Централна Кооперативна Банка
*Важният си ти.*

# ГОДИШЕН ФИНАНСОВ ОТЧЕТ 2017

# CONTENTS

# MESSAGE FROM THE MANAGEMENT

Ladies and Gentlemen,

We, the Executive Directors and Procurator of Central Cooperative Bank Plc, would like to use this opportunity to inform you about our achievements and accolades in 2017. Central Cooperative Bank Plc is a universal commercial bank with a pronounced focus on retail banking. As at 31.12.2017 the Bank assets are BGN 5.4 billion, shareholders' equity amounts to BGN 462 million and the net profit is BGN 36.8 million.

Last year was our eleventh year as a member of the European Union and we ranked on the 8th place among Bulgarian banks in terms of total assets.

Among our goals for 2018 are: increasing the total assets of the Bank, respectively the market share; developing and defending the leadership position in the use of the most contemporary channels of distributing the bank products; streamlining and constant adaptation of the client model of the operative organization with the aim of maintaining the high quality of the bank servicing; deploying the positions in retail banking; increasing the volume and the relative share in the loan portfolio of loans to individuals – consumer and mortgage loans; profiting from the synergy in rendering services to the insurance companies, the pension companies, the health insurance companies and the investment companies from the group of Chimimport – the main shareholder of the Bank; offering services and financing of projects of agricultural producers – under the programs of the structural funds of EU and increasing the qualification of the employees and streamlining the mechanisms for stimulating employees.

We make our clients feel important. The Bank management and staff have committed their efforts to defending the already achieved position and further improving in the banking field. We look forward to continue working with you and sharing best practices and recommendations.

**Sincerely yours,**

**Georgi Kostov**
Executive Director

**George Konstantinov**
Executive Director

**Sava Stoynov**
Executive Director

**Tihomir Atanassov**
Procurator

# FINANCIAL HIGHLIGHTS AS AT 31.12.2017

| Main indicators from the Balance Sheet and the Income Statement | As at 31.12.2017 Thousand BGN | As at 31.12.2016 Thousand BGN |
|---|---|---|
| Total assets | 5,411,847 | 4,970,131 |
| Share capital | 113,154 | 113,154 |
| Shareholders' equity | 461,615 | 418,556 |
| Total deposits | 4,867,507 | 4,469,966 |
| Deposits from non-financial institutions | 4,859,073 | 4,457,515 |
| Advanced loans and advances to customers, net | 2,214,894 | 2,160,083 |
| Net interest income | 118,848 | 110,304 |
| Non-interest income | 70,330 | 73,825 |
| Total income | 189,178 | 184,129 |
| Operating expenses | 119,930 | 117,834 |
| Net profit | 36,814 | 26,598 |

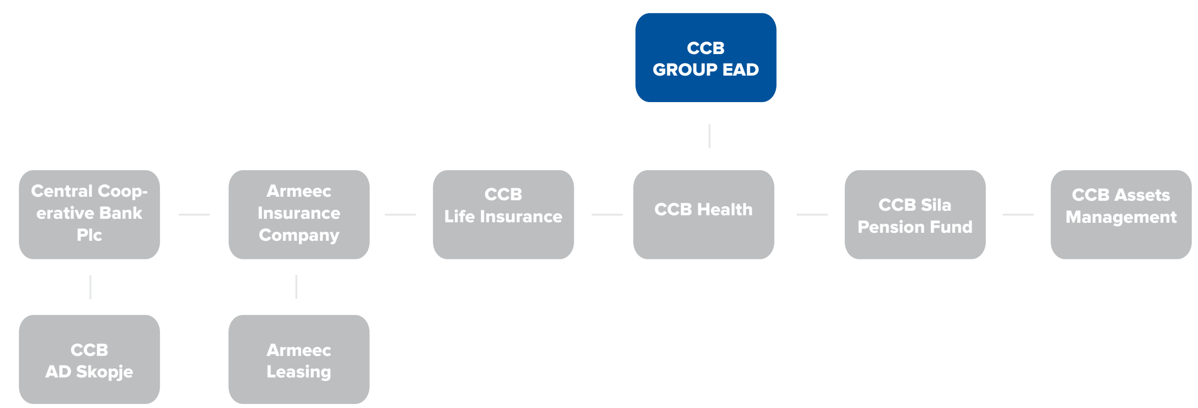
| Financial highlights | As at 31.12.2017 | As at 31.12.2016 |
|---|---|---|
| ROaE % | 8,18% | 6,49% |
| ROaA % | 0,70% | 0,54 % |
| Shareholders' equity / total assets % | 8,53% | 8,42% |
| Operating expenses / total assets % | 2,22% | 2,37% |
| Operating expenses / total income % | 63,40% | 64% |
| Loans to customers / total assets % | 40,93% | 43,46% |
| Total deposits / total assets % | 89,94% | 89,94% |
| Deposits from non-financial institutions / total assets % | 89,79% | 89,69% |
| Total capital adequacy | 16,83% | 15,63% |



