Annual report
for 2016

Allianz Bank Bulgaria AD

Contents:

Allianz Bank Bulgaria AD

Annual Financial Statements
for the year ended 31 December 2016
With independent Auditors' Report thereon

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

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Statement of profit or loss

For the year ended 31 December

In thousands of BGN	**Note**	**2016**	**2015**
Interest income	9	80,939	90,166
Interest expense	9	(12,309)	(19,236)
Net interest income	9	68,630	70,930
Fee and commission income	10	21,477	22,257
Fee and commission expense	10	(2,502)	(2,239)
Net fee and commission income	10	18,975	20,018
Net trading income	11	2,776	2,935
Net investment (expense)/income	12	4,823	(12)
Total income from banking operations		95,204	93,871
Other income, net	14	1,202	2,846
Impairment losses, net	20	(13,065)	(34,138)
Administrative expenses	13	(49,497)	(51,196)
Profit before tax		33,844	11,383
Income tax expense	15	(3,589)	(1,215)
Profit for the year		30,255	10,168

The statement of profit or loss is to be read in conjunction with the accompanying notes on pages from 8 to 72, which are an integral part of these financial statements.

Allianz Bank Bulgaria AD Head Office 1 Sofia

Georgi Zamanov	Svetoslav Gavriiski	Radka Rasina
Chief Executive Director	*Executive Director*	*Chief Accountant*

In accordance with an Independent Auditors' Report:

KPMG Bulgaria OOD

ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ БЪЛГАРИЯ ООД

Dobrina Kaloyanova	Tzvetelinka Koleva
Authorised representative	*Registered Auditor*

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

Statement of other comprehensive income

For the year ended 31 December

In thousands of BGN		2016	2015
Profit for the year	**Note**	30,255	10,168
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Change in fair value of available for sale financial assets		1,703	806
Tax effects related to these components		(170)	(80)
Change in fair value of available for sale financial assets, net of tax		1,533	726
Items that will never be reclassified to profit or loss: *Remeasurements of defined benefit liability*			
Revaluation of obligation under a defined benefit plan	28	(66)	(26)
Total other comprehensive income		1,467	700
Total comprehensive income		31,722	10,868

The statement of other comprehensive income is to be read in conjunction with the accompanying notes on pages from 8 to 72, which are an integral part of these financial statements.

Georgi Zamanov
Chief Executive Director

Svetoslav Gavriiski
Executive Director

Radka Rasina
Chief Accountant

Allianz Bank Bulgaria AD Head Office Sofia

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Statement of financial position

In thousands of BGN	Note	31 December 2016	31 December 2015 *Reclassified **	1 January 2015 *Reclassified **
Assets				
Cash and cash equivalents	16	683,417	612,116	465,437
Financial assets held for trading	17	35,603	29,853	23,213
Loans and advances to banks and other financial institutions	18	32,122	12,609	3,825
Investment securities	19	599,418	466,863	382,516
Loans and advances to customers	20	1,084,407	1,176,991	1,197,068
Property and equipment	21	8,902	8,816	9,427
Intangible assets	22	3,936	4,136	4,344
Other assets	24	12,667	7,785	9,576
Current tax assets		-	996	-
Total assets		2,460,472	2,320,165	2,095,406
Liabilities				
Deposits from banks	25	111	51,067	36
Deposits from customers	26	2,153,309	1,977,993	1,797,587
Other borrowings	27	85,971	91,839	90,463
Other liabilities	28	2,978	2,915	6,483
Provisions for bank guarantees		24	666	-
Current tax liabilities		810	-	951
Deferred tax liabilities	23	159	130	139
Total liabilities		2,243,362	2,124,610	1,895,659
Shareholders' equity				
Share capital	30	69,000	69,000	69,000
Statutory reserve	30	9,850	9,850	9,850
Retained earnings	30	133,780	113,758	118,676
Fair value reserve	30	4,480	2,947	2,221
Total shareholders' equity		217,110	195,555	199,747
Total liabilities and shareholders' equity		2,460,472	2,320,165	2,095,406

* *See Note 37.*

The statement of financial position is to be read in conjunction with the accompanying notes on pages from 8 to 72, which are an integral part of these financial statements.

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Statement of cash flows

For the year ended 31 December

In thousands of BGN	Note	2016	2015 *Restated **
Net cash flows from operating activities			
Profit for the year		30,255	10,168
Adjustments for:			
Impairment losses	20	13,065	34,138
Depreciation and amortization	13	2,544	3,071
Loss on disposal of fixed assets		-	8
Dividend income		(115)	(73)
Net interest income	9	(68,630)	(70,930)
Net (gain)/loss on sale of held for trading and investment securities		(4,550)	(45)
Net (gain)/loss on revaluation of held for trading and available for sale securities		(368)	371
Tax expense	15	3,589	1,215
		(24,210)	(22,077)
Change in operating assets and liabilities			
(Increase) in financial assets held for trading	17	(5,908)	(6,629)
(Increase) in loans and advances to banks and other financial institutions	18	(19,981)	(10,453)
(Increase)/ decrease in loans to customers	20	84,926	(10,891)
(Increase)/decrease in other assets	24	(4,882)	1,791
Increase/(decrease) in deposits from banks	25	(50,990)	51,031
Increase in deposits from customers	26	174,301	178,748
(Decrease)/increase in other borrowings	27	(5,868)	1,310
(Decrease) in other liabilities	28	(3)	(3,594)
Dividends received		115	73
Interest received		68,800	82,011
Interest paid		(11,260)	(17,501)
Income tax paid		(1,924)	(3,251)
Net cash from operating activities		203,116	240,568
Cash flow from investing activities			
(Acquisition) of property, plant and equipment	21	(1,664)	(1,116)
(Acquisition) of intangible assets	22	(766)	(1,144)
(Acquisition) of investments securities	19	(142,247)	(159,149)
Sales and maturity of investments securities	19	22,535	80,895
Net cash used in investing activities		(122,142)	(80,514)

Statement of cash flows (continued)

For the year ended 31 December

In thousands of BGN		**2016**	**2015**
			*Restated **
Cash flow from financing activities			
Dividends paid		(10,167)	(15,060)
Net cash used in financing activities		(10,167)	(15,060)
Net (decrease)/increase in cash and cash equivalents		70,807	144,994
Cash and cash equivalents at the beginning of period	16	612,116	465,437
Effect of exchange rate fluctuations on cash and cash equivalents held		494	1,685
Cash and cash equivalents at the end of period	16	683,417	612,116

* *See Note 37.*

The statement of cash flows is to be read in conjunction with the accompanying notes on pages from 8 to 72, which are an integral part of these financial statements.

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ОДИТОРСКО ДРУЖЕСТВО София Рег. № 045 КПМГ БЪЛГАРИЯ ООД

Statement of changes in equity
For the year ended 31 December

In thousands of BGN	Share capital	Statutory Reserves	Retained earnings	Fair value reserves	Total
Balance at 1 January 2015	69,000	9,850	118,676	2,221	199,747
Net profit for the year	-	-	10,168	-	10,168
Other comprehensive income	-	-	(26)	726	700
Total comprehensive income	-	-	10,142	726	10,868
Transactions with shareholders, recognized directly in equity					
Dividends to shareholders	-	-	(15,060)	-	(15,060)
Balance at 31 December 2015	69,000	9,850	113,758	2,947	195,555
Net profit for the year	-	-	30,255	-	30,255
Other comprehensive income	-	-	(66)	1,533	1,467
Total comprehensive income	-	-	30,189	1,533	31,722
Transactions with shareholders, recognized directly in equity					
Dividends to shareholders	-	-	(10,167)	-	(10,167)
Balance at 31 December 2016	69,000	9,850	133,780	4,480	217,110

The statement of changes in equity is to be read in conjunction with the accompanying notes on pages from 8 to 72, which are an integral part of these financial statements.

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Одиторско дружество София Рег. № 045 КПМГ България ООД

Notes to the Financial Statement

1. Legal statute

Allianz Bank Bulgaria AD is incorporated in the Republic of Bulgaria and has its registered office in Sofia, Vazrazdane Municipality, 79 Maria Louisa Blvd.

The Bank has a general banking license issued by the Bulgarian National Bank (BNB) according to which it is allowed to conduct all banking transactions permitted by the Bulgarian legislation.

2. Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

They were authorised for issue by the Bank's Management Board on 20 January 2017.

3. Basis of measurement

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, financial assets and liabilities held for trading and available-for-sale financial assets which are measured at fair value, and obligations for defined benefit for employees, which are measured at net present value. .

4. Functional and presentation currency

The financial statements are presented in thousands of Bulgarian Leva (BGN), which is the functional currency of the Bank.

5. Significant accounting policies

a) Interest income and expenses recognition

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability to the carrying amount of the asset or liability.

The calculation of the effective interest rate includes all fees and commissions paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

The interest income and expense, presented in the income statement comprise:

- interest on financial assets and liabilities at amortised cost calculated on an effective interest basis
- interest income on investments available-for-sale calculated on an effective interest basis.

5. Significant accounting policies, continued

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

Since 1998, the exchange of Bulgarian leva (BGN) is pegged to the Euro (EUR) at a rate of BGN 1.95583 / EUR 1.0.

(c) Fees and commissions

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing and cash transfers is recognized as the related services fees are performed. Fees for guarantees and letters of credits are recognized over the period of the instrument.

Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(d) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

(e) Financial instruments

(i) Recognition

The Bank recognizes financial assets held for trading and investment securities, loans and receivables on settlement date. All other financial assets and liabilities are recognized at their trade date, when the Bank becomes a party in an agreement for financial instruments. From this date any gains and losses arising from changes in fair value are recognized.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

5. Significant accounting policies, continued

(e) Financial instruments, continued

(ii) Classification

Financial assets

The Bank classifies its financial assets into one of the following categories:

- Loans and receivables
- Held to maturity
- Available for sale
- Held for trading

Financial liabilities

The Bank classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

(iii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position.

Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

5. Significant accounting policies, continued

(e) Financial instruments, continued

(iii) Offsetting, continued

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle the asset and the liability on a net basis.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(iv) Compensations

Financial assets and liabilities are offset and the net amount is reported in statement of financial position, when and only when the Bank has a legally enforceable right to offset the recognized amounts and intends to settle the asset and liability on a net basis.

Income and expenses are presented net only in cases when is permitted by the applicable accounting standards or in gains and losses arising from a group of similar transactions such as those resulting from the commercial operations of the Bank.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement principles

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

5. Significant accounting policies, continued

(e) Financial instruments, continued

(vi) Fair value measurement principles, continued

If there is no quoted price in an active market, then the Bank uses valuation techniques (such as discounted cash flows, comparison with similar instruments) that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is usually the transaction price, i.e., the fair value of the consideration given or received. When the Bank determines that the fair value at initial recognition differs from the transaction price and there is no evidence of fair value through stock exchange price of a similar asset or liability, nor is it based on a valuation technique that uses data from observable markets, then the financial instrument initially measured at fair value is adjusted to defer the difference between the fair value at initial recognition and the transaction price. Later this difference is recognized in profit and loss deferred with an appropriate base until the useful life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the initial date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(vii) Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- default or delinquency of the contractual terms;
- restructuring measures on terms that the Bank would not consider otherwise;
- indications that a borrower will enter bankruptcy ;
- the disappearance of an active market for a security or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or economic conditions that correlate with defaults of the Bank's assets.

5. Significant accounting policies, continued

(e) Financial instruments, continued

(vii) Identification and measurement of impairment

The Bank considers evidence of impairment for loans and advances at both a specific asset and a collective level depending on the presence or absence of objective indicators for impairment and taking into account the accepted threshold for individual significance.

Impairment losses on assets accounted for at amortized cost are measured as the difference between the carrying amount of financial assets and the present value of estimated future cash flows, discounted at the original effective interest rate of the asset. Losses are recognised in profit or loss and are reflected in an allowance account under loans and advances. For secured assets, when assessing the need for impairment, the discounted current net realisable value of the collateral is taken into account. When a subsequent event causes the reduction of the impairment loss, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on investment securities available for sale are recognised by reclassifying the cumulative loss which is accounted directly in equity to profit or loss. The cumulative loss which is removed from equity and recognised in profit or loss, is the difference between the acquisition cost, a net cost of any principal repayment and amortisation, and the current fair value, less any impairment losses previously accounted for in profit or loss.

If in a subsequent period the fair value of an impaired debt security available for sale increases and the increase can be related objectively to an event occurring after the impairment loss has already been recognised in profit or loss, then the impairment loss is reversed with the amount of the reversal recognized in profit or loss. Any subsequent recovery, however, in the fair value of an impaired equity security available for sale is recognised directly in equity.

The Bank writes off a loan, either partially or in full, and any related allowance for impairment losses, when the Bank determines that there is no realistic prospect of recovery.

(f) Cash and cash equivalents

Cash and cash equivalents comprise notes and coins on hand, unrestricted balances held with central bank, deposits in banks with original maturities of or less than three months from the date of acquisition that are subject to an insignificant risk of changes in their fair values, and are used by the Bank in the management of its short-term commitments.

The Bank itself calculates the minimal amount of reserves which has to sustain and manage in compliance with ordinance 21 of the Bulgarian National Bank. During the sustain period the Bank may use without restrictions the compulsory minimum reserves.

5. Significant accounting policies, continued

(g) Financial assets and liabilities held for trading

Financial assets and liabilities at fair value through profit or loss are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit. Financial trading assets and liabilities are initially recognized at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognized as part of net trading income in profit or loss.

During the reporting period, the Bank has not reclassified any trading financial assets into other categories.

(h) Financial leasing

Accounting for leases as lessee

Where the Bank is a lessee under an operating lease, the lease payments are recognised in the statement of profit and loss and other comprehensive income on a straight line basis over the period of the contract.

Minimum lease payments under finance leases are allocated between interest expense and reduction of the outstanding liability to the lessor. Interest expense is recognised over the term of the contract so that it represents a constant rate on the outstanding amount.

Assets held by the Bank under leases that transfer to the Bank substantially all of the risks and rewards of ownership are classified as finance leases. The leased asset is initially measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets which the Bank uses following lease agreements that do not transfers substantially all of risk and rewards from the ownership of an asset are not recognised in the Bank's statement of financial position.

Accounting for leases with the lessor

If the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, then the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

5. Significant accounting policies, continued

(i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances to banks are classified as loans and receivables.

Loans and advances to customers include:

- Those classified as loans and receivables;
- Finance lease receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the Bank's statement of financial position.

(j) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity, or available-for-sale.

(k) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the intention and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as financial assets available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available for sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

Examples of sales and reclassifications which would not result in a reclassification of the whole investment portfolio are: sales and reclassifications shortly before maturity date, when the effective interest rate does not have significant effect on the financial asset's fair value; sales and reclassifications after the Bank has collected substantially all of the asset's original principal; and sales and reclassifications, attributable to non-recurring, isolated events beyond the Bank's control, that could not have been reasonably anticipated.

5. Significant accounting policies, continued

(j) Investment securities, continued

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments comprise government securities and shares.

Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are measured at fair value after initial recognition.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised in other comprehensive income and presented in the fair value reserve within equity. When the investment is sold or impaired, the gain or loss, other than impairment loss, accumulated in equity is reclassified to profit or loss.

A non-derivative financial asset may be reclassified from available-for-sale category into the loans and advances category, if it would otherwise have met the definition of loan and if the Bank has intention and ability to hold the asset for the foreseeable future or to maturity.

