

**EXPLANATORY NOTES TO THE INTERIM SEPARATE FINANCIAL
STATEMENTS FOR THE THIRD QUARTER OF 2019 OF CENTRAL
COOPERATIVE BANK AD /THE BANK/**

1. Selected positions from the financial statements

1.1 The financial assets evaluated at fair value in the profit or loss

The Bank evaluates the financial assets at fair value through the profit or loss, if they are not held within the business model, the aim of which is the financial assets to be held for the collection of the negotiated cash flows, or within the business model, the aim of which is achieved by collecting the contractual cash flows and selling the financial assets. In addition, this category applies to instruments, which do not comply with the definitions of principal and interest. The profit or loss from a financial asset, which is evaluated at fair value through the profit or loss, is recognized by the Bank in the profit or loss.

At the end of the third quarter of 2019 the financial assets evaluated at fair value in the profit or loss are equity investments and derivatives. The equity investments include acquired shares in non-financial and financial companies and shares in mutual funds. The Bank takes decisions for managing these assets based on the fair values of the assets and manages the assets, in order to realize these fair values. The changes in the fair values of these assets are reflected in the profit or loss. The derivatives are presented at fair value and include transactions for purchase and sale of foreign exchange, forward contracts and currency swaps on the open market, and the changes in the fair value thereof is reflected in the profit or loss.

The structure of these assets at the end of the quarter in thousand BGN is as follows:

<i>Derivatives</i>	401
<i>Equity investments</i>	227 497

1.2. The financial assets, evaluated at fair value in other comprehensive income

The financial assets, evaluated at fair value in other comprehensive income are acquired debt interest bearing government and corporate securities, as well as acquired capital investments in financial and non-financial companies.

The Bank evaluates a debt financial asset at fair value through another comprehensive approach, if the following two conditions are complied with:

- a) the financial asset is held within a business model, the aim of which is collection of contractual cash flows and sale of financial assets, and
- b) according to the contractual conditions of the financial asset cash flows occur on specific dates and these case flows are only payments relating to the principal and interest on the unrepaid amount of the principal.

The profit or loss from a debt financial asset, evaluated at fair value through other comprehensive income, is recognized by the Bank in other comprehensive income, with

the exception of profits and losses from evaluation, profits and the losses from foreign exchange operations, interest income, till the moment of writing off or reclassification of the financial asset. The Bank applies the requirements for devaluation of the financial assets, which are evaluated at fair value through other comprehensive income. The Bank recognizes in the profit or loss – as profit or loss of devaluation, the amount of the expected credit losses (or recovery), making an adjustment for the losses, which is recognized in other comprehensive income and does not decrease the book value of the financial asset in the report of the financial state.

With respect to the equity investments the Bank benefited from the possibility, upon the initial recognition to make an irreversible choice of specific investments in equity instruments, which are not held for trading, which otherwise would be evaluated at fair value through the profit or loss, to present the subsequent changes at fair value in other comprehensive income. This evaluation is performed by the Bank asset by asset (instrument by instrument). The equity instruments are not subject to review for devaluation.

The structure of these assets at the end of the quarter in thousand BGN is as follows:

<i>Equity instruments</i>	12 953
<i>Debt instruments</i>	525 555

1.3. Financial assets, evaluated at amortised value

The Bank evaluates a financial asset – debt instrument at amortised value, if the following two conditions are met: a) the financial asset is held within a business model, the aim of which is the assets to be held, in order to collect the negotiated cash flows; b) on the specific dates according to the contractual conditions of the financial asset cash flows occur, which are only payments of principal and interest on the unrepaid amount of the principal.

The amortised value is the initial value of the asset, minus the principal repayments, plus or minus the accrued depreciation of the difference between this initial value and the value on maturity, calculated according to the effective interest method and adjusted for each adjustment for losses.

The effective interest method is the method, which is used upon the calculation of the amortised value of the financial asset or financial liability and upon allocation and recognition of interest income or interest expenses in the profit or loss in the respective period.

The financial assets, evaluated at amortised value are:

-acquired debt interest-bearing government and corporate securities, the value of which at the end of the quarter is BGN 279 840 thousand.

-granted loans and advances to clients, created via the direct provision by the Bank of money or services to certain clients with a fixed maturity date, the value of which at the end of the quarter is BGN 2 362 008 thousand.

The Bank recognizes in the profit or loss – as profit or loss from evaluation, the amount of the expected credit losses (or recovery), which occurred during the period, measured via the difference between the adjustment for credit losses as at the date of review and the date of the preceding review. The adjustment made for expected credit losses is presented in decrease of the book value of the financial asset in the statement of the financial position.

1.4. Receivables under securities repurchase agreements

The receivables under securities repurchase agreements are recorded as financial assets at cost, which is equal to the fair value of the funds placed by the Bank, secured by the value of the securities. The due interest for the granted financing for the term of the agreement are accounted for and recognized as interest income in the period of their occurrence.

The securities, received as collateral under securities repurchase agreements, are not recorded in the financial statements of the Bank in the cases, when the risks and the profits from their ownership have not been transferred.

The reflected receivables under securities repurchase agreements at the end of the third quarter of 2019 have been secured by a pledge of Bulgarian government securities and corporate securities.

1.5. Fixed tangible and intangible assets

The fixed tangible and intangible assets are acquired and held by the Bank discernible non-financial resource, which is used for the production and/or sale of services, for letting, for administrative or for other purposes. They are recorded at acquisition cost, decreased by the accrued depreciation and the accumulated losses of devaluation.