| Recourses | As at 31.12.2017 Number | As at 31.12.2016 Number |
|---|---|---|
| Number of customers | 1,732,916 | 1,680,145 |
| Foreign correspondents | 283 | 386 |
| Nostro accounts | 19 | 21 |
| Locations, including branches | 311 | 306 |
| Personnel | 2152 | 2316 |

# TODAY

Central Cooperative Bank Plc is a universal commercial bank, belonging to the financial structure of CCB Group EAD. Together with the remaining companies, the bank comprises the full array of services in the field of financial intermediation, products and services with an emphasis on SME lending and retail banking for its clients.




As a universal commercial bank CCB Plc offers an array of financial products and services, which correspond to the competitive requirements of the dynamically changing market environment. The Bank constantly strives to deploy the spectrum of financial intermediation and works hard to create new and develop the known products and services.

CCB Plc. is a full member of the International Cooperative Banking Association and the European Association of Cooperative Banks.

The Bank is a full member of MasterCard Europe and Visa International, offers the Maestro and MasterCard cards and the family of Visa cards.

Central Cooperative Bank Plc is an indirect member of **EBA STEP2 SCT** and a direct member of **TARGET2.**

The Bank is an indirect member of **International Swaps and Derivatives Association, Inc – ISDA.**

CCB Plc maintains good relationships with a number of correspondent banks, improving the business contacts with them. The Bank has over 283 correspondents and 19 Nostro accounts, as well as a number of lines for documentary operations for various amounts and trade finance for the import of investment products, made in EU. Through the MM and FX limits, the bank maintains the wide spectrum of the offered products and services.

CCB Plc has a license to carry out transactions as an investment intermediary on the Bulgarian capital market, acting on its behalf and at its expense, as well as on behalf and at the expense of its clients.

CCB Plc. is a primary dealer of government securities on the Bulgarian domestic market.

The Bank provides an easy access to all range of its products via a well-developed branch network, offering quick and modern solutions to its customers. At present the Bank has 311 branches and offices all over the country and abroad.

# BRIEF HISTORY

On 28 March 1991 Central Cooperative Bank was registered with a resolution of the Sofia City Court. At first the Bulgarian National Bank Management Board issued a license to CCB Plc for carrying out bank activity on the territory of the country.

The founders of the bank were Central Cooperative Union, the regional cooperative unions and more than 1100 cooperative organizations. In the beginning its mission was to contribute to the development of the cooperative system in Bulgaria. Passing through different development periods, the Bank established itself as a universal commercial bank nowadays.

Since 12 March 1993 the Bank is authorized to carry out operations abroad as well.

Since July 1993 CCB Plc is an associate member of the European Association of Cooperative Banks, domiciled at Brussels.

On 4 March 1999 CCB Plc received the statute of a publicly listed company, and in this way became one of the two Bulgarian banks, the shares of which were traded on the Bulgarian Stock Exchange - Sofia.

Up to 2001 CCB Plc shareholders included: Central Cooperative Union, Bulbank AD, the State Agricultural Fund, the Bank Consolidation Company etc.



At the beginning of 2002 the share of Bank Consolidation Company AD amounting to 32.77% was acquired through bidding by Chimimport JSC, which became the main shareholder of Central Cooperative Bank Plc.

In 2002 CCB Plc received a license from MasterCard Europe – a prestigious international card organization for the issuance and acceptance of the international Maestro debit cards and Mastercard credit cards.

In 2003 CCB Plc acquired a license for a Bulgarian agent of Western Union, the international fast money transfer company.

In September 2004 Central Cooperative Bank Plc became a member of the Management Board of the International Cooperative Banking Association, together with over 52 credit institutions from 36 countries.

At the end of 2004 CCB Plc increased its capital from BGN 16 169 564 to BGN 32 338 128 via the issuance of 16 168 564 shares, having a par and issue value of BGN 1. The Bank's main shareholder is CCB Group Assets Management EAD, which is 100% property of Chimimport Plc.