(к) Property and equipment

Items of property and equipment are measured at their acquisition cost less accumulated depreciation and less any accumulated impairment losses.

Any gain or loss on disposal of an item of property and equipment is recognized within other income in profit or loss.

Depreciation is provided on a straight-line basis at prescribed rates designed to write down the cost or valuation of fixed assets over their expected useful lives. The following are approximations of the annual rates used:

Assets	%
Buildings	4
Equipments	20-30
Computers	20-50
Fixtures and fittings	10
Vehicles	25

Assets are not depreciated until they are brought into use and transferred from assets under construction into the relevant asset category.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

5. Significant accounting policies, continued

(l) Intangible assets

Intangible assets, acquired by the Bank, are measured at cost less accumulated amortization and any accumulated impairment losses.

Expenditure on internally developed intangible assets is recognized as an asset when the Bank is able to demonstrate its ability to complete the development and use the asset in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is calculated on a straight-line basis over the expected useful life of the asset.

The annual rates of amortization are as follows:

Assets	%
Computer software	10-50
Other intangible assets	10

Amortization methods, useful lives and residual values of the intangible assets are reviewed at each reporting date and adjusted if appropriate.

(m) Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or Cash Generated Unit (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time, value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU.

5. Significant accounting policies, continued

(m) Impairment of non-financial assets, continued

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed to their initial value, before impairment.

(n) Deposits, debt securities issued and subordinated liabilities

Deposits from customers and borrowings from financial institutions are the Bank's sources of debt funding

When the Bank sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date ("sale and repurchase agreement"), the arrangement is accounted for as a deposit, and the underlying asset continues to be recognized in the Bank's financial statements.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Deposits and borrowings are initially measured at fair value plus directly attributable transaction costs, and subsequently measured at their amortized cost using the effective interest method.

(o) Provisions

A provision is recognised in the statement of financial position when the Bank has a present legal or constructive obligation as a result of a past event, which can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(p) Income tax

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Current tax also includes any tax arising from dividends.

5. Significant accounting policies, continued

(p) Income tax, continued

(ii) Deferred tax

Deferred tax is calculated applying the balance sheet liability method over all temporary differences between the carrying amount for financial reporting purposes and the amount used for taxation purposes.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred tax the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

5. Significant accounting policies, continued

(q) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans comprise contributions to state-owned institutions and to obligatory pension funds managed by privately-owned management companies, in accordance with legal requirements or individual choice. Obligations for contributions to defined contribution plans are expensed as the related service is provided.

(iii) Defined benefits

The Bank's obligation in respect of defined benefits is restricted to the statutory requirement to pay employees an amount equivalent to two or six monthly salaries upon retirement, depending on length of service. The amount of future benefits that employees have earned in the current and prior periods is estimated and that amount is discounted at an appropriate discount rate, based on the yield at the reporting date on bonds of acceptable credit rating that have maturity dates approximating the terms of the Bank's obligations and that are denominated in the currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. The Bank determines the net interest rate on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

Remeasurements of net defined benefit liability which comprise actuarial gains and losses are recognized immediately in other comprehensive income. Net interest expense and other expenses related to defined benefits, including costs for past service, are recognized in profit or loss.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, endorsed by the EC are available for early adoption in the annual period ended 31 December 2016, although they are not yet mandatory until a later period. The Bank does not plan to adopt these standards earlier.

Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the EC:

***(a)* IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

5. Significant accounting policies, continued

(r) New standards and interpretations not yet adopted (continued)

***(a)* IFRS 15 Revenue from Contracts with Customers (continued)**

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Company's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Company's financial statements. The timing and measurement of the Company's revenues are not expected to change under IFRS 15 because of the nature of the Company's operations and the types of revenues it earns

(b) IFRS 9 Financial Instruments

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement. Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different. The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The Company currently plans to apply IFRS 9 initially on 1 January 2018.

It is expected that the new standard at initial application will have substantial effect in the financial statement as classification and measurement of financial instruments of the Bank are expected to be changed.

(i) Classification of financial assets

Based on its preliminary assessment, the Bank expects that substantially all financial assets classified as loans and receivables under IAS 39 will continue to be measured at amortized cost under IFRS 9.

At this stage, it is not yet clear how much of the debt securities of the Bank will be judged on the FVTPL, FVOCI or amortized cost, as this determination will depend from business model test. It is expected that a significant portion of the debt securities will be reclassified under IFRS 9 or off FVOCI.

It is possible that part of the equity instruments currently classified in the category available for sale will be measured at FVTPL and IFRS 9, but it will depend on the choice of the Bank as at the date of initial application - 1 January 2018. The Bank has not yet decided how to classify these instruments. It is expected customers deposits to continue to be measured at amortized cost under IFRS 9.

(ii) Impairment of financial assets

It is expected that the new model for expected credit loss under IFRS 9 will accelerate the recognition of impairment losses and lead to higher allowance of impairment at the date of initial application. The Bank participates in a group project to determine the underlying assumptions and estimates, which will form the new model for determining impairment. At the reporting date the Bank has not yet been able to quantify the expected impact that will have initial application of IFRS 9 on IFRS reports.

5. Significant accounting policies, continued

(r) New standards and interpretations not yet adopted (continued)

IASB/IFRIC documents not yet endorsed by EC:

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the EC, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

(c) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted. To satisfy the new disclosure requirements, the Company intends to present a reconciliation between the opening and closing balances for liabilities with changes arising from financing activities.

(d) IFRS 16 Leases

IFRS 16 introduces a single, on-balance lease sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard- i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The Bank has started an initial assessment of the potential impact on its financial statements. The Bank has not yet quantified the impact on its reported assets and liabilities of adoption of IFRS 16. The quantitative effect will depend on, inter alia, the transition method chosen and any additional leases that the Bank enters into. The Bank expects to disclose its transition approach and quantitative information before adoption.

(c) Other amendments

The following changes are not expected to have a significant impact on the Company's financial statements.

- Recognition of Deferred Tax Assets far Unrealized Losses (Amendments to IAS 12)

- Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IAS 40 Transfers of Investment Property
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016

6. Financial risk management

(a) Introduction

The Bank is exposed to the following types of risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Capital management

This note presents information about the Bank's exposure of the above risks and the Bank's objectives, policies and processes for measuring and managing those risks.

Risk management framework

The Management Board (the Board) has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee and the Credit and Operational Risk Committee, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and the adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Internal Audit Department is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

(b) Credit risk

The Bank is subject to credit risk through its trading, lending, and investing activities and in cases where it acts as an intermediary on behalf of customers or other third parties or issues guarantees, Allianz Bank Bulgaria AD has exposure to credit risk.

Concentration of credit risk arises mainly from types of counterparty and the industries in which counterparties operates. Concentrations of credit risk that arise from financial instruments exist when counterparties have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

6. Financial risk management, continued

(b) Credit risk, continued

Credit risk management

The Management Board has delegated responsibility for the management of credit risk to the Executive Directors of the Bank, Corporate Lending and Project Financing Department, Problem Loans and Monitoring Department, Large Corporate Department, Sales Management Department, Retail Banking Department, Sales and Products Department and Bank's Credit Committee.

- The Management Board of the Bank formulates credit policies in consultation with business units, covering collateral requirements, credit risk, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- The Management Board of the Bank sets the competences for the approval and renewal of credit facilities. The Corporate Lending and Project Financing Department prepares a report for credit risk assessment of all credit exposures in excess of designated limits, prior to facilities being reviewed and approved by the competent Bank's authorities.

- The Bank implements an internal corporate rating model (MicroCap). The credit rating is based on quantitative assessment / financial scoring / and qualitative assessment of the borrower and related parties. The financial scoring is calculated based on the latest available annual financial statements and key financial ratios for the reporting period.

- Quality assessment is based on an assessment of indicators such as company history and property management, credit history, experience, sector analysis, environmental assessment and others. In addition to that, the Bank uses specialised software (Litis-POD) to generate a behavioral scoring model based on the borrower's credit history for corporate clients and individuals. The behavioral scoring is carried out clients which have available credit history for at least three months from the date of the rating.

  When the exposure is a group of related persons, the rating of the exposure is formed by the highest rating of all received individual ratings. Directorate "Reporting and Methodology" carries out at least once a year "reverse stress tests" of behavioral scoring models. The acquired levels of rates of arrears estimated are compared (the range of rating intervals). Each change in the structure of the model which leads to a change of the individual ratings of the borrower is approved by Bank's Management Board.

- The Bank implements specialised PD (ProductDeliverySystem) system which covers the entire work process in the Retail Banking business line, from the application for the loan, the consideration of the request, the decision-making and the signing of the credit agreement, to the utilisation of the loan. The system is designed to operate separate modules for each product (mortgage loans, consumer loans, credit cards, etc.), and each module has a separate system of indicators. The system calculates an assessment score for assessing credit risk.

6. Financial risk management, continued

(b) Credit risk, continued

Credit risk management, continued

- At the beginning of each calendar year the Management Board of the Bank approves and reviews the concentration of exposures in the credit programmes, industries, sectors, types of customers, loan amounts, maturity, etc., as well as issuers, credit rating, liquidity and country (for investment securities).

- Department "Monitoring" and department "Management and Restructuring of Problem Loans" are responsible for managing the credit risk of the Bank, regarding review, evaluation and classification of risk exposures of the Bank depending on the period of delayed payments according to the terms stipulated in the banking legislation and the assessment of the financial situation of the debtor and the sources of payment of their obligations, focusing the management's attention on the relevant risk. The above mentioned departments report to the Credit Committee of the Bank.

- Department "Monitoring" periodically reviews for compliance the activity of the Business Centres / Financial Centres with their assigned credit limits to the policies and regulations of the Bank. Periodic reports on the results of the inspections and the quality of local portfolios are provided to the Executive Directors of the Bank. The Bank carries out ongoing monitoring, including analysis of the financial condition of the obligor, depending on the size of the total credit exposure of the borrower and the related parties, as follows: at least once a year for exposures up to BGN 500 thousand and twice a year for the exposures over BGN 500 thousand, and extraordinary monitoring when there is a change in the risk.

- The Bank periodically monitors the value of the real estate accepted as collateral – for commercial real estate at least once a year, and for residential property every three years. The Bank carries out more frequent monitoring where there are significant changes in the market conditions. Collateral accepted on all impaired loans are revalued at least once a year. The collateral is revalued by an independent appraiser, determining net realisable value. For loans exceeding € 3 million or 5% of the equity of the Bank, assessment of the property is subject to review by an appraiser at least once a year.

- The Credit Committee of the Bank classifies risk exposures according to the degree of credit risk in the following classification groups according to the adopted Policy for assessment and classification of risk exposures – serviced exposures (not impaired and impaired) and risk positions in default (impaired).

  Serviced exposures

  A risk exposure is classified as serviced if the following conditions are all present: principal and interest are continually repaid in accordance with the terms of the contract or are paid overdue up to 90 days, and no event of default is registered.

6. Financial risk management, continued

(b) Credit risk, continued

Credit risk management, continued

Risk exposures in default

A failure is considered to have occurred with respect to a certain debtor when the following conditions are met or at least one of them

a) it is unlikely that the debtor would pay their credit obligations to the Bank without action undertaken by the Bank, such as the realisation of collateral, regardless of the amount of arrears and admitted days overdue;

b) the obligor is overdue for more than 90 days on any material credit obligation to the Bank.

The exposures for which a default is considered to have occurred and the exposures for which impairment is established in accordance with the applicable accounting framework, are always considered as non-performing exposures. Non-performing exposures are the ones classified as 'substandard' and 'loss'.

The classification of the risk groups is as follows:

"Standard" are the risk exposures on loans and other claims which are serviced and for which information on the financial status of debtors gives no ground to doubt that they will repay in full their obligations.

"Watch" are the risk exposures on loans and other claims where there are minor breaches to their servicing or there is a possibility of deterioration in the debtor's financial situation, which may call into question the full repayment of the debt.

"Substandard" exposures are the risk exposures on loans and other claims where there are significant breaches to their servicing, or there is evidence that the financial situation of the debtor is not stable, current and anticipated proceeds are insufficient for the full repayment of their obligations to the Bank and to other creditors, as well as where weaknesses have been found with the distinct possibility that the Bank will sustain losses.

"Loss" exposures are the risk exposures, where due to deterioration in the debtor's financial condition and their obligations are expected to become uncollectible, regardless of their partial recovery value which can be realised in the future.

The Bank assesses and classifies individually all significant risk exposures. If the debtor has more than one exposure, the highest risk class is awarded to all of its exposures.

6. Financial risk management, continued

(b) Credit risk, continued

Credit quality analysis

The table below set out information about the maximum credit risk exposure.

Maximum exposure to credit risk

In thousands of BGN	*Note*	**2016**	**2015**	**2014** *reclassified**
Cash and cash equivalents (excluding cash on hand)	16	646,662	566,670	422,170
Financial assets held for trading	17	35,603	29,853	23,213
Loans and advances to banks	18	32,122	12,609	3,825
Investment securities (excl. equity)	19	598,148	465,599	381,318
Loans and advances to customers	20	1,084,407	1,176,991	1,197,068
Total on-balance-sheet risk		2,396,942	2,251,722	2,027,594
Credit related commitments				
Undrawn credit commitments	31	105,007	123,481	113,851
Guarantees in favour of customers	31	44,740	58,925	78,417
Letters of credit	31	1,818	2,403	3,196
Total credit related commitments		151,565	184,809	195,464
Total credit risk exposure		2,548,507	2,436,531	2,223,058

*See Note 37

6. Financial risk management, continued

(b) Credit risk, continued

Credit quality analysis, continued

Loans and advances to customers, banks and other financial institutions and investment securities are analyzed by risk classification as follows:

In thousands of BGN	**Loans and advances to customers**		**Loans and advances to banks and other financial institutions**		**Investment securities (excl. equity)**		**Credit related commitments**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Standard	1,036,139	1,115,491	230,634	185,490	598,148	465,599	46,520	60,315
Watch	6,169	7,306	-	-	-	-	-	-
Substandard	29,708	28,664	-	-	-	-	29	220
Non-performing	146,539	148,186	-	-	-	-	9	793
Gross amount	1,218,555	1,299,647	230,634	185,490	598,148	465,599	46,558	61,328
Allowance of impairment	(134,148)	(122,656)	-	-	-	-	(24)	(666)
Carrying amount	1,084,407	1,176,991	230,634	185,490	598,148	465,599	46,534	60,662
Neither past due, nor impaired								
Standard	1,036,139	1,115,491	230,634	185,490	598,148	465,599		
Watch	6,169	7,306	-	-	-	-		
e.g. with renegotiated terms	*7,945*	*17,370*	-	-	-	-		
	1,042,308	1,122,797	230,634	185,490	598,148	465,599		
Individually impaired								
Substandard	15,993	21,243						
Non-performing	135,065	135,840						
e.g. with renegotiated terms	*39,495*	*55,060*						
	151,058	157,083						
Past due, but not impaired								
1≤ 30 days	16,446	5,105						
> 30 days ≤ 60 days	1,384	1,427						
> 60 days ≤ 90 days	754	1,263						
> 90 days ≤ 180 days	2,572	3,984						
>180 days	4,033	7,988						
e.g. with renegotiated terms	*20,086*	*11,792*						
	25,189	19,767						
Allowance for impairment								
At individual base	(121,840)	(109,882)					(24)	(666)
At portfolio base	(12,308)	(12,774)					-	-
	(134,148)	(122,656)					(24)	(666)

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

6. Financial risk management, continued

(b) Credit risk, continued

Credit quality analysis, continued

Neither past due, nor impaired

Neither past due, nor impaired, loans are serviced exposures that do not have objective evidence of impairment and for which the Bank allocates collective provisions for incurred but not reported losses allocated to level exposure. For monitoring purposes, the Bank groups risk exposures on a portfolio basis in separate portfolios based on similar characteristics, according to their type, objective and risk profile as follows: consumer loans, housing / mortgage loans by business line "Retail Banking" and credits to corporate clients from business line "Corporate banking", the value of exposure to a single individual does not exceed BGN 500 000 thousand.

