
Key management personnel		
Loans granted	30	20
Deposits received	30	88

Income from and expenses for related party transactions, generated by the Group in 2015 and 2014 are as follows:

Related parties and type of transactions (in BGN thousand)	2015	2014
Majority shareholder		
Income from foreign exchange differences	6	-
Interest expense	11	47
Companies under common control		
Income from fees and commissions	233	190
Income from foreign exchange differences	20	29
Income from services	3	6
Interest expense	239	536
Expenses for fees and commissions	2	1
Key management personnel		
Interest income	-	1
Interest expense	-	1
Other expenses	1	1

The remuneration to Supervisory Board members in 2015 are at the total amount of BGN 36 thousand (2014: BGN 41 thousand). The remuneration to the Management Board members in 2015 are at total amount of BGN 314 thousand (2014: BGN 287 thousand).

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26. 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:

in BGN thousand	2015	2014
Cash in hand (note 4)	8,295	8,188
Cash with the Central bank (note 4)	80,089	81,797
Nostro accounts with domestic credit institutions (note 5)	281	204
Nostro accounts with foreign credit institutions (note 5)	7,792	10,824
Loans and deposits to credit institutions with original maturity up to three months (note 5)	8,552	49
Total cash and cash equivalents in the statement of cash flows	105,009	101,062

27. COMMITMENTS AND CONTINGENCIES

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

in BGN thousand	2015	2014
Guarantees	5,017	7,952
Undrawn credit commitments	16,347	12,382
	21,364	20,334

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28. FINANCIAL RISK MANAGEMENT

The risk for the 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 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 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 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 Group within the adopted business strategy;
- Specialized collective committees – approve the framework and parameters of the 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 Group;
- Heads of structural units within the Group - implement the adopted risk management policy within the operations of the respective organizational units.

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

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.1. Financial assets and liabilities

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

in BGN thousand

As of 31 December 2015

	Trading	Loans and receivables	Financial assets available for sale	Other amortised cost	Total carrying 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 credit institutions	-	-	-	563	563	563
Deposits from clients other than credit institutions	-	-	-	379,869	379,869	383,806
Other financial liabilities	-	-	-	436	436	436
Total liabilities	-	-	-	380,868	380,868	384,805

in BGN thousand

As of 31 December 2014

	Trading	Loans and receivables	Financial assets available for sale	Held to maturity	Other amortised cost	Total carrying amount	Fair value
Financial assets							
Cash and balances with Central Bank	-	89,985	-	-	-	89,985	89,985
Loans and advances to banks	-	11,077	-	-	-	11,077	11,077
Loans and advances to customers	-	207,599	-	-	-	207,599	211,101
Financial assets held for trading	30,427	-	-	-	-	30,427	30,427
Financial assets available for sale	-	-	88	-	-	88	88
Investments held to maturity	-	-	-	84,689	-	84,689	86,237
Total assets	30,427	308,661	88	84,689	-	423,865	428,915
Financial liabilities							
Deposits from credit institutions	-	-	-	-	149	149	149
Deposits from clients other than credit institutions	-	-	-	-	387,388	387,388	390,364
Other financial liabilities	-	-	-	-	2,562	2,562	2,562
Total liabilities	-	-	-	-	390,099	390,099	393,075

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.2. 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 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 88,384 thousand and BGN 89,985 thousand, respectively as of December 31, 2015 and 2014 do not bear credit risk to the Group due to their nature and the fact that they are at the Group's disposal.

Loans and receivables from credit institutions at the amount of BGN 16,625 thousand and BGN 11,077 thousand, respectively as of December 31, 2015 and 2014 represent mostly deposits in first-class international and Bulgarian financial institutions with maturity up to 7 days. The 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 27,941 thousand and BGN 30,427 thousand as of December 31, 2015 and 2014, respectively, bear mainly market risk to the Group, which is described in note 28.4. The maximum exposure to credit risk on these instruments is their carrying amount.

Financial assets available for sale are at the amount of BGN 93,445 thousand and 88 thousand as of December 31, 2015 and 2014. The maximum exposure to credit risk on these instruments is their carrying amount.

As of December 31, 2015 the Group has no debt securities held to maturity and issued by the Republic of Bulgaria (2014: BGN 49,378 thousand). The maximum exposure to credit risk on these instruments is their carrying amount.