On 27 May 2005 the Bank became a principal member of Visa International and at the beginning of 2006 we started offering the family of Visa cards.

In September 2005 CCB Plc took a decision to increase its share capital by 50% and as of the end of the year it amounted to BGN 48 507 186, and the shareholders' equity was BGN 80,928 thousand.

In December 2005 CCB Plc received a permit from the Central Bank of Cyprus to open its first foreign branch in Nicosia.

On 11 May 2006 CCB Plc signed a second Syndicated Term Loan Facility, whereas the initial amount of EUR 11.000.000 was increased to EUR 27.500.000 with the participation of 12 foreign banks. The syndicated loan was arranged by HSH Nordbank AG and Raiffeizen Zentralbank Österreich AG.

At the end of June 2006 the General Meeting of Shareholders of CCB Plc took a decision to increase the capital by 50% and at the end of the year the Bank share capital amounted to BGN 72 760 779.

Since 1 January 2007, with Bulgaria's accession to EU, CCB Plc has acquired the statute of a full member of the European Association of Cooperative Banks.

In June 2007 the General Meeting of Shareholders of CCB Plc. took a decision to increase the capital and at the end of the year it amounts to BGN 83 155 092.

In September 2007 the first foreign branch of CCB Plc. was opened in Nicosia, Cyprus.

On 28 February 2008 CCB Plc acquired the Macedonian bank Sileks Bank AD Skopje, which was renamed to Central Cooperative Bank AD Skopje on 22 October 2008. At present CCB Plc has 82.63 % of the voting shares of the capital of CCB AD Skopje.

On 15 August 2008 Central Cooperative Bank Plc joined ISDA - International Swaps and Derivatives Association as a user.

In October 2008 CCB Plc became an indirect member of EBA STEP2 SCT.

In February 2010 CCB Plc became a direct member of TARGET2.

In December 2010 the Bulgarian Credit Rating Agency awarded to Central Cooperative Bank Plc a long-term credit rating, grade: BBB, outlook: stable and a short-term rating: A-2.

As at 31.12.2010 CCB Plc ranks among the first 10 Bulgarian banks in terms of total assets according to the BNB classification.

On 3 January 2011 “Stater Banka” AD, Kumanovo, the Republic of Macedonia merged with CCB Plc, Skopje.

At the beginning of 2011 CCB Plc became the main shareholder of ZAO AKB Tatinvestbank, Kazan, the Republic of Tatarstan, Russian Federation.

On 28 March 2011 CCB Plc celebrated twenty years of its establishment.

On 21.07.2011 the Management Board of CCB Plc took a decision for a company capital increase from BGN 83 155 092 to BGN 113 155 092, whereas as at 31.12.2011 the total equity of the Bank amounts to BGN 332,781 thousand.

In the second quarter of 2012 CCB Plc started the issuance of international Visa Platinum credit cards.

In 2012 CCB Plc continued implementing the project for the establishment of a second foreign branch on the territory of EU.

In 2013 CCB introduced new products and services in retail banking and the card business, among which the Mobb service and promotional conditions for the product “Home for you”.

At the end of 2013 CCB ranked on the eight place among Bulgarian banks in terms of total assets.

In 2014 the Bank started offering contactless Visa payWave debit and credit cards and contactless Maestro PayPass debit cards.

In October 2014 CCB started offering the CashM service to its clients.

In 2014 CCB Plc preserved the eight place among Bulgarian banks according to total assets.



Since February 2015 the Bank started the offering of debit cards of high class Visa Debit.

April 2015 Successfully and on time we finalized the process of the full migration of all IT systems to move the head-office of the Bank to the new administrative building (former Pliska Hotel) at: the city of Sofia, 87 Tsarigradsko shose blvd;

The administration of the Bank carries out its activity in the new office building at 87 Tsarigradsko shose Blvd.

In May 2015 the Bank started issuing Emotion contactless cards, where the client is entitled to choose the design of his/her card.

In July 2015 the Bank started offering a new type of credit card of exceptionally high class, intended for the most special clients - World MasterCard.

In 2015 new traders, offering rebates to the clients with club cards joined the CCB Club loyalty program.

In 2015 during the whole year there continued the update of the parameters and the conditions of the credit products for individuals.

As at 31.12.2016 the financial result of CCB Plc increases 4 times compared to the previous year.