Individually impaired loans

Individually impaired loans are loans for which the Bank believes that it is likely it will be unable to collect all principal and interest due according to the contractual terms of the loan.

Past due, but not impaired

Loans where contractual principal and/or interest are overdue but the Bank believes that the allocation of allowances for impairment is not necessary based on the collateral available or the stage of collection of outstanding amounts from the borrower.

Risk exposures grouped on a portfolio basis

The Bank groups risk exposures on a portfolio basis in separate portfolios based on similar characteristics, according to their type, objective and risk profile, as follows: consumer loans, housing / mortgage on "Retail Banking" business line and loans to corporate clients in "Corporate banking" business line (single exposure less than BGN 500 thousand).

Loans with renegotiated terms

Loans with renegotiated terms are risk exposures for which the original terms of the agreement are amended by giving concessions from the Bank to the debtor, as a result of the deterioration of their financial situation leading to inability to pay on time the full amount of the debt, such discounts as the Bank would not have given in other circumstances.

Discount means any of the following:

(a) A modification of the previous terms and conditions of the contract, which the debtor is unable to meet due to financial difficulties ("problem debt"), leading to an inability to service the debt and that would not be incurred if the debtor had no financial difficulties

(b) Full or partial refinancing of troubled debt contract, which would not be granted to the debtor, if they had no financial difficulties.

The discount may result in a loss for the Bank.

Loans are not treated as exposures with renegotiated terms when the Bank has a reason to believe that it will collect principal and interest and there are no circumstances indicating deterioration in the financial situation of the debtor.

6. Financial risk management, continued

(b) Credit risk, continued

Credit quality analysis, continued

Set out below is an analysis of the gross and net (of allowances for impairment losses) amounts of individually impaired assets by classification groups.

In thousands of BGN	Loans and advances to customers Gross	Net	% of impairment
As at 31 December 2016			
Substandard	15,993	11,046	31%
Non-performing	135,065	18,173	87%
Total	151,058	29,219	81%
As at 31 December 2015			
Substandard	21,243	16,269	23%
Non-performing	135,840	30,932	77%
Total	157,083	47,201	70%

Concentration of credit risk in respect of economic sectors is presented in the table below:

In thousands of BGN	2016	2015
Concentration by sector		
Administrative and support services	10,747	11,167
Other	13,054	12,850
Government	43,276	41,166
Real estate operations/activities	16,660	30,589
Manufacturing	59,570	72,360
Production and distribution of electricity and heat energy	78,389	89,546
Professional and research activities	5,454	6,453
Agriculture, forestry and fishing	68,042	80,802
Construction	49,808	56,695
Creating and distributing information and creative products; telecommunications	3,674	20,630
Transportation, storage and distribution	39,306	53,850
Trade, repair of motor vehicles and motorcycles	124,240	134,555
Financial and insurance services	52,708	57,260
Hotels and restaurants	51,202	50,571
	616,130	718,494
Individual Loans		
Mortgage	358,463	325,745
Unsecured loans	243,962	255,408
	602,425	581,153
Impairment losses	(134,148)	(122,656)
	1,084,407	1,176,991

As at 31 December 2016, the exposure to Republic of Bulgaria amounts to BGN 43,276 thousand, 3.55% of the gross loan portfolio. (2015: BGN 41,166 thousand, 3.17%)

6. Financial risk management, continued

(b) Credit risk, continued

Credit quality analysis, continued

The policy of the Bank includes consideration of the need to provide collateral prior to granting the approved loans. The degree of security of any particular exposure is set to the amount of the Bank's values of collateral when applying specific collateral margins.

Collateral for loans, guarantees and letters of credit, except for credit cards, include cash, property, machinery and equipment, listed securities, pledge of receivables, commercial enterprise and others.

The Bank requires the appraisers to assess the net realisable value of the property, which represents the purchase price of the asset in a liquid market reduced by the additional costs directly related to the disposal (sale) of the asset.

The table below shows a breakdown of total credit extended to customers, other than financial institutions, by the Bank by type of collateral:

In thousands of BGN	**2016**	**2015**
Cash and cash equivalents	27,595	28,273
Standard	27,464	28,202
Watch	20	54
Non-performing	111	17
Secured by mortgage	507,112	498,664
Standard	451,736	430,904
Watch	4,003	5,145
Non-performing	21,693	20,281
Loss	29,680	42,334
Other collaterals	348,267	272,460
Standard	344,426	269,739
Watch	1,345	719
Non-performing	2,368	1,781
Loss	128	221
Secured loans	882,974	799,397
Unsecured loans	335,581	500,250

Other collaterals include pledge on current assets.

6. Financial risk management, continued

(b) Credit risk, continued

Credit quality analysis, continued

Mortgage Lending (retail and corporate clients)

The tables below present the credit exposures of mortgage loans and advances to customers - individuals and corporate clients depending on the value of the coefficient loan-to-value (LTV). LTV is calculated as a proportion of the gross value of the loan (or the corresponding amount of the credit commitment) to the value of collateral. The gross value does not include any accumulated impairment losses. The collateral value includes future costs for acquisition and liquidation of the collateral. The value of the collateral on mortgage loans is based on the latest assessment carried out by an independent expert appraiser.

In thousands of BGN	Note	31 December 2016	31 December 2015
Loan to value (LTV) ratio			
Less than 50%		180,845	153,787
51% to 70%		149,249	156,549
71% to 90%		150,307	93,479
91% to 100%		7,326	52,699
More than 100%		44,422	89,665
Total	20	532,149	546,179

Collateral and other loan reliefs and their financial effect
The Bank holds collateral and other loan reliefs against certain of its loan exposures.
The table below shows the main types of collateral held against different types of financial assets.

			Percentage from the exposure subject to an agreement requiring collateral	
Loan exposure type	**Main type of collateral**	**Note**	**31 December 2016**	**31 December 2015**
Loans and advances to banks		18		
Sale and repurchase agreements	Bonds held for trading		100	100
Loans and advances to individuals		20		
Mortgage lending	Residential properties		100	100
Consumer lending	Guaranty, pledge on receivables with origin salary and other remunerations		-	-
Credit cards	None		-	-
Loans and advances to corporate clients		20		
Other lending of corporate clients	Commercial properties, rights on commercial assets		100	100

Usually the Bank does not hold collateral against investments in securities, and it does not have such collateral as of 31 December 2016 or 31 December 2015

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

6. Financial risk management, continued

(b) Credit risk, continued

Credit quality analysis

Financial assets held for trading

The table below sets out the credit quality of financial trading debt securities. The analysis has been based on ratings agencies Fitch or S&P's ratings.

In thousands of BGN	**Rating**	**Ratings**	**2015**
Government securities	BB+ to BB-	35,589	29,840
Compensatory notes	not rated	1	2
		35,590	29,842

The tables below show a breakdown of Bank's assets by maturity and country of issuer's registration as at 31 December 2016 and 31 December 2015

31 December 2016

In thousands of BGN	**Total**
Financial assets	
Government securities	
Bulgaria	35,589
Compensatory notes	
Bulgaria	1
Total	35,590

31 December 2015	**Total**
In thousands of BGN	
Financial Assets	
Government securities	
Bulgaria	29,840
Compensatory notes	
Bulgaria	2
Total	29,842

6. Financial risk management, continued

(c) Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk for the Bank of being unable to fund liabilities when due and the risk of being unable to realize an asset at a reasonable price and in an appropriate time frame.

Liquidity risk management

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Liquidity and markets Department receives information from other business units regarding the liquidity profile of financial assets and liabilities and details of other projected cash flows arising from projected future business. Liquidity and markets Department maintains a portfolio of liquid assets, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Bank. A summary report, including analyses, plans, reports and remedial action taken, is submitted periodically/monthly to ALCO.

Funds are raised using a broad range of instruments including deposits and current accounts, credit lines, other liabilities evidenced by paper, and share capital. Funds are raised from different client types, most of them being citizens and households, as well as small and medium enterprises. In addition, there are deposits of non-banking financial institutions and credit lines from development banks. Insignificant amount of the funds is from money market. This enhances the flexibility in financing the activities of the Allianz Bank Bulgaria AD and decreases the dependence on any one source of funds and lowers the cost of funds. The Bank makes its best efforts to maintain a balance between continuity of funding and flexibility through the use of liabilities with a different maturity structure.

The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

6. Financial risk management, continued

(c) Liquidity risk, continued

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of secondary liquidity. Liquid assets are considered as including cash and cash equivalents, current accounts and deposits with banks up to 7 days, Bulgarian government securities, gold, and debt securities, issued by international banks for development and international organizations. A similar calculation is used to measure the Banks's compliance with the liquidity ratios, recommended by BNB.

Details of the reported Bank's ratios of liquid assets to deposits from customers at the reporting date and during the reporting period are as follows:

	2016	**2015**
As at 31 December	49.23%	44.25%
Average for the period	47.48%	46.23%
Maximum for the period	51.01%	54.97%
Minimum for the period	43.46%	41.09%

Remaining contractual maturities of financial assets and liabilities

The table shown below presents the undiscounted cash flows of the Bank's financial assets and liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Gross nominal inflow / (outflow) is the contractual, undiscounted cash flow on the financial asset and financial liability or commitment. Interest income/expense is included to any financial asset or liability from the date of the last interest payment until maturity..

6. Financial risk management, continued

(c) Liquidity risk, continued

Remaining contractual maturities of financial assets and liabilities

The imbalance observed in the first period (up to 1 month) is mainly due to the classification of the current accounts from clients in this timing period. The Bank's historical experience shows that demand deposits will maintain steady and increasing pattern, as well as not all unrecognized loan commitments will be utilized immediately.

31 December 2016

In thousands of BGN	**Carrying amount**	**Gross nominal cash/ (inflow) outflow**	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**
Cash and cash equivalents	683,417	683,417	683,417	-	-	-	-
Financial assets held for trading	35,603	35,996	-	11,224	6,258	18,500	14
Loans and advances to banks and other financial institutions	32,122	32,147	22,366	-	9,781	-	-
Investments	599,418	685,045	6,389	12,082	54,976	258,039	353,559
Loans and advances to customers	1,084,407	1,507,409	134,994	30,200	180,554	292,989	868,672
	2,434,967	2,944,014	847,166	53,506	251,569	569,528	1,222,245
Deposits from banks	111	(111)	(111)	-	-	-	-
Deposits from customers	2,153,309	(2,158,674)	(1,335,993)	(183,263)	(491,704)	(147,714)	-
Other borrowings	85,971	(87,090)	(4,239)	(46)	(473)	(12,558)	(69,774)
	2,239,391	(2,245,875)	(1,340,343)	(183,309)	(492,177)	(160,272)	(69,774)
Guarantees and letters of credit	-	(46,558)	(8,625)	(5,024)	(11,360)	(15,870)	(5,679)
Unrecognised loan commitments	105,007	(105,007)	(39,170)	(4,139)	(37,741)	(23,957)	-
	2,344,398	(2,397,440)	(1,388,138)	(192,472)	(541,278)	(200,009)	(75,453)
	90,569	546,574	(540,972)	(138,966)	(289,709)	369,429	1,146,792

6. Financial risk management, continued

(c) Liquidity risk, continued

Remaining contractual maturities of financial assets and liabilities, continued

31 December 2015
*(reclassified *)*

In thousands of BGN	Carrying amount	Gross nominal cash Inflow/(outflow)	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years
Cash and cash equivalents	612,116	612,116	612,116	-	-	-	-
Financial assets held for trading	29,853	30,703	757	1,044	2,817	26,072	13
Loans and advances to banks and other financial institutions	12,609	12,624	2,829	-	9,795	-	-
Investmentsecurities	466,863	542,653	10,786	9,028	3,207	252,460	267,172
Loans and advances to customers	1,176,991	1,790,548	57,206	24,892	179,829	423,557	1,105,064
	2,298,432	2,988,644	683,694	34,964	195,648	702,089	1,372,249
Deposits from banks	51,067	(51,067)	(51,067)	-	-	-	-
Deposits from customers	1,977,993	(2,009,246)	(1,049,812)	(31,726)	(572,412)	(355,296)	-
Other borrowings	91,839	(95,366)	-	-	(169)	(16,156)	(79,041)
	2,120,899	(2,155,679)	(1,100,879)	(31,726)	(572,581)	(371,452)	(79,041)
Guarantees and letters of credit	-	(61,328)	(6,904)	(9,834)	(20,099)	(18,322)	(6,169)
Unrecognised loan commitments	123,481	(123,481)	(82,511)	(2,683)	(30,987)	(7,300)	-
	2,244,380	(2,340,488)	(1,190,294)	(44,243)	(623,667)	(397,074)	(85,210)
	54,052	648,156	(506,600)	(9,279)	(428,019)	305,015	1,287,039

* See Note 37.

6. Financial risk management, continued

(c) Liquidity risk, continued

Remaining contractual maturities of financial assets and liabilities, continued

1 January 2015
*(reclassified *)*

In thousands of BGN	**Carrying amount**	**Gross nominal cash Inflow/(outflow)**	**Up to 1 month**	**From 1 to 3 months**	**From 3 months to 1 years**	**From 1 to 5 years**	**More than 5 years**
Cash and cash equivalents	465,437	465,437	465,437	-	-	-	-
Financial assets held for trading	23,213	23,415	511	-	15,315	7,572	17
Loans and advances to banks and other financial institutions	3,825	3,831	2,964	-	867	-	-
Investment securities	382,516	448,553	22,923	-	55,792	164,563	205,275
Loans and advances to customers	1,197,068	1,850,002	33,023	36,020	185,595	436,007	1,159,357
	2,072,059	2,791,238	524,858	36,020	257,569	608,142	1,364,649
Deposits from banks	36	(36)	(36)	-	-	-	-
Deposits from customers	1,797,587	(1,839,748)	(862,461)	(25,249)	(591,062)	(360,976)	-
Other borrownigs	90,463	(96,530)	-	(2,731)	-	(180)	(93,619)
	1,888,086	(1,936,314)	(862,497)	(27,980)	(591,062)	(361,156)	(93,619)
Guarantees and letters of credit	-	(81,613)	(9,693)	(7,765)	(31,199)	(27,451)	(5,505)
Unrecognised loan commitments	113,851	(113,851)	(3,484)	(12,171)	(74,321)	(9,442)	(14,433)
	2,001,937	(2,131,778)	(875,674)	(47,916)	(696,582)	(398,049)	(113,557)
	70,122	659,460	(350,816)	(11,896)	(439,013)	210,093	1,251,092

* See Note 37.

6. Financial risk management, continued

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices or foreign exchange rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Exposure to market risks – trading portfolios

All trading instruments are subject to market risk as a result of future changes in market conditions. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

Allianz Bank Bulgaria AD manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with limits set by exposures, concentrations by type of instruments and VaR limits.

The tool used to measure and manage market risk is Value at Risk (VaR). The VaR is the estimated loss that will arise on the portfolio over a specified period of time (holding period) with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based on historical market data from at least 250 days observation period.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position by volume reduces if the market price volatility declines and vice versa.

