

# **EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST QUARTER OF 2018 OF CENTRAL COOPERATIVE BANK AD**

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 Macedonia (subsidiary), CCB Assets Management EAD (subsidiary) and ZAO "IC Bank", Kazan, the Republic of Tatarstan, Russian Federation (subsidiary) as a single reporting unit (the Group).

## 1. Selected positions from the financial statements

The financial assets, held for trading, are acquired with the aim of receiving a profit, which stems from short-term fluctuations in the prices or the dealing margin or are financial assets, included in a portfolio, for which there is a probability for a short-term realization of a profit. These include the acquired equity and debt investments in non-financial companies, in which the Group does not have a control participation. The structure of these assets at the end of the quarter in thousand BGN is as follows:

<i>Derivatives, held for trading</i>	362
<i>Equity instruments</i>	3499
<i>Debt instruments</i>	1

In relation to the application of IFRS 9 from 1 January 2018 a reclassification was made of a significant part of the equity and debt securities in this position in the report as at 31.12.2017, as follows:

-reclassified in financial assets, recorded at fair value in other comprehensive income, whereas the reclassification does not have a certain forecasted effect.

-reclassified in financial assets, recorded at fair value in other comprehensive income, whereas the reclassification has a certain forecasted effect in the amount of BGN 526 thousand.

The financial assets, recorded at fair value in the profit or loss, are equity investments in financial or non-financial companies, in which the Group does not have a control participation. The significant part of the financial assets, reflected in this position in the report as at 31.03.2018 is the reclassified part of the financial assets, held for trading. The structure of these assets at the end of the quarter in thousand BGN is as follows:

<i>Equity instruments</i>	56 741
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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, whereas some of these assets are the

reclassified portion of the financial assets, held for trading. The structure of these assets at the end of the quarter in BGN thousand is as follows:

<i>Equity instruments</i>	88 822
<i>Debt instruments</i>	439 261

The financial assets, recorded at amortised value according to the effective interest rate method, are with a fixed payment and fixed maturity. These assets are acquired interest-bearing government and corporate securities.

The debt instruments include bonds, issued by the government of the Republic of Macedonia, held by the Group to the amount of BGN 16 219 of the Republic of Macedonia, as well as bonds issued by the National Bank of the Republic of Macedonia to the amount of BGN 17 222 thousand.

The loans and advances that initially originated at the Group with a fixed maturity are financial assets, created via a direct provision by the Group of money or services to certain clients with a fixed maturity.

During the first quarter of 2018 the loans with a fixed maturity, which initially originated at the Group, are recorded at amortized value according to the effective interest rate method.

The mother bank works with specialized financial institutions, registered under Ordinance N 26 of BNB for the acquisition of loan receivables, due to which the share of the non-performing loans in the Group portfolio is lower than that of the system.

The receivables under securities repurchase agreements are recorded 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 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 first quarter of 2018 have been secured by a pledge of Bulgarian government securities and corporate securities.

#### 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 first quarter of 2018 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.

#### Assets acquired from collateral

Real estates and movables, acquired by the Group, associated with granted and non-performing loans are classified as assets acquired from collateral and are recorded initially at acquisition price. 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.

#### Investment properties

The investment properties are acquired and held by the Group real estates, 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. 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 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 performed a number of transactions with related parties, whereas it granted loans, issued guarantees, attracted funds, made 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 first quarter of 2018 the receivables of the Group from companies under common control are to the amount of BGN 80 203 thousand, whereas the predominant part stems from granted loans. At the end of the first quarter of 2018 the liabilities of the Group to companies under common control are to the amount of BGN 70 634 thousand, of which BGN 45 339 thousand come from obtained funds from an issue of convertible bonds, issued by the mother bank, to the amount of EUR 36 000 thousand and the remaining part comes mainly from obtained deposits. At the end of the first quarter of 2018 the Group does not have receivables from the mother company. At the end of the first quarter of 2018 the Group has liabilities to the mother company to the amount of BGN 100 thousand.



### 3. Accounting policy

During the first quarter of 2018 the Group made changes to its accounting policy as follows:

- With respect to the classification of the financial assets

IFRS 9 introduces a new approach for the classification of financial assets, based on the characteristics of the cash flows and business model. This universal approach based on principles substitutes the existing requirements, based on rules.

- With respect to the review for devaluation

IFRS 9 introduces a new model for devaluation based on the expected loss, which requires more timely recognition of the credit losses. The standard requires reporting of the expected credit losses from the moment of the initial recognition of the financial instruments.

