

**2018' SECOND QUARTER**  
**INTERIM FINANCIAL REPORT**  
**ON THE ACTIVITIES OF**  
**CENTRAL COOPERATIVE BANK /CCB/,**  
**ON A CONSOLIDATED BASIS**

Banking group on a consolidated basis include Central Cooperative Bank AD, Sofia and its controlled subsidiaries Central Cooperative Bank AD Skopje (Subsidiary), AMC CCB Assets Management JSC. (Subsidiary) and ZAO "IK Bank" Kazan city, Republic of Tatarstan, Russian Federation (Subsidiary) as a reporting entity (the Group).

At the end of the second quarter of 2018, the parent Bank owns 87.35% of the capital of Central Cooperative Bank AD Skopje, investments of BGN 3,200 thousand in the subsidiary AMC "CCB Assets Management" JSC and 86.273% of the share capital of ZAO "IK Bank", Kazan, Republic of Tatarstan, Russian Federation as well.

**ASSETS**

At the end of the second quarter of 2018, CCB's balance sheet total assets were BGN 5,677,682 thousand. From the start of the quarter they recorded an decrease by 0.09% or by BGN 4,948 thousand in absolute terms. Compared to a year ago, the assets grew by 6.57% or by BGN 350,265 thousand.

Cash and cash balances with central banks formed 30.07% of the total assets of the Group, against 32.53% at the end of December 2017. Loans and receivables to banks were 5.21% of total assets, against 5.93% a year ago. Investments in financial assets held for trading, available-for-sale, held-to-maturity, measured at fair value through other comprehensive income and measured at amortized cost include government bonds of Republic of Bulgaria, bonds issued by Government of Republic of Macedonia and NBRM bonds, government bonds of countries in the EU and other European countries, government bonds of the Russian Federation, corporate bonds, stocks and compensatory tools which are used to improve the profitability of the Group, and represented 14.15% of its assets against 12.59% at the end of December 2017.

At the end of 2018' second quarter the amount of granted loans and advances reached 42.94% share in the structure of balance sheet assets on consolidated basis, compared to a year ago, when it was 45.51%.

The parent bank works with specialized financial institutions, registered according to Ordinance №26 of BNB on the acquisition of loan receivables due to which the share of non-performing loans in the Group portfolio is lower than that for the system.

The tangible and other assets of Group were 2.24% of total amount of the assets.

## **LIABILITIES**

At the end of June 2018, total liabilities of the Group on a consolidated basis were BGN 5,232,158 thousands. They decreased by 0.37%, compared to the end of 2017.

The majority of these liabilities - over 98% - are liabilities due to other depositors - individuals, businesses and non-financial institutions. The increase compared to the end of June 2017 is 7.01%. The Group maintains a stable structure of borrowings, which allows independence from external funding in the time of fluctuations on the global financial markets.

The equity of the Group totaled BGN 445,524 thousand and includes shareholders' equity of the parent Bank – BGN 438,023 thousand and minority interest amounted at BGN 7,501 thousand. Compared to the end-June 2017 the equity reported an increase by 3.89%.

## **FINANCIAL RESULTS**

As of 30 June 2018, the Group' net profit amounted to BGN 14,501 thousand. There is a decrease by 17.10% compared to year ago.

The operating expenses of the Group in the second quarter of 2018 increased by 3.23%, compared to the level at the end of the second quarter of 2017 and reached absolute amount of BGN 64,756 thousands.

At the end of 2018' second quarter, the Bank was able to meet all regulatory compliance requirements.

The Bank has complied with all applicable minimum regulatory requirements during the period.

### **I. Information related to significant events that occurred during the reported period of financial 2018, accumulated and its impact on the financial result.**

On 27 June 2018 a General Meeting of the Shareholders of CCB Plc took place and the following important decisions were taken at this meeting:

The annual financial statements and the annual consolidated financial statements of Central Cooperative Bank Plc for 2017 were approved and a proposal was made the accumulated profit of CCB Plc for 2017 to the amount of BGN 36 813 920.83 (thirty-six million eight hundred thirteen thousand nine hundred twenty leva and eighty-three stotinkas) to be transferred to the Reserve fund.