In 2017 the Bank offered new products and services in the field of retail banking, as well as more advantageous conditions for consumer and mortgage loans.

As at 31.12.2017 the assets of the Bank increased by 9% and the financial result increased by 38% compared to 2016.

# MANAGERIAL TEAM

Central Cooperative Bank Plc has a two-tier system of management, which consists of a Supervisory Board and a Management Board.

The Supervisory Board consists of three members and elects the Management Board and a Procurator. The Management Board on its part elects the Executive Directors with the approval of the Supervisory Board.

At present the following members are included in the Supervisory Board and the Management Board:

**1. Supervisory Board:**

**Chairperson:** Ivo Kamenov

Members:

Marin Mitev
Rayna Kuzmova
Central Cooperative Union
Represented by Peter Stefanov

**2. Management Board:**

**Chairperson:** Prof. Dr. Aleksander Vodenicharov

Members:

Tsvetan Botev - Deputy-Chairperson
George Konstantinov - Executive Director
Sava Stoynov - Executive Director
Georgi Kostov - Executive Director
Aleksander Kerezov
Prof. Dr. Bisser Slavkov

**3. Procurator:**

Tihomir Atanassov



# SHARE CAPITAL AND SHAREHOLDERS

On 21.07.2011 the Management Board of Central Cooperative Bank Plc took a decision for a company capital increase from BGN 83 155 092 to BGN 113 155 092 via the issuance of 30 000 000 ordinary book-entry voting shares with a nominal value BGN 1 and an issue value of BGN 1,50.

Till the end of the subscription 29 999 199 shares were subscribed and paid. As a result of this the amount of BGN 44 998 798.50 was credited to the capital raising account of CCB Plc.

The capital of the Bank to the amount of BGN 113 154 291 after the increase was entered in the Companies Register on 15.12.2011.

As at 31 December 2017 the shareholders' equity amounts to BGN 461,615 thousand. The capital adequacy is 16.83 %, which is above the requirements according to Ordinance No. 8 of BNB on the capital adequacy of Banks.

| Shareholders of CCB Plc as at 31 December 2017 | Share (%) |
|---|---|
| CCB Group EAD, Sofia | 68,56 |
| Chimimport JSC | 6,61 |
| Other minority participation | 24,83 |
| **Total:** | **100,00** |

As at December 31, 2017 the shareholders of CCB Plc are 5,270 individuals and 1,139 legal entities.

The shares of CCB Plc are traded at the Bulgarian Stock Exchange since 4 March 1999. In the last 19 years the CCB Plc shareholders' structure has significantly changed three times – in June 1999, when Bulbank AD sold to the State Agricultural Fund its share of 35%; in June 2001 when the share of the State Agricultural Fund, which had been acquired by the Bank Consolidation Company, was purchased by Chimimport JSC and at the end of 2004, when the shares of Central Cooperative Union were acquired by Chimimport JSC through CCB Group EAD.

### BREAKDOWN OF SHARE CAPITAL


# ACTIVITY OVERVIEW

Central Cooperative Bank Plc is a universal commercial bank, offering a broad spectrum of financial products and services. The Bank endeavors to follow the competitive requirements of the constantly changing environment and deploys its array of products and services in the field of financial intermediation, putting an emphasis on financing SMEs and servicing its retail clients.

The Bank is one of the leaders on the market in rendering services to the agricultural sector and the related production activities. In 2017 CCB Plc continued to offer the array of credit products and services in the field of consumer lending, as well as lending to SMEs. Following the set goals, the Bank deployed its activity as a "retail bank" and achieved good positions in the market of SMEs, attracting more and more clients in this sector.

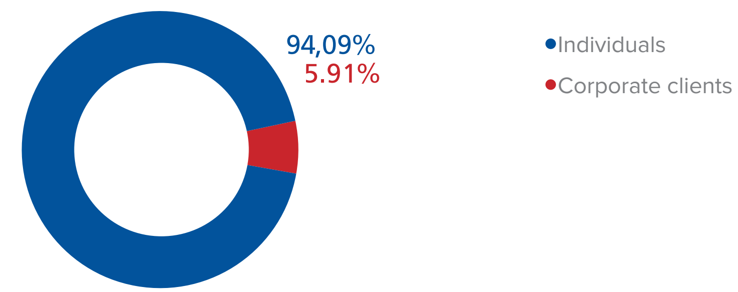
## CLIENT STRUCTURE

A considerable contribution for the success and established market positions of the Bank belongs to its clients. For this reason CCB Plc attracted more clients, especially individuals, households, SMEs. The Bank's portfolio is entirely subordinated to the needs and desires of clients. The efforts are concentrated on offering competitive and attractive products.