As of December 31, 2015 the Group has no debt securities held to maturity and issued by foreign governments (2014: BGN 19,549 thousand). The maximum exposure to credit risk on these instruments is their carrying amount.

As of December 31, 2015 the Group has no debt securities held to maturity and issued by domestic and foreign commercial companies (2014: BGN 15,762 thousand). These securities expose the Group to credit risk to the carrying amount of the investment, which is managed by periodically monitoring of the financial position of issuers.

The Group's contingent and non-cancellable arrangements comprise issued guarantees and unutilized funds under loans agreed which amount, as disclosed in note 27, represents the maximum credit exposure of the Group.

Loans and advances to customers with carrying amount of BGN 180,252 thousand and BGN 207,599 thousand, respectively as of December 31, 2015 and 2014 expose the Group to credit risk. The exposure of the Group to that risk is determined on the basis of individual assessment of each loan, as the Group applies the criteria for assessment and classification of risk exposures according to the Policy for impairment of financial assets and contingent liabilities.

In 2015 the Group introduced improvements in the methodology for allowances for impairment estimation as the classification according to the rules set out in the regulations 2014/680 and 2015/1278 was implemented. The management considers the expositions as non-performing and performing.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.2. Credit risk (continued)

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 Group and other creditors and when the 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 Group by the court but is not collected.

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 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 BGN 500 000) 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 Group applies detailed procedures with respect to the analysis of the economic ground of each project, types of accepted collaterals for the Group, control over disbursed funds and the related administration. The 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.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.2. Credit risk (continued)

Information on exposure classification groups as of December 31, 2015 is as follows:

2015 Group	Loan granted			Unutilized commitment Amount	Issued letters of guarantee		
	Amount	% Share	Allowance		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	-

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

in BGN thousand	Loans and advances to customers
	2015
Assets at amortised cost	
Individually impaired	
Non-performing	54,319
Carrying amount before impairment	54,319
Impairment loss	(14,957)
Carrying amount	39,362
Collectively impaired	
Regular	27,073
Non-performing	14,928
Carrying amount before impairment	42,001
Impairment loss	(8,132)
Carrying amount	33,869
Past due but not impaired	
Regular	17,871
Non-performing	3,566
Carrying amount before impairment	21,437
Carrying amount	21,437
Neither past due nor impaired	
Regular	75,841
Non-performing	9,743
Carrying amount before impairment	85,584
Carrying amount	85,584
Total carrying amount	180,252

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.2. Credit risk (continued)

As of December 31, 2014 the Group classified loans and advances to customers in one of the following categories:

Group	Category	Main criteria	% risk
I	Regular	Exposures, served on regular basis or with accidental arrears up to 30 days and no other impairment indications.	
II	Watch	Exposures with insignificant breaches in their servicing (arrears from 31 to 90 days) or other indications of deterioration of ability to fully settle the obligation.	up to 10%
III	Non-performing	Exposures with significant breaches in the service (arrears from 91 to 180 days) or significant deterioration of ability to settle the obligation.	up to 50%
IV	Loss	Exposures, which are expected to become uncollectible, including arrears over 180 days, permanent shortage of cash by the debtor, debtor's bankruptcy or liquidation, litigation and others.	up to 100%

The allowance for impairment and uncollectability of loans and receivables as of December 31, 2014 was determined on the basis of the risk classification of the exposure, according to the criteria described above and the estimated cash flows from realization of collaterals on exposures.

As of December 31, 2014 the Group's loans and receivables from customers can be summarized in the following table:

in BGN thousand	Loans and advances to customers
	2014
Assets at amortised cost	
Individually impaired	
Watch	315
Non-performing	2,570
Loss	42,187
Carrying amount before impairment	45,072
Impairment loss	(17,481)
Carrying amount	27,591
Past due but not impaired	
Regular	10,799
Watch	14,785
Non-performing	6,845
Loss	10,964
Carrying amount before impairment	43,393
Carrying amount	43,393
Neither past due nor impaired	
Regular	124,582
Watch	1,194
Non-performing	5,782
Loss	5,057
Carrying amount before impairment	136,615
Carrying amount	136,615
Total carrying amount	207,599

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.2. Credit risk (continued)