The following persons were elected as members of the Supervisory Board with a 5-year mandate, as from the election date: Ivo Kamenov Georgiev, Marin Velikov Mitev, Rayna Dimitrova Kuzmova and Central Cooperative Union

“Deloitte Audit” OOD, UIC 121145199 and “Grant Thornton” OOD, UIC 831716285 were elected as auditing companies, which make a verification and certify the annual financial statements of the Bank for 2018 and the supervisory reports, determined by the Bulgarian National Bank.

### **II. Information about major risks and instability during the third quarter of 2018.**

In terms of economic growth and the financial system as a whole, CCB will try to continue its development while preserving performance and market share.

Potential differences between observed and expected results are the major source of risks and uncertainties during the third quarter of 2018.

Therefore, the most significant risks are detailed in the following list:

1. **Credit risk** - the possibility that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Detailed policies are applied in process of lending, concerning the assessment of the creditworthiness of Bank's clients, and the control over the use of the advanced funds and the associated administration. In accordance with the credit risk mitigation policy, CCB accepts different types of collaterals and guarantees depending on the internal rules, the approach applied in the calculation of minimum required capital and the effective banking legislation. Evaluation of the risk exposures in the portfolio is done once per month, by classifying and making provisions for loans in the portfolio. The exposures treated as big exposures are subject to constant supervision and reporting. The Bank has adopted and keeps the credit exposure in the limits set by sector and by regional level. The above limits aim at avoidance of concentration, either geographically or by sector, in loan portfolios, which could lead to an increased credit risk.
2. **Liquidity risk** - the risk of having difficulties in meeting payment obligations due to a mismatch in maturity and amount between anticipated cash inflows and outflows. The Bank manages its assets and liabilities so as to address regularly and without any delay its daily liquidity obligations, under both normal and potentially adverse market conditions.
3. **Market risk** - the probability for the Bank to experience losses from fluctuations in stock prices, interest rates and foreign exchange rates.
4. **Operational risk** - the probability of direct or indirect losses resulting from inadequate or failed internal processes, people and systems.

The level of CCB's risk ratios and indicators is similar to the average values of the Bulgarian bank system. The Bank's management does not expect any adverse progress in the above mentioned level of risks in the third quarter of 2018.

### III. CCB's Governing Body opinion on the forecasts implementation for this year results, taking into account the results of the current quarter.

CCB's results on a consolidated basis at the end of 2018' second quarter represent the Bank's performance in comparison with the last year corresponding period.

CCB's Management does not have non-public information that might have a significant adverse influence on the Group performance during the year.

**Georgi Kostov**  
Executive Director



**Tihomir Atanasov**  
Procurator

## CENTRAL COOPERATIVE BANK AD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS OF 30 JUNE 2018

All amounts are in thousand Bulgarian Levs

|  | As at<br>30.06.2018 | As at<br>31.12.2017 |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| Cash and balances with the Central Bank                                | 1,707,507           | 1,840,004           |
| Placements with and advances to banks                                  | 295,674             | 292,002             |
| Receivables under repurchase agreements                                | 214,732             | 196,910             |
| Financial assets held for trading                                      | 3,414               | 82,321              |
| Financial assets, recorded at fair value in the profit or loss         | 57,387              | -                   |
| Loans and advances to customers, net                                   | 2,437,862           | 2,404,501           |
| Other assets   | 69,519              | 61,083              |
| Financial assets available for sale                                    | -                   | 595,774             |
| Financial assets, recorded at fair value in other comprehensive income | 532,017             | -                   |
| Financial assets held to maturity                                      | -                   | 34,010              |
| Financial assets recorded at amortised value                           | 210,330             | -                   |
| Fixed assets   | 127,443             | 131,616             |
| Investment properties  | 16,167              | 12,963              |
| Good will  | 5,630               | 5,630               |
| <b>TOTAL ASSETS</b>  | <b>5,677,682</b>    | <b>5,656,814</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                            |                     |                     |
| <b>LIABILITIES</b>   |                     |                     |
| Deposits from banks  | 8,540               | 7,008               |
| Loans from banks   | 178                 | 4,539               |
| Amounts owed to other depositors                                       | 5,140,018           | 5,113,133           |
| Other attracted funds  | 778                 | 778                 |
| Issued bonds   | 71,554              | 70,235              |
| Provisions for liabilities   | 575                 | 49                  |
| Other liabilities  | 10,515              | 15,669              |
| <b>TOTAL LIABILITIES</b>   | <b>5,232,158</b>    | <b>5,211,411</b>    |
| <b>SHAREHOLDERS' EQUITY</b>  |                     |                     |
| Issued capital   | 113,154             | 113,154             |
| Premium reserve  | 79,444              | 79,444              |
| Reserves, including retained earnings                                  | 205,699             | 181,968             |
| Revaluation reserve  | 25,039              | 27,144              |
| Current year profit  | 14,687              | 35,921              |
| Total shareholders' equity of the shareholders of the mother Bank      | 438,023             | 437,631             |
| Non-control participation  | 7,501               | 7,772               |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                                      | <b>445,524</b>      | <b>445,403</b>      |
| <b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>                    | <b>5,677,682</b>    | <b>5,656,814</b>    |
| Commitments and contingencies  | 193,687             | 180,442             |