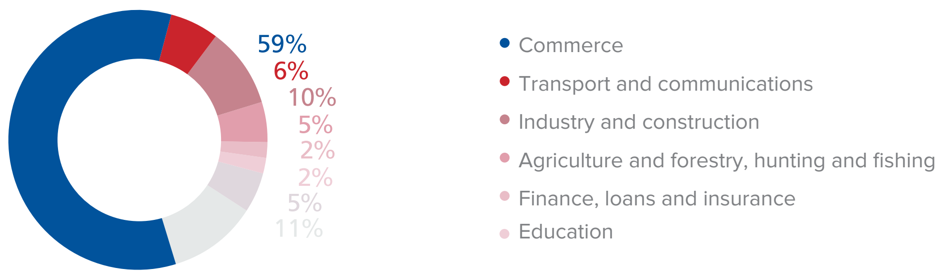


| Sector | 31.12.2016 | 31.12.2017 |
|---|---|---|
| Individuals | 1,581,882 | 1,630,502 |
| Commerce | 58,061 | 60,469 |
| Transport and communications | 5,679 | 5,843 |
| Industry and construction | 10,115 | 10,441 |
| Agriculture and forestry, hunting and fishing | 5,002 | 5,079 |
| Finance, loans and insurance | 2,041 | 2,085 |
| Education | 2,048 | 2,159 |
| Healthcare, sports and tourism | 4,989 | 5,390 |
| Other | 10,328 | 10,948 |
| **Total:** | **1,680,145** | **1,732,916** |

The clients of the Bank again increased and reached 1,732,916 at the end of 2017. Compared to the previous year the increase is in the amount of 3.14%, whereas the results take into consideration mainly the increase in individuals. Their share increased by 48,620 or by 3.07% compared to 2016. The positive growths that is observed in the last several years is mainly due to the ambition of the Bank to develop in one of the most competitive for the banking sector segment, namely retail banking. There is a growth in lending to SMEs.



**BRANCH STRUCTURE OF CLIENTS LEGAL ENTITIES AS AT 31.12.2017 /IN %/**




# RETAIL BANKING

## Card products

In 2017 CCB Plc preserved its positions of one of the biggest issuers of credit and debit cards in the country. The Bank issues international MasterCard and Visa credit cards, the cobranded Visa CCB-Bulgaria Air credit card, Visa Platinum credit card, as well as local credit cards. The portfolio of debit cards that the Bank offers consists of international debit cards of a high class World Debit MasterCard, Debit MasterCard and Visa Debit, the cobranded Debit MasterCard cards with Mobiltel AD and with Bulgarian Posts EAD, as well as local debit cards. The Bank also offers EMOTION debit and credit cards, where the client can choose the vision of his/her card from the offered gallery of over 50 designs.

The Bank makes it possible for its clients to take advantage of the exceptionally fast contactless payments with all main card brands.

In July 2015 the Bank started the offering of a credit card of exceptionally high class - World MasterCard, intended only for significant and solvent clients of the Bank. The World MasterCard credit card is a Premium product of MasterCard, which is positioned at a level higher than the Platinum credit cards.

Besides the exceptionally attractive financial parameters of the World MasterCard card, it is associated with a number of additional perks and privileges of its cardholders:

- Free membership in the Priority Pass program – ensures access to over 700 business lounges at the airports in over 100 countries across the world;
- Special rebates from Bulgaria Air airplane company;
- A free access to the Vitosha and Preslav business lounges at Sofia Airport and Sky Lounge and Jet Lounge in Vienna;



- Insurance upon travelling abroad with Armeec insurance company JSC – 22 insurance coverage policies with a maximum amount of coverage to the amount of USD 50 000;
- Additional insurance that provides protection upon a theft of the card, together with the personal belongings and documents, protection upon an incident or theft of goods, purchased with the card, as well as the most advantageous price upon shopping;
- Rebates in the CCB Club program;
- Rebates upon shopping at selected merchants in Bulgaria, included in the CCB World Offers catalogue;
- Additional attractive rebates abroad at hotel, renowned shops and rent-a-car companies, provided by MasterCard;
- And many more rebates upon shopping at the trade shops, included in the CCB Bonus program.