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

in BGN thousand	2015		2014	
	Past due but not impaired	Impaired	Past due but not impaired	Impaired
Without arrears	-	51,714	-	14,606
Arrears up to 30 days	16,080	5,822	15,726	617
Arrears from 31 to 60 days	1,123	7,364	5,248	8
Arrears from 61 to 90 days	757	262	4,981	324
Arrears from 91 to 180 days	992	1,013	6,569	3,413
Arrears over 180 days	2,485	30,145	10,869	26,104
Carrying amount	21,437	96,320	43,393	45,072
Impairment loss	-	(23,089)	-	(17,481)
Carrying amount	21,437	73,231	43,393	27,591

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

in BGN thousand	2015	2014
Secured by cash and government securities	5,569	1,803
Secured by mortgage	143,525	163,310
Pledge of machinery and equipment	8,650	16,871
Pledge of receivables	15,523	15,101
Other collaterals	26,563	24,682
No collateral	3,511	3,313
Impairment loss	(23,089)	(17,481)
Total	180,252	207,599

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.2. Credit risk (continued)

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).

	2015	2014
Cash and cash balances with central banks:		
rating BBB-	88,384	89,985
Total cash and cash balances with central banks	88,384	89,985
Loans and receivables from credit institutions		
rating A+	-	1,700
rating A	7,468	-
rating BBB+	4,654	-
rating BBB	324	-
rating BBB-	-	9,124
rating BB+	180	90
rating BB	3,850	-
rating B	148	-
no rating	1	163
Total loans and receivables from credit institutions	16,625	11,077
Financial assets held for trading:		
rating BBB-	27,830	30,274
no rating	111	153
Total financial assets held for trading	27,941	30,427
Investments held to maturity		
rating BB	-	8,057
rating BB+	-	4,537
rating BBB-	-	61,683
rating BBB+	-	4,058
no rating	-	6,354
Total investments held to maturity	-	84,689
Financial assets available for sale		
rating BB	10,085	-
rating BB+	6,341	-
rating BBB-	76,933	-
no rating	86	88
Total financial assets available for sale	93,445	88

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 from foreign issuers and shares of domestic issuers for which there are no official credit rating.

Financial assets held to maturity, for which there are no specified credit rating, are mainly corporate bonds of local issuers, secured by property.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.2. Credit risk (continued)

Concentration of credit risk

A significant percentage of the loan portfolio of the Group is concentrated in a limited number of borrowers. Despite the regulatory restrictions on large exposures, there is a risk that the 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 Group other than exposures to credit institutions (exposures which represent 10% or more of the Group's capital base) at their carrying amount as of December 31, 2015 and 2014 is presented in the table below:

	2015		2014	
	BGN'000	% of the capital base	BGN'000	% of the capital base
The largest total exposure to customer group	8,377	19.58%	9,197	18.89%
Total amount of the five largest exposures	33,652	78.67%	36,262	74.47%
Total amount of all exposures - over 10% of the capital	47,311	110.60%	52,924	108.69%

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

28.3. Liquidity risk

Liquidity risk arises from the maturity gap of the assets and liabilities and the lack of sufficient funds of the 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 Group to meet its current and potential liabilities, associated with payments when they fall due, without incurring unacceptable losses.

The 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 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 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 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 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 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.

This document is a translation of the original Bulgarian text, in case of divergence the Bulgarian text shall prevail.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.3. Liquidity risk (continued)

The control and regulation of the liquidity for the 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 Group monitors its ratio of available liquid funds to loans and other receivables.

The Group maintains high amount of liquid assets in the form of cash in hand and cash balances with the Central bank, which guarantee Group's ability to meet its liquidity requirements. As of December 31, 2015 and 2014 cash and cash balances with Central Bank represent 21% and 20%, respectively of total assets of the Group.

As an additional instrument to provide high liquidity, the 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, 2015 and 2014 loans and receivables from credit institutions represent 4% and 3%, respectively of total assets of the Group.

Government securities, issued by the Republic of Bulgaria, owned by the Group and not pledged as collateral as of December 31, 2015 and 2014 represent 10.0% and 12.4%, respectively of total assets. By maintaining above 31% (2014: 35%) of its assets in highly liquid assets, the Group ensures the ability to meet its all payment needs on matured financial liabilities.

