

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

The present explanatory notes to the interim consolidated financial statements of Central Cooperative Bank AD, Sofia (the mother bank) concern the activity of Central Cooperative Bank AD, Sofia and the subsidiaries, controlled by it: Central Cooperative Bank AD, Skopje, the Republic of North Macedonia (subsidiary) and CCB Assets Management EAD (subsidiary) as a single reporting unit (the Group).

1. Selected positions from the financial statements

1.1 Financial assets evaluated at fair value in the profit or loss

The group evaluates the financial assets at fair value through the profit or loss, if they are not held within a business model, the aim of which is the financial assets to be held for the collection of the negotiated cash flows, or within a business model, whose aim is achieved by collecting negotiated cash flows and selling financial assets. Also 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 Group 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 investment and derivatives. The equity investments include acquired shares in non-financial and financial companies and shares in contractual funds. The Group takes decisions for the management of 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 have been presented at fair value and include transactions for the purchase and sale of currency, forward contracts and currency swaps on the open market, and the changes in their fair value are 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. Financial assets, recorded at fair value in other comprehensive income

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

The Group evaluates a debt financial asset at fair value through other comprehensive income, if the following two conditions are present:

- a) the financial asset is held within a business model, the aim of which is to collect the 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 they are only payments of principal and interest on the unrepaid amount of the principal.

A profit or a loss from a debt financial asset, evaluated at fair value through other comprehensive income, is recognized by the Group in other comprehensive income, with the exception of the profits or losses from devaluation, profits and losses from FX operations, interest income, till the moment of writing off or reclassification of a financial asset. The Group applies the requirements for devaluation with respect to the financial assets, which are evaluated at fair value through other comprehensive income. The Group recognizes in the profit or loss – as a profit or a loss from devaluation, the amount of the expected credit losses (or recovery), making an adjustment for losses, and this adjustment is recognized in other comprehensive income and does not decrease the book value of the financial asset in the report of the financial statement,

With respect to the equity investments the Group took advantage of the possibility, upon the initial recognition to make an irrevocable choice of specific investments in capital 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 in the fair value in other comprehensive income. This evaluation is made by the Group 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 BGN thousand is as follows:

<i>Equity instruments</i>	13 708
<i>Debt instruments</i>	516 192

1.3. Financial assets evaluated at amortised value

The Group evaluates a financial asset – debt instrument at amortised value, if the following two conditions are present:

- a) the financial asset is held within a business model, the value of which is the assets to be held in order to collect the negotiated cash flows;
- b) according to the contractual conditions of the financial asset cash flows occur on specific dates and they 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 repayments of the principal, 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, used upon calculating the depreciated value of the financial asset or financial liability and upon allocation and recognition of the interest periods or the interest expenses in the profit or loss during the respective period.

The financial assets, recorded at amortised value are:

- acquired debt interest-bearing government and corporate securities, the value of which at the end of the quarter is BGN 317 439 thousand.

- loans and advances to clients, created via the direct provision by the Group of funds or services to certain clients with a fixed maturity, the value of which at the end of the quarter is BGN 2 573 574 thousand.

The Group recognizes in the profit or loss – as a profit or as a loss from devaluation, the amount of the expected credit losses (or recovery), which occurred in the period, measured via the difference between the adjustment for credit losses as at the date of the review and the date of the previous review. The allocated adjustment for expected credit losses has been presented to decrease the book value of the financial asset in the report of the financial state.

1.4 Receivables under securities repurchase agreements

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

The securities, received as collateral under securities repurchase agreements, are not recorded in the financial statements of the Group 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 Group 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 Group as a creditor, associated with granted and non-performing loans are classified as assets acquired from collateral and are recorded initially at acquisition price. The acquisition price of the assets, acquired from collateral, is the amount of all direct expenses associated with the acquisition of the assets, as well as other expenses, incurred in relation to bringing the assets 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 Group real estates /land and buildings/, which the Group will not use in its activity and which the Group 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 Group 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, whereas the linear method is applied. 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 Group regards as related parties the persons, where one person can control another or exercise considerable influence on the other person upon taking financial and operative decisions, as well as in the cases, when the two persons are under common control. The Group performed transactions with the following related parties: mother company, companies under common control, key management staff of the Group or of the main shareholder, whereas the performed transactions are related to the granting of loans, the issuance of guarantees, attracting funds, performance of repo transactions, etc. All transactions have been concluded under ordinary commercial conditions in the course of the activity of the Group and do not differ from the market conditions, when the loans were granted, and the guarantees were issued only against sufficient collateral.

At the end of the third quarter of 2019 the receivables of the Group from companies under common control are to the amount of BGN 48 032 thousand, whereas the predominant part stems from granted loans. At the end of the third quarter of 2019 the liabilities of the Group to companies under common control are to the amount of BGN 56 302 thousand, and the major part thereof comes mainly from obtained deposits. At the end of the third

quarter of 2019 the Group does not have receivables from the mother company. At the end of the third quarter of 2019 the Group has liabilities to the mother company to the amount of BGN 40 thousand. At the end of the third quarter of 2019 the receivables of the Group from key management staff of the Group 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 Group to key management staff of the Group 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 Group did not make changes to 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 Group.

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 Group assets, liabilities, shareholders' equity, income and expenses. The total amount of the assets in the financial statements of the Group as at 30.09.2019 increased compared to the total amount of the assets in the financial statements of the Group as at 31.12.2018 by 4.53% and reached BGN 6 135 737 thousand. The increase in the assets of the Group is related to the increase in the funds, attracted from other depositors. Within this quarter no operations of extraordinary character were recorded in the income and other comprehensive income statement, as a result of which the accumulated financial result as at 30.09.2019 stems only from income and expenditure related to the ordinary activity of the Group.

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

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

7. Information about accrued /paid/ dividend.

During the third quarter of 2019 the Group 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 Group.

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 Group 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 Group. As at 30.09.2019 the value of the conditional liabilities of the Group is in the amount of BGN 255 887 thousand.

Georgi Kostov
Executive Director

Tihomir Atanasov
Procurator

Yordan Hristov
Chief accountant