All debit and credit cards of the Bank are open for registration for the E-Secure service for secure payments on the Internet. In this way the Bank provides to all its clients with international debit and credit cards additional security, when they shop online.

The Bank continues offering various preferences to the holders of credit and debit cards. In 2017 the holders of Visa Platinum cards of CCB can use free of charge Vitosha business lounge at Sofia airport, regardless of which air company they use. The cardholders with World Debit MasterCard cards, Visa Platinum, Visa Gold cards and MasterCard Gold cards of CCB may use free of charge Vitosha business lounge at Sofia airport for international flights, as well as in the cases when they fly within the country.

## New card products

In July 2016 the Bank started offering two new card products, intended especially for companies – Visa Debit Commercial and Debit Mastercard Commercial contactless debit cards. The cards are of a high class, with huge application and additional characteristics, with which they satisfy the needs of the business clients. The cards allow transactions on the Internet (at all sites, accepting credit cards), booking hotels, and making other payments all over the world. Since September 2017 CCB Plc offers special package proposal for companies, which includes preferential conditions for main bank services, Commercial debit cards and using electronic banking with qualified electronic signature.

In April 2017 CCB Plc started the offering of a debit card of a high class Gold Debit Mastercard. The card has additional perks and is intended for clients, who have a silver club card. Since 1.09.2017 there are changes in the conditions of the Bank credit cards. Changes were made in the interest rate conditions of all credit cards and an annual fee was introduced for the World Credit Mastercard credit card. There is a decrease in the annual fee of the Visa Platinum credit card from BGN 200 to BGN 120. Changes were introduced with respect to the grace period for all Favourite cards – the grace period for the newly issued cards is valid for all transactions – withdrawals and payments. A distinction was introduced between the standard and premium cards. With the former the grace period is up to 45 days, and with the Premium cards – up to 60 days. On 5 October 2017 CCB Plc started the issuance of Visa Platinum contactless credit card and in this way all credit cards have a contactless functionality.

## Market positions and statistics

In 2017 CCB Plc defended its good market positions in the issuance of bank cards. The total number of issued cards of the Bank as at 31.12.2017 is 641,199. There is an increase in the number of issued MasterCard credit cards from 9,333 to 19,600. The Bank is successful in the issuance of the Debit MasterCard and World Debit MasterCard cards, which as at the same date are 312,458.

CCB Plc managed to keep good market shares with respect to the development of its network of ATMs and POS terminals: the number of the virtual POS terminals at the end of 2017 reaches 455, and the total number of ATMs of CCB is 569. The total number of POS terminals of the Bank is 4,659, including POS terminals in the Bank rooms. The POS terminals that provide a possibility for contactless payments are 3,166.

A report of the market share of CCB Plc in cards as at 31.12.2017 has been presented in the table below:

| Cards | % of CCB of the cards in Bulgaria |
|---|---|
| VISA credit cards | 3,30% |
| Mastercard credit cards | 4,76% |
| Mastercard debit cards | 10,64% |
| Maestro debit cards | 11,37% |
| VISA debit cards | 15,34% |
| Visa Electron debit cards | 2,45% |
| Other bank payment cards | 2,75% |
| **Total debit and credit cards:** | **8,39%** |



A report of the market share of CCB Plc in the terminals at the end of 2017 has been presented in the table below:

| Terminals (ATMS and POS) | % of CCB of the terminals in Bulgaria |
|---|---|
| ATMs | 9,93% |
| POS terminals (physical) | 5,33% |

The table below presents summarized information of the card products and services, offered by CCB Plc.