6. Financial risk management, continued

(d) Market risk, continued

Exposure to market risks – trading portfolios, continued

A summary of the 10-days VaR positions of the Bank's trading portfolios at 31 December and during the period is as follows:

In thousands of BGN	**As at 31.12**	**Average**	**Max**	**Min**
Financial instruments held for trading				
2016				
Currency risk	36.64	52.92	63.37	36.64
Interest risk	98.91	154.57	249.83	98.91
Other price risk	0.84	1.03	1.47	0.84
Correlation	(29.34)	(44.39)	(57.51)	(29.34)
	107.05	164.13	257.15	107.05

In thousands of BGN	**As at 31.12**	**Average**	**Max**	**Min**
Financial instruments held for trading				
2015				
Currency risk	19.70	16.04	20.36	10.38
Interest risk	79.00	48.84	104.73	8.79
Other price risk	0.30	0.45	0.71	0.29
Correlation	(38.43)	(24.45)	(50.61)	(9.26)
Total	60.57	40.88	75.19	10.20

1-day VaR of Bank's portfolio on Monte Carlo simulation basis with confidence interval 99% as of 31 December and during the reporting period are as follows:

In thousands of BGN	**2016**	**2015**
As of 31 December	4,508	4,669
Minimum for the period	4,508	3,804

6. Financial risk management, continued

(d) Market risk, continued

Sensitivity analysis of interest rate risk

The management of the interest rate risk and the interest rate gap and reprising limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios.

The sensitivity analysis is based on scenario of 100 basis point (bp) parallel rise or fall in all yield curves and in all currencies.

In thousands of BGN	**100 b. p. parallel increase**	**100 b. p. parallel decrease**
2016		
As at 31 December	(11,522)	11,522
Average for the period	(13,364)	13,364
2015		
As at 31 December	(12,817)	12,817
Average for the period	(13,778)	13,778

Currency risk

The Bank is exposed to currency risk through making deals with financial instruments, denominated in foreign currency.

As a result of the establishment of Currency Board in Bulgaria, the Bulgarian currency is pegged to the Euro. As the currency in which the Bank presents its financial statements is the Bulgarian lev, the Bank's financial statements are affected by movements in the exchange rates between the currencies outside the Euro-zone and the lev.

The Bank's transactional exposures give rise to foreign currency gains and losses that are recognized in the income statement. These exposures comprise the monetary assets and monetary liabilities of the Bank denominated in currency different from the currency in which the financial statements are presented. These exposures in foreign currency are presented in the table below:

6. Financial risk management, continued

(d) Market risk, continued

Currency risk, continued

In thousands of BGN

	31 December 2016				
	BGN	**EUR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents	276,960	273,734	119,284	13,439	683,417
Financial assets held for trading	27,723	7,277	603	-	35,603
Loans and advances to banks and other financial institutions	-	31,488	634	-	32,122
Investment securities	135,800	463,532	86	-	599,418
Loans and advances to customers	738,925	315,957	29,525	-	1,084,407
Total assets	1,179,408	1,091,988	150,132	13,439	2,434,967
Liabilities					
Deposits from banks	91	19	-	1	111
Deposits from customers	1,279,239	710,285	150,239	13,546	2,153,309
Other borrowings	-	85,971	-	-	85,971
Total liabilities	1,279,330	796,275	150,239	13,547	2,239,391
Net position	(99,922)	295,713	(107)	(108)	195,576

The Bank maintains net open currency exposure below 2% of the capital base. The Bank concludes currency spot and forward deals. The currency forward deals are usually on behalf of customers and are closed with opposite deals.

6. Financial risk management, continued

(d) Market risk, continued

Currency risk, continued

In thousands of BGN

	31 December 2015 *(reclassified*)*				
	BGN	**EUR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents	216,938	273,714	114,836	6,628	612,116
Finance assets held for trading	20,170	8,908	775	-	29,853
Loans and advances to banks and other financial institutions	-	11,997	612	-	12,609
Investment securities	135,757	331,023	83	-	466,863
Loans and advances to customers	745,147	389,018	42,826	-	1,176,991
Total assets	1,118,012	1,014,660	159,132	6,628	2,298,432
Liabilities					
Deposits from banks	48	51,017	-	2	51,067
Deposits from customers	1,096,557	716,159	159,238	6,039	1,977,993
Other borrowings	33	91,806	-	-	91,839
Total liabilities	1,096,638	858,982	159,238	6,041	2,120,899
Net position	21,374	155,678	(106)	587	177,533

* *See Note 37.*

6. Financial risk management, continued

(d) Market risk, continued

Currency risk, continued

In thousands of BGN

	1 January 2015 *(reclassified*)*				
	BGN	**EUR**	**USD**	**Other currencies**	**Total**
Assets					
Cash and cash equivalents	228,929	211,173	20,048	5,287	465,437
Finance assets held for trading	4,066	18,275	872	-	23,213
Loans and advances to banks and other finance institutions	3,040	-	785	-	3,825
Investment securities	117,058	248,951	16,507	-	382,516
Loans and advances to customers	714,974	434,666	47,428	-	1,197,068
Total assets	1,068,067	913,065	85,640	5,287	2,072,059
Liabilities					
Deposits from banks	36	-	-	-	36
Deposits from customers	1,008,748	699,185	85,296	4,358	1,797,587
Other borrowings	134	90,329	-	-	90,463
Total liabilities	1,008,918	789,514	85,296	4,358	1,888,086
Net position	59,149	123,551	344	929	183,973

** See Note 37.*

6. Financial risk management, continued

(e) Compliance with the capital adequacy requirements

The Bank prepares quarterly statutory reports and monthly reports for internal purposes, in accordance with the requirements of Regulation №8 of the Bulgarian National Bank (BNB) from 24 April 2014 on capital buffers of banks. The Bank applies the standardised approach for credit and market risks and the Basic Indicator Approach for operational risk since 1 of January 2007.

According to art.92 of Regulation 575 of the European Parliament and the Council from 26 June 2013, the minimum requirements for the capital adequacy's ratios of Tier I capital and Total capital adequacy are not less than 6% and 8% respectively.

According supervisory statements of the Bank for the purposes of the Bulgarian National Bank in accordance with Regulation 575 of the European Parliament and the Council as of 31 December 2016, the Bank was in compliance with capital adequacy requirements.

7. Use of estimates and judgements

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Assumptions and estimation uncertainties

The Bank makes estimates and assumptions about uncertain events, including estimates and assumptions about the future. Such accounting assumptions and estimates are regularly evaluated and are based on historical experience and other factors such as the expected cash flow of future event that can be reasonably assumed in the existing circumstances, but nevertheless necessarily represent sources of estimation uncertainty.

The estimation of impairment losses in the Bank's credit risk portfolio and, as part of this, the estimation of the realizable value of real estate collateral represents the major source of estimation uncertainty. This and other key sources of estimation uncertainty that have a significant risk to carry a possible material adjustments to the carrying amounts of assets and liabilities in subsequent financial reporting periods, are described below and in the respective notes.

Impairment losses on loans and advances

Assets accounted at amortized cost are evaluated for impairment on a basis described in accounting policy 5 (e) above.

The specific allowances for impairment, applied to financial assets evaluated individually for impairment, are based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about

7. Use of estimates and judgements, continued

Impairment losses on loans and advances (continued)

counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, the strategy for recovery of the impaired asset and the estimate of cash flows considered recoverable are independently approved by the Credit Risk Committee of the Bank. Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances with similar characteristics of credit risks when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified. In assessing the need for collective loan loss allowances, management considers factors such as type of credits, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimated future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Determining fair values of financial instruments

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 5(e)(vi). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation of financial instruments

The Bank measures fair values using the following hierarchy of methods:

- Level 1 – The inputs are the quoted market price (unadjusted) in an active market for an identical financial instrument.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly. This category includes instruments valued using: quoted market prices in active markets for similar assets and liabilities; quoted prices for identical or similar assets and liabilities in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3 – Inputs that are unobservable for a certain asset or liability. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair values of financial assets and financial liabilities which are traded on active markets and for which market information is available are based on quoted market prices or closing prices. For all the remaining financial instruments the Bank determined fair value using other valuation techniques.

Other valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which observable market prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

7. Use of estimates and judgements, continued

Valuation of financial instruments, continued

Financial instruments measured at fair value – Fair value hierarchy

The following table analyses financial instruments measured at fair value, by the level in the fair value hierarchy.

In thousands of BGN	Level 1- Reported market price on active markets	Level 2- Evaluation methods using market data	Level 3 - Evaluation methods using non market data	**Total**
31 December 2016				
Financial assets held for trading	7,879	27,724	-	35,603
Investments available- for-sale	134,988	32,023	-	167,011
	142,867	59,747	-	202,614

In thousands of BGN	Level 1- Reported market price on active markets	Level 2- Evaluation methods using market data	Level 3 - Evaluation methods using non market data	**Total**
31 December 2015				
Financial assets held for trading	9,696	20,157	-	29,853
Investments available- for-sale	68,657	53,575	-	122,232
	78,353	73,732	-	152,085

At available-for-sale portfolio the Bank holds equity and debt securities, held on cost, as they are not traded on active market and their fair value cannot be reliably assessed. As at 31 December 2016 the amount of these investments is BGN 1,213 thousand (2015: BGN 1,223 thousand).

Notes to the Financial Statement

7. Use of estimates and judgements, continued

Valuation of financial instruments, continued

Financial instruments not measured at fair value, continued

The following tables set out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

31 December 2016 *In thousands of BGN*	Level 1	Level 2	Level 3	**Total fair value**	**Total carrying amount**
Assets					
Cash and cash equivalents	-	683,417	-	683,417	683,417
Loans and advances to banks and other financial institutions	-	32,122	-	32,122	32,122
Investments, held to maturity	460,005	-	-	460,005	431,194
Loans and advances to customers	-	-	1,204,510	1,204,510	1,084,407
Liabilities					
Deposits from banks	-	-	111	111	111
Deposits from customers	-	-	2,150,543	2,150,543	2,153,309
Other borrowings	-	-	85,971	85,971	85,971

7. Use of **estimates and judgements, continued**

Valuation of financial instruments, continued

Financial instruments not measured at fair value - hierarchy, continued

31 December 2015 *(reclassified *)* *In thousands of BGN*	Level 1	Level 2	Level 3	**Total fair value**	**Total carrying amount**
Cash and cash equivalents	-	612,116	-	612,116	612,116
Loans and advances to banks and other financial institutions	-	12,609	-	12,609	12,609
Investments, held to maturity	367,040	-	-	367,040	343,408
Loans and advances to customers	-	-	1,289,190	1,289,190	1,176,991
Liabilities					
Deposits from banks	-	-	51,067	51,067	51,067
Deposits from customers	-	-	2,071,169	2,071,169	1,977,993
Other borrowings	-	-	91,839	91,839	91,839

* *See Note 37.*

7. Use of estimates and judgements, continued

Valuation of financial instruments, continued

Financial instruments not measured at fair value, continued

1 January 2015 *(reclassified*)* *In thousands of BGN*	Level 1	Level 2	Level 3	**Total fair value**	**Total carrying amount**
Cash and cash equivalents	-	465,437	-	465,437	465,437
Loans and advances to banks and other financial institutions	-	3,825	-	3,825	3,825
Investments, held to maturity	280,380	-	-	280,380	263,223
Loans and advances to customers	-	-	1,248,196	1,248,196	1,197,068
Liabilities					
Deposits from banks	-	-	36	36	36
Deposits from customers	-	-	1,888,856	1,888,856	1,797,587
Other borrowings	-	-	90,463	90,463	90,463

* *See Note 37.*

The fair value of cash and cash equivalents, loans and advances to banks and other financial institutions, deposits from banks and other borrowings is approximately equal to their carrying amount because they are short-term.

The fair value of loans and advances to customers is based on observable monetary transactions. In case, no market information is available, the fair value is calculated using discounted cash flow techniques by applying the interest levels offered at reporting date for loans with similar terms and currency and taking in account the accounted impairments.

The fair value of deposits from customers has been calculated using discounted cash flow techniques by applying the interest levels offered at reporting date for deposits with similar terms and currency.

8. Classification of financial assets and financial liabilities

In thousands of BGN	Held for trading	Held to maturity	Loans and advances	Available-for-sale	Other amortised cost	Total carrying amount
31 December 2016						
Cash and cash equivalents	-	-	683,417	-	-	683,417
Financial assets held for trading	35,603	-	-	-	-	35,603
Loans and advances to banks and other financial institutions	-	-	32,122	-	-	32,122
Investment securities	-	431,194	-	168,224	-	599,418
Loans and advances to customers	-	-	1,084,407	-	-	1,084,407
Total finance assets	35,603	431,194	1,799,946	168,224	-	2,434,967
Deposits from banks	-	-	-	-	111	111
Deposits from customers	-	-	-	-	2,153,309	2,153,309
Other borrowings	-	-	-	-	85,971	85,971
Total finance liabilities	-	-	-	-	2,239,391	2,239,391
31 December 2015 *(reclassified*)*						
Cash and cash equivalents	-	-	612,116	-	-	612,116
Financial assets held for trading	29,853	-	-	-	-	29,853
Loans and advances to banks and other financial institutions	-	-	12,609	-	-	12,609
Investments	-	343,408	-	123,455	-	466,863
Loans and advances to customers	-	-	1,176,991	-	-	1,176,991
Total finance assets	29,853	343,408	1,801,716	123,455	-	2,298,432
Deposits from banks	-	-	-	-	51,067	51,067
Deposits from customers	-	-	-	-	1,977,993	1,977,993
Other borrowings	-	-	-	-	91,839	91,839
Total finance liabilities	-	-	-	-	2,120,899	2,120,899

8. Classification of financial assets and financial liabilities, continued

In thousands of BGN	Held for trading	Held to maturity	Loans and advances	Available-for-sale	Other amortised cost	Total carrying amount
1 January 2015 *(reclassified *)*						
Cash and cash equivalents	-	-	465,437	-	-	465,437
Financial assets held for trading	23,213	-	-	-	-	23,213
Loans and advances to banks and other financial institutions	-	-	3,825	-	-	3,825
Investment securities	-	263,223	-	119,293	-	382,516
Loans and advances to customers	-	-	1,197,068	-	-	1,197,068
Total finance assets	23,213	263,223	1,666,330	119,293	-	2,072,059
Deposits from banks	-	-	-	-	36	36
Deposits from customers	-	-	-	-	1,797,587	1,797,587
Other borrowings	-	-	-	-	90,463	90,463
Total finance liabilities	-	-	-	-	1,888,086	1,888,086

**See Note 37.*

Notes to the Financial Statement

9. Net interest income

In thousands of BGN	**2016**	**2015**
Net interest income		
Interest income		
Interest income arise from:		
loans and advances to banks	(321)	233
loans and advances to customers	65,788	76,623
investments	15,472	13,310
	80,939	90,166
Interest expense		
Interest expense arise from:		
deposits from banks	(34)	(49)
deposits from customers and other borrowings	(12,275)	(19,187)
	(12,309)	(19,236)
Net interest income	68,630	70,930

The recognized interest income from individually impaired loans and receivables from clients for 2016 and 2015 amounts to BGN 5,857 thousand and BGN 8,306 thousand respectively.