Georgi Kostov  
Executive Director

Yordan Hristov  
Chief accountant



## CENTRAL COOPERATIVE BANK AD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
AS OF 30 JUNE 2018

All amounts are in thousand Bulgarian Levs

|  | As at<br>30.06.2018  | As at<br>30.06.2017  |
|--|----------------------|----------------------|
| Interest income  | 70,488               | 79,738               |
| Interest expenses  | (12,299)             | (15,858)             |
| Net interest income  | <u>58,189</u>        | <u>63,880</u>        |
| Fees and commissions income  | 28,879               | 27,903               |
| Fees and commissions expenses  | (4,808)              | (4,120)              |
| Net fees and commissions income  | <u>24,071</u>        | <u>23,783</u>        |
| Gains from transactions with securities, net   | 1,078                | 4,459                |
| Foreign exchange rate gains, net   | 857                  | 687                  |
| Other operating income, net  | 2,244                | 2,436                |
| Operating expenses   | (64,756)             | (62,728)             |
| Impairment and uncollectability income (expenses), net                                   | (5,124)              | (12,477)             |
| Expenses for devaluation of non-current assets   | -                    | (332)                |
| Net (expenses)/income for liabilities provisions   | 117                  | -                    |
| Profit for the period before taxes   | <u>16,676</u>        | <u>19,708</u>        |
| Taxes  | (2,175)              | (2,215)              |
| PROFIT FOR THE PERIOD  | <u><u>14,501</u></u> | <u><u>17,493</u></u> |
| Other comprehensive income   |                      |                      |
| Components, which are reclassified in the profit or loss                                 |                      |                      |
| Financial assets available for sale after taxes  | -                    | 7,751                |
| Debt instruments, evaluated at fair value in other comprehensive income after taxes      | (2,652)              | -                    |
| Components, which are not reclassified in the profit or loss                             |                      |                      |
| Capital instruments, evaluated at fair value in other comprehensive income after taxes   | 546                  | -                    |
| Other comprehensive income after taxes   | (2,106)              | 7,751                |
| TOTAL COMPREHENSIVE INCOME AFTER TAXES   | 12,395               | 25,244               |
| Share of the profit for non-control participation  | (186)                | (211)                |
| Share of the profit for the mother Bank  | 14,687               | 17,704               |
| Share of the total comprehensive income for non-control participation                    | (187)                | (211)                |
| Share of the total comprehensive income for the mother Bank                              | 12,582               | 25,455               |
| Earnings per share for the shareholders of the mother Bank (in BGN)                      | 0.08                 | 0.16                 |
| Earnings per share for the shareholders of the mother Bank with decreased value (in BGN) | 0.07                 | 0.15                 |