The depreciation of fixed tangible and intangible assets is calculated according to the linear method, so that the amortization corresponds to the term of use, intended for these assets. The annual depreciation rates are as follows:

Buildings	4%	(25 years)
Inventory	15%	(7 years)
Transport vehicles	15%	(7 years)
Other assets	15%	(7 years)
Specific equipment, cable networks and security systems	4%	(25 years)
Equipment, including hardware and software products	20%	(5 years)

Depreciation does not accrue for land, assets for resale, assets in the process of acquisition, assets in the process of liquidation and the fully amortized assets up to their residual value.

During the third quarter of 2019 a devaluation of inventories, a devaluation of the fixed tangible and intangible assets was not performed, due to the lack of indicators for a potential devaluation of these assets.

1.6. Assets acquired from collateral

Real estates and movables, acquired by the Bank, associated with granted and non-performing loans are classified as assets acquired from collateral and are recorded initially at acquisition price. The acquisition cost of the assets, acquired from collateral, is the amount of all direct expenses associated with the acquisition of the assets, as well as other

costs, incurred in relation to the delivery thereof to their present location and state. After their initial recognition, these assets are recorded at the lower of their current book value or their net realisation value. The amount of each devaluation of these assets up to their net realization value is recognized as an expense for the period of devaluation. No depreciation accrues for these assets. In the statement of the financial position these assets are presented as part of the position Other assets.

1.7. Investment properties

The investment properties are acquired and held by the Bank real estates /land and buildings/, which the Bank will not use in its activity and which the Bank holds with the aim of receiving rent income and/or increasing the value of the capital. The investment property is evaluated initially at its acquisition cost. The transaction costs are included in the initial evaluation. As its accounting policy with regard to the investment properties reporting, the Bank has adopted the model of acquisition cost in compliance with the requirements of IAS 16. In this regard the investment properties are recorded at acquisition cost, decreased by the accrued depreciation and the accumulated losses from devaluation. The depreciation accrues for the buildings, acquired as investment properties, applying the linear method. Their annual depreciation rate is 4% (25 years). Depreciation does not accrue for the land, acquired as investment properties.

2. Transactions with related parties

The Bank regards as related parties the persons, where one person can control or has significant influence on the other person upon taking financial and operational decisions, as well as in the cases when the two persons are under common control. The Bank performed transactions with the following persons: mother company, companies under common control, subsidiaries, key management staff of the Bank or of the main shareholder, whereas the performed transactions are related to the granting of loans, issuance of guarantees, attracting funds, performance of repo transactions, etc. All transactions are concluded under ordinary commercial conditions in the course of the activity of the Bank and do not differ from the market conditions, when the loans were granted and the guarantees are issued only against sufficient collateral.

At the end of the third quarter of 2019 the receivables of the Bank from subsidiaries are in the amount of BGN 10 284 thousand, which stem mainly from acquired debt securities. At the end of the third quarter of 2019 the liabilities of the Bank to subsidiaries are in the amount of BGN 906 thousand, which stem from received deposits. At the end of the third quarter of 2019 the receivables of the Bank from companies under common control are in the amount of BGN 48 072 thousand, whereas the predominant part of them stem from granted loans. At the end of the third quarter of 2019 the liabilities of the Bank to companies under common control are in the amount of BGN 56 262 thousand, whereas the predominant part of them stem from received deposits. At the end of the third quarter of 2019 the Bank does not have receivables from the mother company. At the end of the third quarter of 2019 the Bank has liabilities to the mother company in the amount of BGN 40 thousand. At the end of the third quarter of 2019 the receivables of the Bank from key management staff of the Bank or of the main shareholder are in the amount of BGN 1 045 thousand and stem mainly from granted loans. At the end of the third quarter of 2019 the liabilities of the Bank from key management staff of the Bank or of the main shareholder are in the amount of BGN 4 293 thousand and stem from received deposits.

3. Accounting policy

During the third quarter of 2019 compared to 31 December 2018 the Bank did not make changes in its accounting policy.

4. Information about seasonality or cyclic nature of the interim operations

During the third quarter of 2019 no interim operations were performed, stemming from the specific seasonality or cycles. All interim operations during this period stem from the ordinary activity of the Bank.

5. Information about usual in amount and character assets, liabilities, shareholders' equity, income and expenses.

During the third quarter of 2019 there are no new positions with respect to the assets, liabilities, shareholders' equity, income and expenses. The total amount of the assets in the financial statements of the Bank as at 30.09.2019 increased compared to the total amount of the assets in the financial statements of the Bank as at 31.12.2018 by 4.43 % and reached BGN 5 866 767 thousand. The increase in the assets of the Bank is related to the increase in the funds, attracted from other depositors. Within this quarter no operations of extraordinary character have been recorded in the income statement and other comprehensive income as a result of which the accumulated financial result as at 30.09.2019 stems only from income and expenditure, concerning the ordinary activity of the Bank.

6. Information about issued, repurchased and repaid debt and equity securities.

During the third quarter of 2019 the Bank does not have issued, repurchased or repaid debt securities, as well as issued and repurchased capital securities.

7. Information about accrued /paid/ dividend.

During the third quarter of 2019 the Bank did not accrue or pay dividend to its shareholders.

8. Events after the date of the financial statements

After the end of the third quarter of 2019 no events occurred, which have a significant influence on the future development of the Bank.

9. Information about changes in the conditional assets and liabilities

At the end of the third quarter of 2019 compared to 31.12.2018 there are changes in the amount in the direction of an increase in the conditional assets of the Bank concerning the assets, provided by clients as loan collateral. With respect to the conditional liabilities during the period there are changes in the direction of an increase in their amount compared to 31.12.2018, whereas the increase concerns commitments for the granting of loans by the Bank. As at 30.09.2019 the value of the conditional liabilities of the Bank is in the amount of BGN 242 360 thousand.

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