10. Net income from fees and commissions

In thousands of BGN	**2016**	**2015**
Fee and commission income		
Fee and commission income arise from:		
Cash operations and payment orders	10,532	11,642
Guarantees and letters of credit	768	915
Loans	4,974	4,959
Bank cards	5,171	4,716
Other	32	25
	21,477	22,257
Fee and commission expense		
Fee and commission expense arise from:		
Servicing of bank current accounts	(107)	(132)
Transaction with bank cards	(2,187)	(1,943)
Rings transfers	(153)	(115)
Other	(55)	(49)
	(2,502)	(2,239)
Net fee and commission income	18,975	20,018

11 Net trading income

In thousands of BGN	2016	2015
Net trading income arise from:		
financial assets held for trading	210	239
foreign exchange trading	2,566	2,696
Net income from trade operations	2,776	2,935

12. Net (expense)/income from investment

In thousands of BGN	2016	2015
Net investments income arise from:		
Available for sale	-	-
Dividends	115	73
Income/ (expenses) from sale	4,708	(85)
Net (expense)/income from investment	4,823	(12)

In June 2016 with the approval of the European Commission, Visa Inc. buys all shares of Visa Europe. The total amount of the transaction is distributed among the members of Visa Europe, depending on the volume of their business over the last three years prior to the transaction. As a result in late June 2016 Allianz Bank Bulgaria AD receives EUR 2,407 thousand or BGN 4,708 thousand.

13. Administrative expenses

In thousands of BGN	2016	2015
Materials	825	949
External services, incl. audit	13,151	10,915
Administration, marketing and other costs	4,679	4,678
Rental costs	3,813	3,801
Depreciation and amortisation	2,544	3,071
Personnel costs	18,166	17,450
Mandatory contributions related with the Law for reconstruction and restructuring of the banks	3,098	2,468
Deposit guarantee fund	3,221	7,864
Total administrative expenses	49,497	51,196

Personnel costs to the amount of BGN 18,166 thousands (2015 – BGN 17,450 thousands) include salaries and social benefits paid to employees as well as all related social security as per the local legislation. At the end of 2016 Allianz Bank Bulgaria AD employs 813 contractual employees (2015: 819 employees).

14. Other income, net

In thousands of BGN	**2016**	**2015**
Rental income	86	85
Bank charge income, VAT taxable	1,033	1,003
Income from fees on factoring	73	-
Income/(expense) from foreign exchange rate fluctuations	574	597
Income from insurance commission		
Life	436	501
Voluntary additional personal pension insurance	158	214
Hull insurance	67	314
Savings card insurance	65	59
Other income, net	(1,290)	73
Other non-interest income, net	1,202	2,846

15. Income tax expense

In thousands of BGN	**2016**	**2015**
Current tax charge	3,560	1,224
Deferred tax	29	(9)
Total income tax recognised in profit or loss	3,589	1,215

Reconciliation of effective tax rate *In thousands of BGN*	**2016**	**2015**
Profit before tax	33,844	11,383
Nominal tax rate	10.00%	10.00%
Supposed tax	3,384	1,138
Taxable permanent differences	46	2
Non taxable income from dividends	(11)	(6)
Effect of the fair value reserve	170	81
	3,589	1,215
Effective tax rate	10.60%	10.67%

The deferred tax expense results from the change of carrying amounts of deferred tax assets and deferred tax liabilities (See Note 23).

16. Cash and cash equivalents

In thousands of BGN	31 December 2016	31 December 2015 *reclassified **	1 January 2015 *reclassified **
Cash on hand	36,755	45,446	43,267
Balances with the Central Bank	496,567	415,561	360,225
Current accounts and deposits with banks with Original maturity less than 3 months	150,095	151,109	61,945
Total cash and cash equivalents	683,417	612,116	465,437

See Note 37.

Balances with the Central Bank include current accounts in the Bulgarian National Bank and minimum reserve requirements. The current account with the Bulgarian National Bank is used for direct participation in money and treasury bill markets and for settlement purposes. Minimum reserve requirements at the central bank are interest free and are adjusted on a monthly basis. Daily fluctuations are allowed. Shortage of finance on monthly basis is sanctioned with penalty interest.

17. Financial assets held for trading

In thousands of BGN	2016	2015
Financial assets held for trading:		
Debt securities		
Government securities	35,589	29,840
Debt securities	-	-
Equity securities	13	11
Other	1	2
Total finance assets held for trading	35,603	29,853

18. Loans and advances to banks and other financial institutions

In thousands of BGN	31 December 2016	31 December 2015 *reclassified **	1 January 2015 *reclassified **
Loans and advances to banks	32,122	12,609	3,825
Total loans and advances to banks and other finance institutions	32,122	12,609	3,825

See Note 37.

19. Investment securities

In thousands of BGN	2016	2015
Financial assets available for sale		
Government securities, issued or guaranteed by Republic of Bulgaria	102,848	91,227
Government securities, issued or guaranteed by Spain	29,594	19,623
Government securities, issued or guaranteed by Romania	24,368	11,341
Corporate debt securities	10,144	-
Equity securities	1,270	1,264
Total Financial assets available for sale	168,224	123,455
Financial assets held to maturity		
Government securities, issued or guaranteed by Republic of Bulgaria	381,519	308,951
Government securities, issued or guaranteed by Spain	8,843	9,082
Government securities, issued or guaranteed by Romania	13,228	13,576
Corporate debt securities	27,604	11,799
Total financial assets held to maturity	431,194	343,408
	599,418	466,863

20. Loans and advances to customers

(a) Analysis by product

In thousands of BGN	2016	2015
Individuals		
Housing loans	377,872	325,745
Consumer loans	169,817	210,010
Credit cards	15,750	16,484
Financial leases	35,204	23,936
Other loans	3,815	4,978
	602,458	581,153
Corporates		
Working loans	326,563	392,541
Investment loans	287,595	323,671
Credit cards	1,939	2,282
	616,097	718,494
Less impairment allowances	(134,148)	(122,656)
	1,084,407	1,176,991

20. Loans and advances to customers, continued

(b) Financial lease, receivables

Detailed description of the finance lease receivables is shown in the table below.

In thousands of BGN	**2016**	**2015**
Gross investments in a financial lease, receivables		
Less than one year	1,595	765
Between one and five years	35,534	24,602
More than 5 years	32	-
	37,161	25,367
Unearned finance income	(3,064)	(2,258)
Net investments in a financial lease	34,097	23,109
Impairment allowance	407	-
	33,690	23,109
Net investments in a financial lease, receivables		
Less than one year	1,530	749
Between one and five years	32,128	22,360
More than 5 years	32	-
	33,690	23,109

(c) Impairment allowance of loans and advances to customers

Individual impairment allowance

In thousands of BGN	**2016**	**2015**
Balance at 1 January 2016	109,882	77,358
Charge for the year	23,446	39,520
Recoveries	(9,249)	(5,194)
Write-offs	(2,239)	(1,802)
Balance at 31 December 2016	121,840	109,882

Collective impairment allowance

In thousands of BGN	**2016**	**2015**
Balance at 1 January 2016	12,774	13,519
Charge for the year	4,423	12,045
Recoveries	(4,889)	(12,780)
Write-offs	-	(10)
Balance at 31 December 2016	12,308	12,774
Total	134,148	122,656

21. Property and equipment

In thousands of BGN	Land and buildings	Machines and equipment	Fixtures and fittings	Motor Vehicles	Expenses for acquisition of fixed assets	Total
Cost						
At 1 January 2015	7,871	13,113	7,711	1,026	684	30,405
Additions	-	1,175	179	-	(246)	1,108
Disposals	-	(348)	(123)	(38)	-	(509)
At 31 December 2015	7,871	13,940	7,767	988	438	31,004
At 1 January 2016	7,871	13,940	7,767	988	438	31,004
Additions	1	936	118	-	609	1,664
Disposals	-	(544)	(463)	-	-	(1,007)
At 31 December 2016	7,872	14,332	7,422	988	1,047	31,661
Depreciation						
At 1 January 2015	(2,832)	(11,126)	(6,114)	(906)	-	(20,978)
Charge for the year	(255)	(963)	(445)	(56)	-	(1,719)
Disposals	-	348	123	38	-	509
At 31 December 2015	(3,087)	(11,741)	(6,436)	(924)	-	(22,188)
At 31 December 2016	(3,087)	(11,741)	(6,436)	(924)	-	(22,188)
Charge for the year	(255)	(899)	(389)	(35)	-	(1,578)
Disposals	-	544	463	-	-	1,007
At 31 December 2016	(3,342)	(12,096)	(6,362)	(959)	-	(22,759)
Net book value						
At 1 January 2015	5,039	1,987	1,597	120	684	9,427
31 December 2015	4,784	2,199	1,331	64	438	8,816
31 December 2016	4,530	2,236	1,060	29	1,047	8,902

22. Intangible assets

In thousands of BGN	**Total**
Cost	
At 1 January 2015	15,376
Additions	1,144
Disposals	(266)
At 31 December 2015	16,254
At 31 December 2016	16,254
Additions	766
Disposals	(150)
At 31 December 2016	16,870
Amortisation	
At 31 December 2015	(11,032)
Charge for the year	(1,352)
Disposals	266
At 31 December 2015	(12,118)
At 1 January 2016	(12,118)
Charge for the year	(966)
Disposals	150
At 31 December 2016	(12,934)
Net book value	
At 1 January 2015	4,344
At 31 December 2015	4,136
At 31 December 2016	3,936

23. Deferred Tax

Deferred income taxes are calculated on all temporary differences under the liability method using a tax rate of 10% for 2016 (2015: 10%).

Deferred income tax balances are attributable to the following balance positions:

In thousands of BGN	**Assets**		**Liabilities**		**Net (assets)/liabilities**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Property and equipment	-	-	297	289	297	289
Other liabilities	(138)	(159)	-	-	(138)	(159)
Net tax (assets)/liabilities	(138)	(159)	297	289	159	130

Movement in temporary differences during the year arises from:

In thousands of BGN	**Balance 2015**	**Recognised during the year**	**Balance 2016**
Property and equipment	289	8	297
Other liabilities	(159)	21	(138)
Net deferred tax (asset)/liability	130	29	159

In thousands of BGN	**Balance 2014**	**Recognised during the year**	**Balance 2015**
Property and equipment	339	(50)	289
Other liabilities	(200)	41	(159)
Net deferred tax (asset)/liability	139	(9)	130

24. Other assets

In thousands of BGN	**2016**	**2015**
Prepayments	2,180	1,958
Inventories	429	585
Receivables from clients	576	543
Fees and commissions receivable	2,631	3,855
Factoring receivables from clients	4,432	
Other assets	2,419	844
Total other assets	12,667	7,785

25. Deposits from banks

In thousands of BGN	**2016**	**2015**
Deposits from banks		
Current accounts	111	78
Repurchase transaction	-	50,989
Total deposits from banks	111	51,067

26. Deposits from other customers

In thousands of BGN	**2016**	**2015**
Individuals		
Current account	497,576	404,789
Deposits	740,886	769,869
Total	1,238,462	1,174,658
Private companies		
Current accounts	683,956	554,049
Deposits	191,863	209,698
Total	875,819	763,747
State owned companies		
Current account	34,655	32,163
Deposits	4,373	7,425
Total	39,028	39,588
Total deposits from clients	2,153,309	1,977,993

27. Other borrowings

In thousands of BGN	**2016**	**2015**
Payables to State Agricultural Fund	-	33
Payables to European Investment Fund under the JEREMIE on credit line's refinancing	27,308	33,122
Payables to European Investment Bank on credit line's refinancing	58,663	58,684
Total borrowings	85,971	91,839

27. Other borrowings, continued

As at 31.12.2016 the funds payable to the Agriculture State Fund represent refinancing in which scope the Bank grants medium-term investment agriculture loans. The refinancing funds are secured by promissory notes issued by the Bank in favour of the Agriculture State Fund for the amount of each individual funding project.

As at 31.12.2016 the attracted funds payable to banks on received credit lines include funds for crediting small and medium-sized enterprises received from the European Investment Bank at the amount of BGN 58,663 thousand..

The Bank has contract with European Investment Fund under the JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative, part of the Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007-2013", ensuring funding to support small and medium-sized enterprises at the amount of BGN 27,308 thousand.

28. Other liabilities

In thousands of BGN	**2016**	**2015**
Liabilities to personnel	861	1,048
Obligations for defined benefit retirement compensations	376	274
Liabilities for social securities and other taxes	552	621
Liabilities to suppliers	739	753
Other liabilities	450	219
Total other liabilities	2,978	2,915

Obligations for defined benefit retirement compensations

The Company has an obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Labour Code (LC) in Bulgaria. According to these regulations in the LC, when a labour contract of an employee, who has acquired a pension right, is ended, the employer is obliged to pay to the employee compensations in the amount of two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries.

The estimated amount of the obligation for defined benefit retirement compensations as at each reporting date and the expenses recognized in profit and loss are based on an actuarial report (see below information on used parameters and actuarial assumptions).

The defined benefit plan (obligation for compensation upon retirement) is an unfunded plan.

28. Other liabilities, continued

Obligations for defined benefit retirement compensations, continued

Movements in the present value of the obligations under defined benefits plans

In thousands of BGN	**2016**	**2015**
Present value of the obligations as of 1 January	274	257
Present services cost	32	28
Interest expenses	8	6
Amounts paid	(4)	(43)
Actuarial (profit)/ losses from change in demographic and financial assumption	66	26
Present value of the obligations as of 31 December	376	274

Actuarial assumptions

the main actuarial assumptions as of the date of the statements (presented as average values) are presented as follows

	2016	**2015**
Discount rate as of 31 December	2. 3117%	2.63%
Annual increase of gross remuneration	3.0%	3.0%
Interest rate	2.26%	2.70%

29. Repurchase agreements

The Bank has the possibility to borrow financial funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at defined future dates ("reverse repurchase agreements") at the same price plus interest at a predetermined rate.

At 31 December 2015 there are assets sold under repurchase agreements and the total amount of these obligations is as follows:

In thousands of BGN	**Carrying amount of liability**	**Fair value of underlying assets**	**Repurchase dates within the period**
Bulgarian government securities	50,988	50,924	05 January 2016

At 31 December 2016 there are no assets sold under repurchase agreements.

The Bank also purchases financial instruments under agreements to resell them at defined future dates ("reverse repurchase agreements"). The seller commits to repurchase the same or similar instruments at an agreed future date. Reverse repurchases are entered into as a facility to provide funds to customers.

At 31 December 2015 there are no assets purchased subject to agreements to resell them.

At 31 December 2016 there are no assets purchased subject to agreements to resell them.

30. Capital and reserves

(a) Share capital

As at 31 December 2016, the share capital of Allianz Bank Bulgaria AD amounts to BGN 69,000 thousand (2015: 69,000 thousand), which comprises the authorized issued capital amounting to BGN 69,000 thousands. The issued share capital comprises 69,000,000 fully paid shares with a par value of BGN 1 each.

The ownership structure of the registered ordinary share capital of the Bank as of 31 December 2016 and 31 December 2015 is as follows:

Shareholders	2016 % of ownership	2015 % of ownership
Allianz Bulgaria Holding	99.891	99.891
Other	0.109	0.109
	100.000	100.000

(b) Retained earnings

As of 31 December 2016, the retained earnings balance amounts to BGN 133,780 thousand, comprising retained earnings of BGN 103,524 thousand (2015 – BGN 103,590 thousand), as well as net profit for the year to the amount of BGN 30,255 thousand (2015: BGN 10,168 thousand).