Georgi Kostov  
Executive Director

Yordan Hristov  
Chief accountant



Tihomir Atanasov  
Procurator

CENTRAL COOPERATIVE BANK AD  
CONSOLIDATED STATEMENT OF CASH FLOWS  
AS OF 30 JUNE 2018

All amounts are in thousand Bulgarian Levs

|  | As at<br>30.06.2018 | As at<br>30.06.2017 |
|--|---------------------|---------------------|
| Cash flows from operating activities:  |                     |                     |
| Profit before taxes  | 16,676              | 19,708              |
| Change in operating assets:  |                     |                     |
| Decrease in placements with, and advances to, banks with maturities above 90 days                              | -                   | (2,628)             |
| (Increase) / decrease in receivables under repurchase agreements   | (17,822)            | 48,851              |
| Decrease and reclassification of the financial assets held for trading   | 79,149              | 2,995               |
| (Increase) and reclassification of financial assets, recorded at fair value in the profit or loss              | (56,403)            | -                   |
| (Increase) in loans and advances to customers  | (38,485)            | (38,112)            |
| (Increase) in other assets   | (10,778)            | (7,514)             |
| Decrease in non-current assets held for sale   | -                   | 2,354               |
|  | <u>(44,339)</u>     | <u>5,946</u>        |
| Change in operating liabilities:   |                     |                     |
| Increase in deposits from banks  | 1,532               | 3,493               |
| (Decrease)/increase in loans from banks  | (4,539)             | 1,571               |
| Increase in liabilities to other depositors  | 26,886              | 113,333             |
| (Decrease) in other attracted funds  | -                   | (26)                |
| Increase in liabilities for provisions   | 526                 | -                   |
| (Decrease) in other liabilities  | (5,154)             | (2,999)             |
|  | <u>19,251</u>       | <u>115,372</u>      |
| Other noncash transactions, included in the profit before taxes:   |                     |                     |
| Net (profit)/ loss from investing activity   | (1,772)             | (2,217)             |
| Increase in the adjustment for devaluation of loans and advances to clients                                    | 5,124               | 12,477              |
| Devaluation of non-current assets  | -                   | 332                 |
| Depreciation   | 5,419               | 5,405               |
| Effect of the depreciation of a financial liability  | 1,319               | (1,312)             |
|  | <u>10,090</u>       | <u>14,685</u>       |
| Paid profit tax  | (1,338)             | (5,024)             |
| Other adjustments  | -                   | (23)                |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>  | <u>340</u>          | <u>150,664</u>      |
| <b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                     |
| Cash inflows and reclassification of financial assets available for sale                                       | 595,774             | 56,745              |
| (Cash outflows) and reclassification of financial assets, recorded at fair value in other comprehensive income | (534,119)           | -                   |
| Cash inflows/(cash outflows) from the sale of financial assets held to maturity. net                           | 34,010              | (4,066)             |
| (Cash outflows) and reclassification of financial assets, recorded at amortised value                          | (210,330)           | -                   |
| Cash outflows for the purchase of fixed assets   | (1,322)             | (492)               |
| Cash inflows from the sale of fixed assets   | 76                  | -                   |
| Acquisition of investment properties   | (3,204)             | (352)               |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>   | <u>(119,115)</u>    | <u>51,835</u>       |
| Cash flows from financing activity   | -                   | -                   |
| <b>NET CASH FLOW FROM FINANCING ACTIVITY</b>   | <u>-</u>            | <u>-</u>            |
| (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS, NET   | (118,775)           | 202,499             |
| CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD   | 2,003,181           | 1,799,900           |