For the purposes of defining the model of the expected credit losses the management of the mother bank analysed the current state with respect to the requirements of IFRS 9, as well as the quantitative measurement of the expected effect. The quantitative impact of IFRS 9 has been determined in compliance with the adopted by the mother bank methodology for calculating the expected credit losses and the defined parameters for measuring risk.

The evaluation of the impact upon the initial application of IFRS 9 on the consolidated financial statements of the mother bank is related to applying a new methodology for determining the expected credit losses. Upon the performance of the analysis of the financial assets held by the mother bank no significant effect was identified in relation to a change in the classification characteristics of the new groups of financial assets, defined in compliance with IFRS 9. This is due to the fact that the definition for non-performance, applied for the purposes of the internal risk management is preserved without a change compared to the definition used so far under IAS 39 and a significant change in the business model of management of the mother bank's assets is not applied.

The expected effect of the recognition of provisions for credit risk associated with unutilised credit commitments and financial guarantees for the mother bank is in the amount of BGN 524 thousand.

As at the date of applying the standard for the first time, the main effect of IFRS 9 on the mother bank is as a result of the application of the new model for devaluation, based on the expected credit loss, which leads to an increase in the devaluations of financial assets and the provisions for conditional liabilities.

The effects of the implementation for the first time of IFRS 9 Financial instruments for the mother bank are as follows:

1. The determined by the mother bank forecasted at the moment net effect of the reclassification with respect to certain financial assets, is in the amount of BGN 526 thousand;



2. The forecasted at the moment net effect of the implementation of the model of the expected credit losses in relation to financial assets, classified as evaluated at amortised value and at fair value via other comprehensive income is in the amount of BGN 11,703 thousand, of which the unutilized commitments are BGN 524 thousand.

With regard to the implemented Regulation (EU) 2017/2395, laying down the transitional measures to mitigate the impact of the introduction of IFRS 9 with respect to the shareholders' equity of banks for regulatory purposes, the mother bank plans to use fully this regime. In the analysis of the capacity of the equity to cover the expected credit losses (CRD/CRR), the announced, forecasted at the moment of introduction of the standard, effects of the devaluation under IFRS 9 will have an insignificant impact on the regulatory capital indicators (without taking into account the tax effect) – a decrease in common equity tier 1 capital (CET1) – below 0.2% and a decrease in the capital adequacy indicators – below 0.02 %.

As at the date of preparation of the present interim consolidated financial statements the Group is in the process of an analysis of the potential effect of the introduction of IFRS 9 in the subsidiaries. The analysis is expected to be finalized and the final effects will be determined in 2018.

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

During the first quarter of 2018 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 first quarter of 2018 there are new positions with respect to the Group assets – the financial assets recorded at fair value in the profit or loss, the financial assets, recorded at fair value in other comprehensive income and the financial assets, recorded at amortised value. With respect to the liabilities, shareholders' equity, income and expenses there is no change. The total amount of the assets in the financial statements of the Group as at 31.03.2018 increased compared to the total amount of the assets in the financial statements of the Group as at 31.12.2017 by 0.46% and reached BGN 5 682 630 thousand. The increase in the assets of the Group is related to the increase in the funds, attracted from other depositors.

During the first quarter of 2018 there is no change in the shareholder participation of the mother bank in the subsidiary Central Cooperative Bank AD Skopje, the Republic of Macedonia, as a result of which as at 31 March 2018 Central Cooperative Bank Plc Sofia has 483,121 ordinary shares in the capital of Central Cooperative Bank AD Skopje, the Republic of Macedonia, which is 87,35 % of the capital of the subsidiary.

During the first quarter of 2018 there is no change in the shareholder participation of the mother bank in the subsidiary "CCB Assets Management" EAD assets management company, as a result of which as at 31 March 2018 Central Cooperative Bank Plc Sofia has 500 000 ordinary shares in the capital of "CCB Assets Management" EAD assets management company, which is 100 % of the capital of the subsidiary.

During the first quarter of 2018 there is no change in the shareholder participation of the mother bank in the subsidiary ZAO "IC Bank", Kazan, the Republic of Tatarstan, Russian Federation, as a result of which as at 31 March 2018 Central Cooperative Bank Plc Sofia has 25 338 394 ordinary shares in the capital of ZAO "IC Bank", Kazan, the Republic of Tatarstan, Russian Federation, which is 86.273 % of the capital of the subsidiary.

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

During the first quarter of 2018 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 first quarter of 2018 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 first quarter of 2018 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 first quarter of 2018 compared to 31.12.2017 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 31.12.2017, whereas the increase concerns commitments for the granting of loans by the Group and guarantees, issued by the Group.

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