(c) Statutory reserves

Statutory reserves comprise amounts appropriated for purposes defined by the local legislation. Under the Bulgarian Commercial code, the Bank is required to set aside of its profit in a statutory reserve until it reaches 10% of its equity. As of 31 December 2016, the statutory reserve is at the amount of BGN 9,850 thousand (2015: BGN 9,850 thousand).

(d) Fair value reserve

The fair value reserve comprises the fair value reserve of available-for-sale financial assets. The fair value reserve as of 31 December 2016 amounted to BGN 4,480 thousand (2015: BGN 2,947 thousand).

31. Contingent liabilities

Bank guarantees and letters of credit

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and generally extend for a period of up to two years.

The contractual amounts of financial guarantees and letters of credit are set out in the following table by category. The amounts reflected in the table for commitments are assumed to be fully advanced. The amounts reflected in the table for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the statement of financial position's date if counterparties failed to perform as contracted.

31. Contingent liabilities, continued

In thousands of BGN	**2016**	**2015**
Undrawn credit commitments	105,007	123,481
Letters of credit	1,818	2,403
Guarantees	44,740	58,925
Total contingent liabilities	151,565	184,809

These commitments and contingent liabilities have off balance sheet credit risk because only fees and accruals for probable losses are recognized in the statement of financial position until the commitments are fulfilled or expire. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

At 31 December 2016, the extent of collateral held for guarantees and letters of credit is 100 percent.

32. Assets pledged as securities

As at 31 December 2016, the Bank has pledged Government securities with nominal value BGN 29,240 thousand and market value BGN 30,220 thousand as security for borrowed funds from the State Budget, Government securities with nominal value BGN 70,214 thousand and market value - BGN 76,374 thousand as security for the loan received by EIB on Programs for refinancing of commercial banks and for refinancing agriculture producers.

33. Trust and fiduciary activities

The Bank provides trust and fiduciary services to the companies in the Allianz Bulgaria Group (the Group), whereby it holds and manages Bulgarian government securities at the discretion of the Group. The Bank receives fee income for providing these services. Trust assets are not assets of the Bank and are not recognised in the Bank's statement of financial position. The Bank is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

Revenue from fees and commissions from discretionary management of Allianz Bulgaria group amount to BGN 169 thousand in 2016 (2015: BGN 157 thousand).

34. Related party transactions

(a) Parent and ultimate controlling party

Identification of related parties
The Bank considers that it has a related-party relationship, in accordance with International Accounting Standard 24 Related Party Disclosures ("IAS 24") with the following:

- The parent – company Allianz Bulgaria Holding AD from which 66.16% are controlled by Allianz SE (ultimate controlling party) and companies from Allianz SE Group;
- Investor with significant influence, owning directly or indirectly (with/or his close family members), 33.84% of the capital of Allianz Bulgaria Holding AD, companies and non-profit legal entities under his direct or indirect control;
- Key management personnel and companies and non-profit legal entities under their direct or indirect control.

The table below shows the key management personnel compensation:

Compensation for key management personnel		
In thousands of BGN	**2016**	**2015**
Short-term employee benefits	1,622	1,400
Total	1,622	1,400

Related party transactions are summarized below.

Banking services

The Bank provides current accounts to related parties, and takes deposits from them, on which it incurs interest expense, and provides loans to them, on which it earns interest income. The Bank also earns fee and commission income on banking services provided to related parties.

Leasing

The Bank acquires finance leases written by a related party. The value of leases acquired was BGN 21,309 thousand (2015: BGN 16,056 thousand). The Bank pays the related party a commission upon acquisition of such leases as well as compensation for the cost of administering those leases. Separately, the Bank provides credit risk management services to the related party and in respect of the risk position of the lessees of the related party.

Other financial services
The Bank earns fees and commissions, disclosed in the financial statements as other income, from the sale of insurance and pension fund business on behalf of related parties.

Other transactions

Other related party transactions includes rent income from and expense to related parties for property occupancy, and costs for services such as staff training, and insurance cost related to Bank's activity.

34. Related party transactions, continued

(b) Transactions and balances

Related party	**Nature of the related party relationship**	**Type of transaction**	**Value of the transactions for the year ended**		**End balances as of 31 December**	
In thousands of BGN			**2016**	**2015**	**2016**	**2015**
Allianz Bulgaria Holding	Controls directly or indirectly the business of the bank	Current accounts	-	-	748	973
		Deposits	-	-	1,930	2,863
		Interest expense	3	33	-	-
		Accrued interest on deposits	-	-	-	1
		Paid dividends	-	-	10,157	12,032
		Fee and commission income	1	1	-	-
		Other income	1	1	-	-
Allianz Bulgaria Insurance company	Party under the control of Allianz Bulgaria Holding	Current accounts	-	-	7,555	4,054
		Deposits	-	-	5,150	4,100
		Accrued interest on deposits	-	-	-	-
		Payables	-	-	-	27
		Receivables			32	-
		Paid dividends	-	-	-	1,506
		Interest expense	11	33	-	-
		Fee and commission income	89	130	-	-
		Insurance expenses	499	488	-	-
		Rent expenses	430	424	-	-
		Other income	181	632	-	-
		Other expenses	21	26	-	-
		Rental income	2	4	-	-
		Guarantees	-	-	1,173	1,181
		Unused credit commitment	-	-	-	4
Energy Insurance company	Party under the control of Allianz Bulgaria Holding	Current accounts	-	-	6,035	6,257
		Deposits	-	-	2,143	2,150
		Accrued interest on deposits	-	-	5	10
		Paid dividends	-	-	-	1,506
		Interest expense	9	24	-	-
		Fee and commission income	24	32	-	-
		Rent expenses	5	9	-	-
		Guarantees	-	-	2,073	2,074

34. Related party transactions, continued

(b) Transactions and balances

Related party	**Nature of the related party relationship**	**Type of transaction**	**Value of the transactions for the year ended**		**End balances as of 31 December**	
In thousands of BGN			**2016**	**2015**	**2016**	**2015**
Allianz Bulgaria Life Insurance company	Party under the control of Allianz Bulgaria Holding	Current accounts	-	-	6,350	2,751
		Deposits	-	-	-	12,923
		Trade loan			-	-
		Accrued interest on deposits	-	-	-	-
		Received compensations under insurance policies of borrowers	-	304	-	-
		Interest expense	1	29	-	-
		Fee and commission income	269	223	-	-
		Other income	436	501	-	-
		Rent expenses	297	314	-	-
		Rental income	3	3	-	-
		Insurance expenses	1,418	1,389	-	-
		Payables	-	-	1	-
		Receivables	-	-	-	3
Allianz Bulgaria Pension Fund	Party under the control of Allianz Bulgaria Holding	Current accounts	-	-	11,547	2,552
		Deposits	-	-	6	6
		Accrued interest on deposits	-	-	-	-
		Receivables	-	-	-	3
		Interest expense	-	33	-	-
		Fee and commission income	9	13	-	-
		Other income	168	205	-	-
		Rental income	3	3	-	-
		Rent expenses	13	11		
		Guarantees	-	-	5	5
Bulgaria Net AD	Party under the control of Allianz Bulgaria Holding	Current accounts	-	-	2,052	647
		Fee and commission income	4	4	-	-
		Other expenses	1,363	1,434	-	-

34. Related party transactions, continued

(b) Transactions and balances

Related party	Nature of the related party relationship	Type of transaction	Value of the transactions for the year ended		End balances as of 31 December	
In thousands of BGN			2016	2015	2016	2015
Allianz Leasing Bulgaria Company	Party under the control of Allianz Bulgaria Holding	Current accounts	-	-	5,623	3,548
		Trade loan	-	-	25,230	26,404
		Liabilities to financial lease contract	-	-	13	22
		Interest income	675	819	-	-
		Interest expense	2	6	-	-
		Fee and commission income	6	11	-	-
		Rent expenses	114	116	-	-
		Receivables	80	80	-	-
		Payables	80	80	-	-
		Cession expenses	1,179	858	-	-
		Transferred receivables			21,309	16,056
		Other income	1	-		
Allianz Business Services СПОЛ.С.Р.О.	Party under the control of Allianz SE	Current accounts	-	-	-	3
		Trade loans	-	-	-	18,776
		Impairment allowance			-	300
		Fee and commission income	42	-	-	-
		Interest income	596	802	-	-
Shareholders and parties related to shareholders	Party under the control of investor with significant influence and his close family members					
		Current accounts	-	-	12,188	3,456
		Deposits	-	-	8,124	16,457
		Accrued interest on deposits	-	-	1	6
		Receivables	-		16	-
		Interest expense	26	79	-	-
		Interest income	569	734	-	-
		Fee and commission income	681	892	-	-
		Loans and credit commitments	-	-	18,386	20,811
		Impairment allowance	-	-	193	282
		Guarantees	-	-	419	419
		Rent expenses	738	717	-	-
		Receivables	-	-	62	60

Translation from the original Bulgarian version, in case of divergence the Bulgarian original shall prevail.

34. Related party transactions, continued

(b) Transactions and balances

As of 31 December 2016 loans and credit commitments are with remaining maturity between 2 months and 2 years. The interest rate varies between 3.1% and 15.57%. Loans and credit commitments in general are secured. Guarantees mature in up to 14 years. Deposits and current accounts are unsecured and the transactions are settled in cash. Deposits are with remaining maturity between a half month and year and seven months. The interest rate on deposits varies between 0.02% and 4.05%.

Key management personnel	**Value of the transactions for the year ended**		**End balances as of 31 December**	
In thousands of BGN	**2016**	**2015**	**2016**	**2015**
Current accounts	-	-	1,287	1,333
Deposits	-	-	3,942	4,330
Accrued interest on deposits	-	-	5	7
Interest expense	142	18	-	-
Interest income	21	1	-	-
Fee and commission income	3	35	-	-
Remuneration	-	-	1,622	1,400
Loans and credit commitments	-	-	1,169	946
Impairment loss	-	-	10	-

As of 31 December 2016 loans and credit commitments to key management personnel are with remaining maturity less than a year and up to 30 years respectively. The interest rate vary between 4.3% and 15.75%. Loans and credit commitments in general are secured. Deposits and current accounts are unsecured and the transactions are settled in cash. Deposits are with remaining maturity up to 3 years. The interest rate on deposits vary between 0.03% and 3.75%.

35. Subsequent events

There are no events, subsequent to the reporting date, of such a nature that they would require additional disclosures or adjustments to the financial statements.

36. Capital commitments

Agreements for purchase of property, plant and equipment are at the amount of BGN 225 thousand (2015 BGN – 218 thousand).

37. Reclassification of loans and advances to banks to cash and cash equivalents

In the bank industry it is considered that the minimal required reserves held in the Bulgarian National Bank have to be presented in cash and cash equivalents in the statement of financial position. As a result the Bank reclassified from loans and advances to banks to cash and cash equivalents the equivalent amounts. The following table summarizes the reclassification effect on the financial statement.

Statement of financial position

In thousands of BGN	**Cash and cash equivalents**	**Loans and advances to banks**
Balance at 1 January 2015, reported before	307,754	161,508
Adjustment effect	157,683	(157,683)
Recalculated balance as at 31 December 2015	465,437	3,825
Balance at 31 December 2015, reported before	439,235	185,490
Adjustment effect	172,881	(172,881)
Recalculated balance as at 31 December 2015	612,116	12,609

Statement of cash flow

In thousands of BGN	**2015**
Increase /(decrease) in:	
(Increase) of loans and advances of banks and other finance institutions	15,198
Net cash flow from operating activities	15,198

No significant effect in the financial statement for profit or loss and statement of other comprehensive income for the years ended 31 December 2016 and 2015.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Allianz Bank Bulgaria AD

Opinion

We have audited the financial statements of Allianz Bank Bulgaria AD ('the Bank") as set out on pages 1 to 72, which comprise the statement of financial position as at 31 December 2016, and statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

Basis for Opinion

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

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the management report, including information related to the Bank's activities in its role of an investment agent, and the corporate governance statement prepared by management in accordance with Chapter Seven of the Accountancy Act, but does not include the financial statements and our auditors' report thereon.

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

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

We have nothing to report in this regard.

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming opinions about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Art. 100m of the POSA, where applicable) applicable in Bulgaria.

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

Based on the procedures performed, our opinion is that:

a) The information included in the management report for the financial year for which the financial statements have been prepared is consistent with those financial statements.

b) The management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7, where applicable, of the Public Offering of Securities Act.

c) The corporate governance statement for the financial year for which the financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8, where applicable, of the Public Offering of Securities Act.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG Bulgaria OOD

Dobrina Kaloyanova
Authorised representative

Tzvetelinka Koleva
Registered auditor

ОДИТОРСКО ДРУЖЕСТВО
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21 March 2017

Report by the Management Board for the Activity of Allianz Bank Bulgaria AD for 2016

Report by the Management Board for the Activity of Allianz Bank Bulgaria AD for 2016

Dear Shareholders,

Welcome to the Regular Annual Assembly of the shareholders of Allianz Bank Bulgaria AD.

The past 2016 was another successful year for Allianz Bank Bulgaria AD during which the company continued functioning as a loyal and correct partner on the local and international markets.

Despite the complicated macroeconomic conjuncture, the Bank achieved good financial results, driven by the effective management and excellent work of the employees.

In 2016 the Bank reached the amount of BGN 2, 460,472 thousand of assets and obtained a profit of BGN 30,255 thousand after taxes.

Attracted Funds

At the end of 2016 the clients' deposits in the Bank increased by 8.9% and reached the amount of BGN 2,153,309 thousand.

Financial sources for the Bank are deposits of individuals - BGN 1,238,462 thousand and deposits of corporate clients - BGN 914,847 thousand.

At the end of 2016 Allianz Bank Bulgaria served 27,906 corporative bank accounts and 279,168 bank accounts of individuals.

Equity

The main equity of Allianz Bank Bulgaria AD, as per 31.12.2016, is BGN 69,000 divided into 69,000 thousand registered voting shares, the nominal value of each is BNG 1.

As per 31 December 2016 the Bank's own capital amounts to BGN 217,110 thousand. The total risk component of the balance and off-balance sheet assets of the Bank is BGN 1,028,194 thousand. The capital base of the Bank, according to the New Equity Framework of the ECB /Basel 3 / without the annual profit for the end of 2016 is BGN 180,899 thousand. The capital adequacy ratio is 17,59% (while the recommended minimum according to BNB is 13,5%) and the core capital adequacy ratio is 17,59% (while the recommended minimum according to BNB is 11,5%). As per 31 December 2016 the Bank does not report any tier capital in the form of subordinated debt in its capital bases.

Assets

At the end of 2016 the assets of the Bank amount to BGN 2,460,472 thousand, which makes them increase for one year by 6.05% and represent 2.68% of the assets of the banking system as per 31.12.2016, while being 2.66% as per the end of 2015.

There is a more considerable change in the structure of asset for the bonds, the share of which increases by 4 pp as per the previous year, reaching 26% at the account of net credits which, for the same period, shrinking to 7 pp, and their share amounts to 44%.

As per the end of 2016 the profitable assets of the Bank mark an increase by 3.9% as per 2015 and amount to BGN 1,751,550 thousand. The highest growth rate for the accounted period is marked by the bond portfolio (27,8%), and in nominal terms reaches the amount of BGN 635,021 thousand.

The gross value of loans granted by the Bank as per the end of 2016 is BGN 1,218,555 thousand, and they mark a decrease of 6% on an annual base. The loans provided to individuals increased by 3,7% as per the end of 2015 and amount yo BGN 602,458 thousand. The loans to corporate clients as per the end of the same period amount to BGN 616,097 thousand and they decreased by 14,3% compared to the previous year.