Georgi Kostov  
Executive Director

Yordan Hristov  
Chief accountant



Tihomir Atanasov  
Procurator

CENTRAL COOPERATIVE BANK AD  
CONSOLIDATED STATEMENT OF CASH FLOWS  
AS OF 30 JUNE 2018

All amounts are in thousand Bulgarian Levs

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

|  | Issued paid in capital | Premium reserve | Reserves, including retained earnings | Revaluation reserve | Profit for the current year | Minority participation | Total     |
|--|------------------------|-----------------|---------------------------------------|---------------------|-----------------------------|------------------------|-----------|
| BALANCE AS OF 1 JANUARY 2017   | 113,154                | 79,444          | 157,577                               | 20,899              | 26,364                      | 6,908                  | 404,346   |
| Net profit for the period ended 30 June 2017                                     | -                      | -               | -                                     | -                   | 17,704                      | (211)                  | 17,493    |
| Other comprehensive income for the period ended 30 June 2017                     | -                      | -               | -                                     | 7,751               | -                           | -                      | 7,751     |
| Total comprehensive income for the period ended 30 June 2017                     | -                      | -               | -                                     | 7,751               | 17,704                      | (211)                  | 25,244    |
| Transfer of net profit for the year ended 31 December 2016, to retained earnings | -                      | -               | 26,364                                | -                   | (26,364)                    | -                      | -         |
| Other movements  | -                      | -               | (517)                                 | -                   | -                           | (229)                  | (746)     |
| BALANCE AS OF 30 JUNE 2017   | 113,154                | 79,444          | 183,424                               | 28,650              | 17,704                      | 6,468                  | 428,844   |
| BALANCE AS OF 1 JANUARY 2018   | 113,154                | 79,444          | 181,968                               | 27,144              | 35,921                      | 7,772                  | 445,403   |
| Effect of the adoption of IFRS 9   | -                      | -               | (12,229)                              | -                   | -                           | -                      | (12,229)  |
| RECALCULATED BALANCE AS OF 1 JANUARY 2018  | 113,154                | 79,444          | 169,739                               | 27,144              | 35,921                      | 7,772                  | (433,174) |
| Net profit for the period ended 30 June 2018                                     | -                      | -               | -                                     | -                   | 14,687                      | (186)                  | 14,501    |
| Other comprehensive income for the period ended 30 June 2018                     | -                      | -               | -                                     | (2,105)             | -                           | (1)                    | (2,106)   |
| Total comprehensive income for the period ended 30 June 2018                     | -                      | -               | -                                     | (2,105)             | 14,687                      | (187)                  | 12,395    |
| Transfer of net profit for the year ended 31 December 2017, to retained earnings | -                      | -               | 35,921                                | -                   | (35,921)                    | -                      | -         |
| Other movements  | -                      | -               | 39                                    | -                   | -                           | (84)                   | (45)      |
| BALANCE AS OF 30 JUNE 2018   | 113,154                | 79,444          | 205,699                               | 25,039              | 14,687                      | 7,501                  | 445,524   |

Georgi Kostov  
Executive Director

Tihomir Atanasov  
Procurator

Yordan Hristov  
Chief accountant



**EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS FOR THE SECOND 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> | 41   |
| <i>Equity instruments</i>            | 3372 |
| <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 30.06.2018 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> | 57 387 |
|---------------------------|--------|



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> | 89 716  |
| <i>Debt instruments</i>   | 442 301 |

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 value of which at the end of the quarter is BGN 210 330 thousand. The main part of these assets are investments in Bulgarian government securities and government securities of EU countries.

This category includes bonds, issued by the government of the Republic of Macedonia, held by the Group to the amount of BGN 16 284 of the Republic of Macedonia, as well as bonds issued by the National Bank of the Republic of Macedonia to the amount of BGN 17 000 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 second 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 second 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 second 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 as a creditor, 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 second quarter of 2018 the receivables of the Group from companies under common control are to the amount of BGN 77 750 thousand, whereas the predominant part stems from granted loans. At the end of the second quarter of 2018 the liabilities of the Group to companies under common control are to the amount of BGN 76 339 thousand, of which BGN 45 983 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 second quarter of 2018 the Group does not have receivables from the mother company. At the end of the second quarter of 2018 the Group has liabilities to the mother company to the amount of BGN 94 thousand.

### 3. Accounting policy

During the second quarter of 2018 compared to the first quarter of 2018 the Group did not make changes to its 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 second 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 second quarter of 2018 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 30.06.2018 increased compared to the total amount of the assets in the financial statements of the Group as at 31.12.2017 by 0.37% and reached BGN 5 677 682 thousand. The increase in the assets of the Group is related to the increase in the funds, attracted from other depositors.

During the second 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 30 June 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 second 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 30 June 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 second 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 30 June 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 second 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 second quarter of 2018 the subsidiary CCB Assets Management EAD accrued and paid dividend to Central Cooperative Bank Plc, Sofia (the mother Bank) in the amount of BGN 1 101 thousand.

#### 8. Events after the date of the financial statements

After the end of the second 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 second 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.

**Georgi Kostov**  
**Executive Director**

**Yordan Hristov**  
**Chief accountant**

**Tihomir Atanasov**  
**Procurator**