The gross cash outflow of financial liabilities as of December 31, 2015 is as follows:

31.12.2015 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	563	-	-	-	-	563
Deposits from clients other than credit institutions	200,297	39,553	106,414	37,138	-	383,402
Other financial liabilities	436	-	-	-	-	436
Total financial liabilities	201,296	39,553	106,414	37,138	-	384,401

The gross cash outflow of financial liabilities as of December 31, 2014 is as follows:

31.12.2014 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	149	-	-	-	-	149
Deposits from clients other than credit institutions	188,392	41,540	124,019	40,338	-	394,289
Other financial liabilities	2,562	-	-	-	-	2,562
Total financial liabilities	191,103	41,540	124,019	40,338	-	397,000

The financial liabilities of the Group are mainly formed by attracted funds on deposits – retail and corporate. Large portion of them as of December 31, 2015 –53% (2014: 45%) 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 Group.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.4. 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 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 Group. Market exposure is managed by the Group, in accordance with risk limits, adopted by the management.

The Group manages its financial instruments, considering the changing market conditions. Exposure to market risk is managed in accordance with risk limits, set by the 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 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 Group's attracted funds, cash inflows and outflows, liquidity needs, income level and objectives of the Group.
- Risk/return ratio analysis.

In accordance with principles and objectives adopted, the 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 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.

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 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 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.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.4. Market risk (continued)

28.4.1. 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 Group aims to minimize the risk of decrease in the net interest income as a result of changes in interest rate levels.

The 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 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 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 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 Group applies policy and procedures, according to the nature and complexity of its operations. By managing the interest rate risk, the 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 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 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 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 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 Group depending on the trends for development on the domestic and international financial markets.

Performing its activities, The 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.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.4. Market risk (continued)

28.4.1. Interest rate risk (continued)

The interest-bearing assets and liabilities of the Group as of December 31, 2015 are, as follows:

31.12.2015 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
<i>Interest-bearing assets</i>						
Loans and advances to credit institutions	16,625	-	-	-	-	16,625
Financial assets held for trading	2,188	7,980	-	9,455	8,318	27,941
Loans and advances to customers	169,600	144	2,639	995	6,874	180,252
Financial assets available for sale	-	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
<i>Interest-bearing liabilities</i>						
Deposits from credit institutions	563	-	-	-	-	563
Deposits from clients other than credit institutions	200,280	39,455	105,199	34,935	-	379,869
Total interest-bearing liabilities	200,843	39,455	105,199	34,935	-	380,432
Mismatch between interest-bearing assets and liabilities, net	(12,430)	(14,497)	(100,510)	21,566	43,702	

The interest-bearing assets and liabilities of the Group as of December 31, 2014 are, as follows:

31.12.2014 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
<i>Interest-bearing assets</i>						
Loans and advances to credit institutions	11,077	-	-	-	-	11,077
Financial assets held for trading	2,681	-	9,828	17,695	223	30,427
Loans and advances to customers	196,261	-	1,004	871	9,463	207,599
Investments held to maturity	5,024	9,408	2,003	49,730	18,524	84,689
Total interest-bearing assets	215,043	9,408	12,835	68,296	28,210	333,792
<i>Interest-bearing liabilities</i>						
Deposits from credit institutions	149	-	-	-	-	149
Deposits from clients other than credit institutions	188,353	41,298	121,325	36,412	-	387,388
Total interest-bearing liabilities	188,502	41,298	121,325	36,412	-	387,537
Mismatch between interest-bearing assets and liabilities, net	26,541	(31,890)	(108,490)	31,884	28,210	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.4. Market risk (continued)

28.4.1. Interest rate risk (continued)

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

in thousand BGN	Year ended 31.12.2015	Year ended 31.12.2014
<i>Interest-bearing assets</i>		
Loans and advances to credit institutions	0.11	0.08
Financial assets held for trading	2.44	3.27
Loans and advances to customers	6.49	6.51
Investments held to maturity	2.66	3.69
<i>Interest-bearing liabilities</i>		
Liabilities under repurchase agreements	-	0.37
Deposits from credit institutions	0.48	0.12
Deposits from clients other than credit institutions	2.02	3.06

28.4.2. Currency risk

Currency risk is the possibility to realize losses for the 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 Group in EUR bear no currency risk for the 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 Group. The main part of the assets and liabilities of the Group are denominated in EUR and BGN. The Group has significant foreign currency transactions in Japanese yen (JPY), since part of the deposit base of the Group is in this currency. The Group does not hold open positions in currencies other than EUR.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.4. Market risk (continued)