According to the new financial reporting framework under Basel III (FINREP) the loans overdue by over 90 days amount to BGN 176,246 thousand and represent 14.23% of the loan portfolio of the Bank; the analogous index for the entire banking system is 18,28% and 16.26% for an second group of banks (to 31.12.2016).

Net Financial Income

For the past 2016 the Bank kept the ratios in the structure of net financial income and the main factor for profit formation remained net interest incomes and net fee and commission income.

The highest relative share of the interest incomes comprise the interests in loans and advances to clients – BGN 65,788 thousand, which is 81.28 % of the total income from interests, compared to 84.98% a year earlier. The interest income are BGN 15.472 thousand and have a relative share of 19.12% (compared to 14.76% as per the end of 2015).

The net fee and commission income amounts to BGN 18,975 thousand, marking a decrease of 5.21 % compared to the end of 2015. The fee and commission income from treasury operations and remittances for the same period show a decrease of 9,53 %. The income obtained from fees and commissions on guarantees and letters of credit fell by 16.07%, and that received by other fees and commissions increased by 4.92%.

The net income from currency exchange rates and exchange rate differences is BGN 2,566 thousand, marking a drop of 4.82% compared to the end of the previous year.

Administrative Expenses

The operational expenses of the Bank for 2016 amount to BGN 49,497 thousand and mark a decrease of 3.3% compared to 2015.

The expenses for rentals increase minimally by 0.32% and the expenses for depreciation mark a drop of 17,16% compared to 2015. The funds for covering the installment for Bulgarian Deposit Insurance Fund amount to BGN 3,221 thousand and decreases by 59.04% compared to 2015. The installment for the Bank Restructuring Fund amounts to BGN 3,098 thousand (2015: BGN 2,468 thousand). The main expenses for materials, audit, other services, as well as managerial marketing and other expenses increased by nearly 12.77% and amount to BGN 18,655 due to extraordinary expenses related to the Asset quality review and consulting services.

At the end of 2016 the amount of the obtained gross operating result BGN 96,406 thousand, which is a decrease of 0.32% compared to the previous year.

The Cost/Income ratio (Administrative expenses/Gross operating result) as per the end of 2016 amounts to 51.34% compared to 52.93% at the end of the previous year.

Financial Objectives for 2017

The financial objectives that the Bank aims at for 2017 are based on the expected market conjuncture and the plan of the Bank, approved by the Supervisory Board and the Planning Dialog with Allianz CEE.

The dynamics in the volume of business, measured through the planned credit portfolio growth, amounts to 4.6%.

This business volume shall generate profit after tax amounting to BGN 26.7 million, which will provide return of equity (ROE) of 12.3%.

New Products and Services

In 2016 the Bank continued maintaining and developing its product range "Retail Banking" for the purpose of holding the achieved position.

In 2016 the bank system kept increasing the savings of individuals and households, which put pressure towards decreasing the price of attracted funds; together with that the price of credit for the same segment maintained its descending trend.

The competition in loans lending was maintained through this year, and nominal interest rates of mortgages dropped below 4% and APR under 4.5%.

During the 4th quarter of the year, the Consumer Real Estate Loan Act, which was passed earlier in the year, became effective. The legislative changes can be summarized as follows:

- Making a separate law for the regulation of mortgage loans, which was included in the Consumer Loan Act up to now;
- Broadening the requirements towards the creditors to inform the consumer of all types of risks which can arise from a long-term loan deal – changers in the Reference interest rates, changes in currency exchange rates, when the consumer's income is in different currency from the loan currency, etc.
- Introducing a requirement towards the creditors to provide a Binding proposal and a sample loan agreement for the deal within 14 days before the agreement is signed

In consideration of the regulatory changes, Allianz Bank adjusted their activities regarding mortgage loans to the new legislative requirements.

In 2016 for the "Corporate Banking" business line the efforts focused on active sales and preserving the purity of the corporate credit portfolio. We worked for the increase of incomes from fees and commission interests and creation of new opportunities for crediting.

In the first half of the year an annual review was performed of corporate clients using preferential conditions for bank servicing.

The annual review of our relations with the assessors was carried out as well.

The surplus liquidity of the Bank, the trend of increase of attracted funds from corporate clients, the pressure for lo-interest loans made us one of the first banks in Bulgaria to offer a negative interest on current accounts. All clients, especially the one with large balances over BGN/EUR 30 million cumulative or USD 10 million, pay negative interest.

There was a comprehensive analysis of the existing deposit products. The unattractive products and the short-term ones were discontinued, and the rest were changed in their functionality regarding interest. A fee for early termination of a deposit was introduced, in the amount of 0.2% of the principal, and the deposit interest rates are close to the ones for current accounts.

The offered standard products "Allianz Development" and "Allianz Perspective" very quickly found their place in the Bank portfolio and were successfully sold in 2016. It became clear that the predetermined restrictive conditions and the accelerated approval process helped us reach new clients.

2016 was an active year with regard to cooperation with our external financial institutions. In the beginning of 2016 we used additional resource of the limit under program JEREMIE, with which the total amount became EUR 17,650 million and the residual debt amounts to EUR 13,963 million.

In September 2016 we signed a new agreement with the European Investment Bank for another EUR 30 million. In 2017 the loan will be secured and a part of the funds will be used.

In the second half of 2016 we signed a new contract with the National Guarantee Fund for higher-risk financing with guarantee risk to the borrower up to BGN 3,000,000.

In April 2016 began the actual business with client of the new Factoring unit. By the end of the year the unit it working with 16 clients with total turnover of BGN 15.48 million and amount of advance payments/funding of BGN 4.4 million.

Within the year the Bank kept a relative high rate of performed card transactions - the increase in relation to 2015 is 18.15%, while for transactions through POS devices the growth is even more – 27.22%.

In December 2016 we launched two package products – Allianz Start and Allianz Start +, which provide the clients with a current account, electronic services – debit card, online and mobile banking, sms notifications, as well as insurance products with a preferential package price. The main targets of the new packages are the Bank's corporate clients, but they can be used by all current and future clients.

The Bank continues its active participation in both campaigns for increase of usability of the card products on POS terminals in the retail sites and SMEs and broadening the network of contactless POS terminals organized by the international card operator Visa Europe. Within the year, again in collaboration with Visa Europe, there was a campaign to increase the issue of debit and credit cards for corporate clients.

During 2016 four joint campaigns were organized with companies from Allianz Bulgaria Holding for offering credit cards to their loyal clients. The proposals were directed to clients of life insurance products, as well as to clients of the general insurance and pension funds.

With the help of card operators Visa and MasterCard there were three successful campaigns to increase the portfolio of cardholders for debit and credit cards.

With the purpose of increasing customer satisfaction for cardholders there was an additional opportunity for automatic repayment of the minimum repayment for a credit card in full from another current account belonging to the client.

For the purpose of fulfilling the requirements of the revised European Directive for payment services in the internal market, the bank changed the methods for determining tariff conditions for merchants using POS terminals of the Bank. Currently, as of April, the bank was one of the first to comply with the new European requirements. Together with this innovation there was a two month campaign for attracting new merchants, accepting card payments via POS.

In 2016 Internet banking continued to be the preferred manner for making payments. Around 64% of all transfer operations of the Bank are performed through the Internet and the new mobile banking.

The results of a new application, implemented in the end of 2015 for making bank transactions through a mobile smart device – phone or tablet, fully met our expectations for quick acceptance of the Internet banking clients; for the year, around 30 thousand transactions were realized through the applications. In the digital stores Apple and Google, the Allianz mobile banking has the highest rating among similar solutions for other Bulgarian banks.

Numerous updates and finishing works on functions of the system for Internet banking were performed – implementation of a new declaration under the Measures against Money Laundering Act requirements, updates of the mobile device design, changes related to regulatory requirements, etc.

At the end of the reporting period, there are several new projects in the field of electronic services, which are technologically completed, but will be implemented in the beginning of 2017 – accepting card payments with merchants with a new type of mobile POS device – mPOS, a functionality for reviewing information through the client's online banking for financial instruments managed by the Bank, innovation for the SMS notification service – notification for clients for transactions from their accounts in the Bank.

Sales Network

In 2016 started a process for optimization of the Bank's branch network.

Based on a regular analysis of the effectiveness and development potential at the points of sale, and the results for the last several reporting periods the following branches were closed: FC Kranevo, IFC Kubrat, IFC Byala Slatina, IFC Community Treasury, FC Bulyard, FC Galabvo, FC Balchik, IFC Popovo, IFC Burgas Free University, FC Benkovski and FC Varna Free University.

With these changes at the end of 2016 the total number of points in the sales network of Allianz Bank Bulgaria AD is 91 in 47 settlements, including: 40 BC, 38 FC, 13 IFC.

Information Technologies

A number of new additional developments and new products, related to the multiple modifications in the Bank's tariff were implemented during the past year in the field of information technologies. The Bank's reporting system now includes up-to-date reporting forms of BNB, related to the modifications in the BNB and ECB requirements. An interface was developed, connected with the new BNB Registry of bank accounts and safes.

Several infrastructure projects were completed, most notably the one for archiving and backup of the Bank's information system.

In the field of payment, a new interface was developed in relation to making foreign currency transactions for SEPA.

During the year special attention was paid to the matters of information security of the Bank. A Web Application Firewall was implemented, which raised the security of the Bank's Internet banking system.

In the beginning of the year a new application was implemented, which allows the Bank to perform Factoring services for their clients.

During the year started the project for migrating the main banking system to the last version of the currently used product – Flexcube, which should be completed in the spring of 2018.

During next year we will continue to develop the information technologies, implemented in the Bank, in order to respond timely to all changes in the regulatory and judicial provisions in the country, the challenges of the Business and the clients' satisfaction through solid, reliable and high performance information system, complying to the world standards in the field. The focus will be mainly on the project for migration of the main banking system, but also we will pay attention to the automation of customer service processes as well as implementing a management system for the business processes in the bank. Moreover, during the next year is expected the implementation of a new AML and AntiFraud system, which will meet the growing requirements for security of the clients' funds entrusted to the Bank.

Staff

At the end of 2016 Allianz Bank Bulgaria AD comprises 813 contractual employees.

For yet another year, the Bank continues its active policy for the qualification and professional development of the employees. During the year there were internal training courses for managers in Allianz Bank Bulgaria central office, as well as trainings by external consultants and training companies.

In 2017 the process of development and training of the staff shall continue.

Credit, Market, Liquidity and Operational Risk

The Bank manages its credit risk through rules and procedures, related to features of the credit transactions, concluded by the Bank, the order, terms and method of their research, analysis, assessment, solution, coordination, management and provisioning, approved by the Management Board of the Bank through which the Bank actively manages its credit risk.

The credit component of the Bank performs monthly reviews, assessment, rating of risk exposures of the Bank, forming of specific and general provisions for impairment according to applicable International Accounting Standards for financial accountability (IAFA), depending on the allowed time period for delay of payable obligations, assessment of the financial state of the debtor and the sources for payment of his/her obligations, by concentrating the attention of the management on the assessed risk.

In the beginning of each calendar year the Management Board of the Bank approves and monthly monitors the concentration of exposures on the credit programs, industries, sectors, type of clients, amount of credits, maturity etc, as well as issuers, credit rating, liquidity and state (for investment securities).

As per 31.12.2016 the individually and collectively impaired credits, for which the Bank believes that it might be impossible to collect the whole principal or due interests in compliance with the terms of the loan, amount to BGN 176,246 thousand, the accrues interest of their impairment amount to BGN 121,840 thousand.

Applying the principle of full coverage of the loss risk, the Bank has accrued collective provisions for suffered, but not reported losses under the applicable accounting standard as per 31.12.2016, for regular risk exposures grouped on a portfolio basis, amounting to BGN 12,308 thousand. The provisions formed under the applicable accounting standards are determined on the basis of the approved Provisioning policy.

The Bank manages the counterpart risk to banks by working mainly with counterparts of the investment class. With the aim of full and timely information, complete management and monitoring of the counterpart risk, Allianz SE uses the web based system CRisP. Limits for the counterparts are determined and daily control on their observance is effectuated.

As per 31.12.2016 all exposures to banks are to counterparts of investment class, except for DSK BANK EAD and UniCredit Bulbank AD. As per the end of year the deposits on the money market by residual maturity are mainly short term ones, up to seven days and represent 93% of all deposits and Nostro accounts. The rating structure of deposits and Nostro accounts on the money market is the following: A/ AA- 42 %; BB+ / BBB+ 58%.

As per 31.12.2016 84.52% of the total allocated capital is for the credit risk, in compliance with the regulatory framework Basel 3.

The Bank manages the market risk through a suitable organizational structure for identification, measurement, monitoring and management. The processes are documented and data provisioned. As per 31.12.2016 the exposure of the Bank to market risk from Financial Assets Portfolio, kept for trade, is BGN 35,603 thousand. The allocated capital for market risk - general and specific is 0.34% of the totally allocated capital.

The Bank possesses a portfolio of liquidity assets as per the end of 2016, amounting to BGN 1,101,237 thousand, which allows it to maintain a suitable balance between timing of the attracted resource for current financing of its activity. As per 31.12.20116 the ratio of the primary liquidity is 23.84%, and the secondary liquidity is 49.23% with a minimum payable ratio of 20.00% recommended by the BNB.

As per 31.12.2016 the total allocated capital for the operational risk, calculated by a standard approach, is 15.14%. A specialized software for registration of operational risk loss and self assessment of potential effects of occurring of such events functions.

Detailed disclosure of the Bank's policy in regards of financial risk management (credit risk, liquidity risk and market risk) is presented in the financial statement, prepared in accordance with the International Financial Reporting Standards, adopted by the European Union, Appendix 6.

Information regarding the compliance of the organization implemented by the Bank through the year in its role as an investment intermediary, in relation to keeping client assets, with the requirements of Articles 28-31 of Ordinance 38 dated 25.07.2007 regarding the requirements for the activities of investment intermediaries

a) We have opened for the clients a sub-account at a depository institution on the grounds of the written contract between the client and us, in compliance with the conditions envisaged therein.

b) As an investment intermediary which opens an account for financial instruments of its client with a third party, we take due care for the client's interests when selecting that party and entrusting to said party the client's financial instruments for safekeeping; we also review regularly with the same care the selection of that party and the conditions in which it keeps the client's financial instruments. In order to comply with our obligations, we take into consideration the professional qualities and market reputation of the third party, as well as the regulatory requirements and market practices related to the keeping of such instruments, which can impair the client's rights. We have contracts with Central Depository AD, Bulgarian National bank, Clear Stream Luxembourg and three other international institutions. The depositary institution the Bank has contracts with, are based within the European Union.

c) We undertake the necessary actions to ensure that the keeping of financial instruments of our clients with a third person is done in a way which guarantees identification of the client's financial instruments separately from the financial instruments of the investment intermediary and of the third party, by the keeping of segregated accounts by that third party or by the application of some other measures ensuring the same level of protection.

d) We accept cash payments from clients for providing investment and/or additional services, as well as cash funds necessary for payment of financial instrument transactions, respectively we make payments to clients in compliance with the Cash Payments Limitation Act.

e) The Bank is also responsible to undertake the necessary actions to ensure the deposited funds provided by clients or obtained as a result of performed for their account investment services, are held on individual client's accounts or a client account, separate from the resources of the Bank as an investment intermediary.

f) As an investment intermediary, the Bank shall not conclude transactions for financing securities with financial instruments of clients held by us or otherwise to use for its own account or for the account of another client such financial instruments, unless the client has given preliminarily their express consent for use of his financial instruments on certain conditions and the use of the financial instruments is accomplished in compliance with those conditions.

g) The Bank shall not conclude transactions for financing securities with financial instruments of clients, kept in an omnibus client account with a third party, or otherwise to use for its own account or for another client's account such client financial instruments.

h) In the cases when we act as an investment intermediary who keeps financial instruments and cash of clients, we keep records and accounts of the held by the client asset in a manner which allows us at any time immediately to separate the assets held for one client from the assets held for other clients and from our own assets.

i) These records and accounts under shall be maintained in a way, which ensures their accuracy and their consistence with the financial instruments and cash held for the clients.

j) We regularly coordinate the records and accounts kept by us under item i) and those kept by third parties, with whom the client assets are safeguarded.

Management and Supervisory Board

The remunerations received in 2016 by the members of the Management and Supervisory Board of ALLIANZ BANK BULGARIA AD amount to BGN 1,622 thousands, including the remunerations of the Executive Directors).

In 2016 there are no acquired, possessed or transferred shares and debentures of the Bank by members of the Supervisory and Management Board. The Bank's charter does not comprise restrictions or preferential modes for members of the Management and Supervisory Board for acquiring shares and debentures, issued by the Bank.

Participation of the Management and Supervisory Board in trading companies:

1. **MAXIM SIRAKOV** - he does not participate in trading companies as an unlimited liable partner; he does not possess more than 25 % of the capital of another company; he is an administrator of ALLIANZ BULGARIA AD Insurance Company, Sofia, ENERGIA AD Insurance Company, Sofia, Bulgaria Net AD – in liquidation, Sofia and ALLIANZ BULGARIA LIFE AD Insurance Company, Sofia.

2. **DIMITER ZHELEV** - he does not participate in trading companies as an unlimited liable partner; he possesses more than 25 % of the capital of BULLS AD, Sofia and SIH AD, Bankya; he is and administrator of ALLIANZ BULGARIA HOLDING AD, Sofia, Sofia, UNICREDIT BULBANK AD, Sofia, SIH AD, Bankya, BULLS AD, Sofia, and STADIS AD, Sofia.

3. **CHRISTOPH PLEIN** - he does not participate in trading companies as an unlimited liable partner; he does not possess more than 25 % of the capital of another company. He is a member of the Board and prosecutor of Allianz

Investment Management SE, Munich, as well as a member of the Supervisory Board of Allianz Hellas Insurance SA, Athens, Allianz – Triac Pensii Private, Bucharest and Allianz ZB d.o.o. Zagreb.

4. **RAYMOND SEAMER** - he does not participate in trading companies as an unlimited liable partner; he does not possess more than 25 % of the capital of another company.

5. **PETER KISHBENEDEK** - he does not participate in trading companies as an unlimited liable partner; he possesses more than 25 % of the capital of Alahaz Projekt Kft., Hungary. He is a Chairmen of the Board of Directors and Chief Executive Director of Allianz Hungary Insurance c.o.

6. **RAINER FRANZ** - he does not participate in trading companies as an unlimited liable partner; he possesses more than 25 % of the capital of Communication sro, Bratislava, he is an administrator of Communication sro, Bratislava.

7. **KAI MULLER** - he does not participate in trading companies as an unlimited liable partner; he does not possess more than 25 % of the capital of another company.

Members of the Management Board:

1. **Svetoslav Gavriyski** - he does not participate in trading companies as an unlimited liable partner; he does not possess more than 25 % of the capital of another company; he is not an administrator in any trading company.

2. **Dorcho Ilchev** (MB Member until 27.12.2016) - he possesses 50% of Vinko – 2007; he is not an administrator in any trading company.

3. **Rosen Stanimirov** - he does not participate in trading companies as an unlimited liable partner; he possesses more than 25 % of the capital of STOROS OOD, Sofia (until 25.04.2016), he is an administrator of STOROS OOD, Sofia (until 25.04.2016).

4. **Christo Babev** - he does not participate in trading companies as an unlimited liable partner; he does not possess more than 25 % of the capital of another company; he is not an administrator in any trading company.

5. **Marieta Petrova** - she does not participate in trading companies as an unlimited liable partner; she does not possess more than 25 % of the capital of another company; she is not an administrator in any trading company.

6. **Kamelia Gyuleva** - she does not participate in trading companies as an unlimited liable partner; she does not possess more than 25 % of the capital of another company; she is not an administrator in any trading company.

7. **Georgi Zamanov** - he does not participate in trading companies as an unlimited liable partner; he does not possess more than 25 % of the capital of another company; he is not an administrator in any trading company.

8. **Hristina Martsenkova** – (MB member since 27.12.2016) - she does not participate in trading companies as an unlimited liable partner; she does not possess more than 25 % of the capital of another company; she is and administrator of ALLIANZ LEASING BULGARIA AD, Sofia. She owns H I M – Hristina Hristova ET.

There is no information on concluding contracts under Art. 240b from the Trade Act between the members of the boards and the Bank in 2016, that go beyond the usual activity of the company or are essentially different from the market conditions.

There are no transferred own or acquired shares under Art. 187e of the Trade Act in 2016. ALLIANZ BANK BULGARIA AD does not possess its own shares.

Internal Control

The auditing activity of the Specialized Service for Internal Audit (SSIA) of the Bank is regulated by the Credit Institutions Act, Regulation No. 10 for internal control of BNB and Internal Rules of the Organization and its Activity. The internal audit assesses the efficiency and effectiveness of the framework for internal control within the Bank. The internal auditors perform control of correspondence to the statutory regulations and internal rules and procedures of the Bank, implementing the methodological functions for unification of best practices in the Bank's system. Through an independent and objective quality assessment of the system for internal control, SSIA aims at adding value and improving the efficiency of ABB.

Having 33 planned audits in 2016, SSIA performed 37 audits, including 4 unscheduled ones - 12 in the units of CM and 25 in the Business Centers of the Bank. Detailed information of the audit findings is included in the Annual Report for the Activity of SSIA.

The bank management reacted timely and undertook adequate measures to the proposed recommendations from the internal audit for improvement of internal control in the main banking processes and activities. As a whole the control procedures are adequate, the system for internal control is reliable and in a great extent restricts the typical risks for the activity.

Dear Shareholders

At the end of 2016 the status of the Bank is very good, the Bank is stable and will in future continue to react adequately to unexpected risks and market fluctuations.

The institutions carries the name of a world famous financial leader and is featured by an excellent reputation among professionals and clients. We are confident that offering integrated bank, insurance and pension-insurance products, high quality service to clients and sustainable growth of business shall lead to achieving even better results.

This Report by the Management Board for the Activity of Allianz Bank Bulgaria AD for 2016 has been approved by the Management Board for issuance on 16 March 2017.

Sincerely yours,
On behalf of the Management Board of Allianz Bank Bulgaria AD

Georgi Zamanov
Chief Executive Director

Allianz Bank Bulgaria AD
Head Office 1
Sofia

Svetoslav Gavriiski
Executive Director

Declaration of Corporate governance of Allianz Bank Bulgaria AD for 2016

DECLARATION OF CORPORATE GOVERNANCE of„Allianz Bank Bulgaria" AD for 2016

Allianz Bank Bulgaria AD views good corporate management as a part of contemporary business practice, an aggregate of balanced relations between the Management bodies of the Company, its shareholders and all stakeholders – employees, clients, partners and the community as a whole. The bank implements appropriate practices for good corporate management, which result from the current Bulgarian legislation and the requirements of Allianz Group for good corporate management. The upper management of the Bank believes the effective implementation of good corporate management practices contribute to achieving sustainable growth and the long-term goals of the Company, as well as establishing transparent and honest relation to all stakeholders. (*information under Article 100m, paragraph 8, item 1b) of the Public Offering of Securities Act*).

Allianz Bank Bulgaria AD adopts and implements a Business Ethics Code of Conduct / Ethical Code of Conduct of Allianz Group (*information under Article 100m, paragraph 8, item 1c) of the Public Offering of Securities Act*).
Allianz Bank Bulgaria AD adopts and implements the group policy for stress management in the bank for the continuous improvement of occupational health and safety. (*information under Article 100m, paragraph 8, item 1c) of the Public Offering of Securities Act*).
When appointing people to managerial positions, Allianz Bank Bulgaria AD applies the principles underlying in the Qualification and Reliability Policy of Allianz Group.

In compliance with the above policies, Allianz Bank Bulgaria AD declares their commitment to the application of the principles of transparency, independence and responsibility of the managerial and supervisory bodies of the Bank (Supervisory and Management Board) in compliance with the established vision, goals, strategies of the companies and the interests of the shareholders (*information under Article 100m, paragraph 8, item 5 of the Public Offering of Securities Act*) **application of the Diversity policy regarding administrative, managerial and supervisory bodies** (*information under Article 100m, paragraph 8, item 6 of the Public Offering of Securities Act*).

1.1. The Supervisory board of Allianz Bank Bulgaria AD consists of 7 (seven) members, who are appointed by the General assembly of the shareholders for a set term.

1.2. The Supervisory board performs their activity in compliance with the Bank Statute and the Supervisory Board Working Regulations, as well as the applicable legislation.

1.3. The Management board of Allianz Bank Bulgaria AD consists of 7 (seven) members, appointed by the Management board.

1.4. The Management board performs their activity in compliance with the Bank Statute and the Management Board Working Regulations, as well as the applicable legislation.

1.5. In the performance of their functions and powers the Supervisory and Management boards are governed by the current legislation, by internal regulations and the standards for integrity and competence.

1.6. The members of the managerial bodies can only be capable individuals, without restrictions as to age, gender, nationality or education.

1.7. The members of the Management board and Supervisory board include individuals with good reputation, professional experience and managerial skills. Forming the composition of the managerial and supervisory bodies aims a balance between experience, professionalism, knowledge of the activity as well as independence and objectivity in expressing opinions and decision-making.

1.8. The members of the Management and Supervisory boards can be reappointed without limitation.

1.9. The managerial bodies are assisted in their activities by internal bank bodies (committees and commissions) with particular powers, regulated by legislation or internal bank rules and procedures.

2. Description of the main characteristics of the internal control system and of the risk management system of the issuer in connection with the financial reporting process (*information under Article 100m, paragraph 8, item 3 of the Public Offering of Securities Act*).

Internal control system

2.1. Allianz Bank Bulgaria AD has established an internal control system, for the purpose of protecting the interests and the rights of shareholders and clients, as well as contributing to lowering the risks, ensuring reliability and authenticity of reporting in compliance with the regulatory requirements.

2.2. The organization and activity of the internal control unit are in compliance with the regulations in the Credit Institutions Act and the issued Ordinance №10 in the internal control of banks.

Risk management system

2.3. The management of the Bank strives to develop active management of all types of risks, resulting from the specifics of banking.

2.4. The risk management system determines the powers and responsibilities in the separate structural divisions of the Bank, the organization and order of cooperation in risk management, analysis and assessment of information, related to risk, preparing periodic reports of risk management.

2.5. The organization and activity of officials and units related to risk management in the Bank are fully compliant with the requirements of the Credit Institutions Act, the issued Ordinance № 7 of the BNB dated 24 April 2014 on the organization and risk management in banks, and all other relevant legislation, rules and policies.

Components and main characteristics of internal control system and of the risk management system in connection with the financial reporting process of the Bank

2.6. Controlled environment. The controlled environment includes the following elements:

- Communication and imposition of integrity and ethical values. Imposing integrity and ethical values includes, but is not limited to, action by the management for elimination or mitigation of stimuli or temptation which could induce the staff to engage in dishonest, illegal or unethical conduct. The policy of integrity and ethical values of the Bank includes communication of ethical standards to the staff via following the Business Ethics Code of Conduct / Ethical Code of Conduct of Allianz Group

- Commitment to competence. Competence means the knowledge nd skills, necessary for performance of the tasks included in the job description of the respective person.

- Participation of those charged with governance via monitoring of the model design and the effective functioing of the alert procedures and efficiency review procedures of the internal Bank control.

- Philosophy and operational management style.

- Established proper organizational structure, including taking into consideration the main areas of powers and responsibilities and the proper hierarchy levels of reporting.

- Assigning appropriate powers and responsibilities.

- Policy and practice, related to human resources, including high standards of recruiting qualified personnel – focused on, education level and former professional experience, with accent on continued education.

2.7. Bank risk assessment procedure. For the purpose of financial reporting, the Bank's risk assessment process incudes the manner in which the management identifies business risks, material for the preparation of financial statements in compliance with the financial reporting framework applicable to the enterprise, assesses their significance, assesses the probability of their occurrence and decides on the best response to these risks and the way to manage them and to assess the results accordingly. The risks, material to relible financial reporting include internal and external events, transactions and circumstances, which can occur and negatively impact the ability of the Bank to initiate, register, process and report financial information, in compliance with the assertions made by the management in the financial statement. Risks can occur or change due to circumstances like the ones listed below:

- Changes in the regulatory environment;

- New staff;

- New or updated information systems;

- Quick growth;
- New technologies;
- New business models, products or activities;
- Corporate restructuring; and
- New accouting standards and clarifications.

2.8. Information system, including the related business processes, relevant to financial reporting and communications. The information system icludes infrastructure (physical and hardware components), software, people, procedures and data. The information system of the Bank, related to the purposes of financial reporting, includes methods and documentation which:

- Identify and reflect all valid deals and operations;
- Describe promptly the deals and operations with enough detail, allowing their proper classification for the purposes of financial reporting;
- Assess the value of the deals and operations in a manner which allows the reflection of their proper monetary value in the Bank's financial statement;
- Determine the time period during which the deals and operations in order to allow their recording in the proper reporting period;
- Properly represent the deals and operations and the related disclosires in the financial statement.

2.9. Control activities. The Bank has adopted a number of policies and procedures regarding the following:

- Performance and results reviews;
- Information processing;

- Physical controls (asset security, approval of access to computer programs and data files; periodic counting and comparison of amounts in the accounting registers); and

- Separation of duties.

2.10. Current monitoring of controls. An important responsibility of the management is to establish and maintain continuous internal control. The current monitoring of controls by the management includes assessment whether they work as intended and whether they are modified appropriately to reflect changes in the circumstances. Internal auditors and other staff with similar functions contribute to the current monitoring of controls thought separate assessments.

3.Information on the existence of takeover or merger bids in 2016 *(information under Article 100m, paragraph 8, item 4 of the Public Offering of Securities Act – respectively under Article 10, paragraph 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on takeover bids)*

3.1. To date 31.12.2016 Allianz Bank Bulgaria AD has not received any takeover or merger bids from other companies.

Allianz Bank Bulgaria AD, cognizant of the public significance of their performance results, observes the principle of transparency of information regarding their activity, strives to achieve and maintain stable, constructive relations with the BNB, FSC, NSSI, NRA and other state bodies and institutions, which are related or have control over their activity. These relations are based on the principles of responsibility, good faith, professionalism, partnership, trust, and also respect and observance of commitments.

The Bank carries out their activity in strict compliance with the laws and other regulations of Republic of Bulgaria.

This Declaration of corporate governance is approved by the Management Board for issuing on 16 March 2017, and in an integral part of the annual report for 2016 by Allianz Bank Bulgaria AD, together with the annual financial statement and the Management activity report.

On behalf of the Management Board of Allianz Bank Bulgaria AD:

Georgi Zamanov	Svetoslav Gavriiski
Chief Executive Director	Executive Director