28.4.2. Currency risk (continued)

The foreign currency structure of financial assets and liabilities by carrying amount as of December 31, 2015 is as follows:

31.12.2015 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 advances to 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 advances to customers	96,516	81,893	1,832	11	-	180,252
Total assets	174,691	210,646	17,850	3,146	314	406,647
Liabilities						
Deposits from credit institutions	-	469	94	-	-	563
Deposits from clients other than credit institutions	197,553	160,711	18,146	3,146	313	379,869
Other financial liabilities	1	379	55	1	-	436
Total liabilities	197,554	161,559	18,295	3,147	313	380,868
Net exposure	(22,863)	49,087	(445)	(1)	1	25,779

The foreign currency structure of financial assets and liabilities by carrying amount as of December 31, 2014 is as follows:

31.12.2014 in BGN thousand	BGN	EUR	USD	JPY	Other	Total
Assets						
Cash and cash balances with Central banks	46,909	41,545	1,204	177	150	89,985
Loans and advances to credit institutions	159	3,756	5,400	1,700	62	11,077
Financial assets held for trading	9,492	20,432	503	-	-	30,427
Financial assets available-for-sale	86	2	-	-	-	88
Loans and advances to customers	101,197	104,558	1,844	-	-	207,599
Investments held to maturity	29,838	49,827	5,024	-	-	84,689
Total assets	187,681	220,120	13,975	1,877	212	423,865
Liabilities						
Deposits from credit institutions	-	47	102	-	-	149
Deposits from clients other than credit institutions	206,604	164,729	13,978	1,883	194	387,388
Other financial liabilities	1,847	586	129	-	-	2,562
Total liabilities	208,451	165,362	14,209	1,883	194	390,099
Net exposure	(20,770)	54,758	(234)	(6)	18	33,766

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.4. Market risk (continued)

28.4.3. Price risk

Price risk is related to the fluctuations in market prices of financial assets and liabilities, which can cause losses for the Group. The main risk for the Group is the decrease of market prices of the financial instruments held for trading owned by the 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 Group is in Bulgarian government securities, which do not bear significant price risk.

28.4.4. Sensitivity to market risk

In accordance with the adopted objectives and principals, the 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, 2015 the 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 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 764 thousand (2014: BGN 781 thousand).

To evaluate the effect of potentially possible extreme fluctuations of interest rates, the Group analyses the effect of several Standardized interest rate shocks. The price fluctuation in the parallel shift of the yield curve by 200 basis points should not exceed 5% of the capital base calculated in the last quarter.

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.5. 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 as of December 31, 2015:

2015 (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	1,11	27,830	-	-
Financial assets available for sale	93,445	-	93,359	-	86
Total	121,386	111	121,189	-	86

The following table summarizes the information for the assets measured at fair value in the statement of financial position as of December 31, 2014:

2014 (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	30,427	153	30,274	-	-
Financial assets available for sale	88	-	-	-	88
Total	30,515	153	30,274	-	88

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28. FINANCIAL RISK MANAGEMENT (CONTINUED)

28.5. Fair value (continued)

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 Group's current interest rates.

2015 in BGN thousand	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Cash and cash balances with 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
<i>Financial liabilities</i>				
Deposits from credit institutions	563	-	-	563
Deposits from clients	-	383,806	-	383,806
Other financial liabilities	-	-	436	436
Total	563	383,806	436	384,805
2014 in BGN thousand	Level 1	Level 2	Level 3	Total
<i>Financial assets</i>				
Cash and cash balances with central banks	89,985	-	-	89,985
Loans and advances to credit institutions	11,077	-	-	11,077
Loans and advances to customers	-	-	211,101	211,101
Investments held to maturity	-	79,883	6,354	86,237
Total	101,062	79,883	217,455	398,400
<i>Financial liabilities</i>				
Deposits from credit institutions	149	-	-	149
Deposits from clients	-	390,364	-	390,364
Other financial liabilities	-	-	2,562	2,562
Total	149	390,364	2,562	393,075

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29. 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 AD 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.

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

	2015	2014
Operating income	13,529	11,887
Loss before income tax	(6,841)	(8,914)
Tax expense	(6)	(19)
Return on assets (%)	-1.57%	-2.11%
Equivalent number of employees full-time at 31 December	263	264
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 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 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.

30. 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, 2015 the capital adequacy ratios of the Bank exceeded the minimum regulatory ratios.

31. 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