| ATMs, POS terminals, credit and debit cards | 31.12. 2016 | 31.03. 2017 | 30.06. 2017 | 30.09. 2017 | 31.12. 2017 |
|---|---|---|---|---|---|
| **ATMs** | | | | | |
| ATMs | 552 | 559 | 564 | 569 | 569 |
| **POS terminals** | | | | | |
| POS terminals at the merchants | 4 017 | 4 127 | 4 236 | 4 322 | 4 309 |
| POS terminals at the Bank branches | 344 | 344 | 344 | 344 | 344 |
| Virtual POS terminals | 406 | 369 | 407 | 423 | 455 |
| **Total POS** | **4 767** | **4 388** | **4 533** | **4 578** | **4 767** |
| **Credit cards** | | | | | |
| Visa | 17 124 | 17 584 | 18 262 | 18 224 | 17 368 |
| Mastercard | 19 333 | 19 585 | 20 538 | 20 716 | 19 600 |
| Market | 473 | 246 | 2 | 0 | 0 |
| CCB - Office 1 | 171 | 170 | 165 | 161 | 144 |
| **Total credit cards** | **37 101** | **37 961** | **38 967** | **39 101** | **37 112** |
| **Debit cards** | | | | | |
| Debit MasterCard | 272 482 | 281 468 | 291 272 | 300 099 | 304 492 |
| Debit MasterCard Commercial | 306 | 480 | 693 | 846 | 943 |
| Gold Debit MasterCard | 0 | 0 | 353 | 630 | 828 |
| World Debit MasterCard | 5 658 | 6 285 | 6 939 | 7 491 | 7 966 |
| Maestro | 111 027 | 98 414 | 89 037 | 76 277 | 66 734 |

| | | | | | |
|---|---|---|---|---|---|
| MasterCard Prepaid | 2 884 | 2 652 | 2 586 | 2 432 | 1 815 |
| Visa Debit | 123 683 | 132 608 | 140 063 | 150 848 | 161 496 |
| Visa Debit Commercial | 450 | 663 | 842 | 1 007 | 1 239 |
| Visa Electron | 88 625 | 79 308 | 70 136 | 59 580 | 48 841 |
| Visa Prepaid | 5 300 | 6 117 | 7 302 | 7 767 | 8 875 |
| BCard | 0 | 11 | 4 | 5 | 5 |
| CCB - Office 1 | 930 | 897 | 877 | 856 | 853 |
| **Total debit cards** | **611 345** | **608 909** | **610 104** | **607 838** | **604 087** |

## Promotions for the cardholders of CCB with Visa and Mastercard debit and credit cards

In 2017 CCB Plc again launched promotional campaigns together with the card organizations Visa and Mastercard, directed at stimulating the payments with cards of CCB at merchants in the country. The holders of CCB international cards could participate in promotions with attractive awards and additional stimuli.

In the period from 8.05.2017 to 25.06.2017, together with Mastercard there was a campaign to encourage the contactless payments with Mastercard credit and debit cards of CCB with awards for clients. Every week during the campaign vouchers were distributed for 5-day holiday ALL INCLUSIVE in Sunny Beach resort, 2 Lenovo tablets, 3 rucksacks for picnic.

In the period from 23.10.2017 to 31.12.2017, together with Mastercard, there was a campaign to stimulate the payments with Mastercard debit and credit cards with awards for clients under the motto “THE MASTER COMES BACK”. Every week during the campaign we distributed the prizes 5 sets of a speaker and a portable battery; 3 smart watches; 1 voucher for shopping at the Technomarket shops at the value of BGN 500.

In the period December 2017 – January 2018, with the financial participation of Mastercard, there was a promotional campaign of the Mastercard credit cards. The campaign includes the broadcast of a TV clip on the main TV channels, advertising on the Internet and positioning billboards and posters. In relation to achieving an optimum effect of the campaign, the Mastercard credit cards, issued till 31.03.2018 have promotional conditions – 4 months interest-free period and no annual fee for the first year.

The holders of debit and credit cards of CCB could participate in other campaigns with awards, organized by the card organizations Visa and Mastercard.

In the period from 11.09.2017 to 3.12.2017 a campaign with awards for the clients of CCB Club took place. During the campaign 12 vouchers from Grand Optics&Joy Optics; 24 vouchers from Sport Depot; 24 vouchers from Homemax; 120 vouchers from Lukoil; 120 portfolios, bearing the logo of CCB were distributed. At the end of the campaign the big prize of BGN 2,000 in the form of bonus points on the CCB Club card was awarded.



## CCB Bonus program

CCB Plc continued developing the CCB Bonus program. Its main purpose is to direct the cardholders of the Bank to the trade shops of selected partners, in which they have the opportunity to enjoy special rebates. The CCB Bonus program is an important advantage for clients for choosing a bank, not only for credit, but also for debit cards. It is directed at stimulating the card payments and establishing relationships of permanent partnership, with the clients and the traders. The mobile version of CCB Bonus provides a possibility for clients to have access to the catalogue via mobile devices and at any moment to be informed of the trade shops, in which they can use the rebate. In 2017 the 16-th edition of the catalogue CCB Bonus was released, with included 230 traders with over 650 trade shops across the country.

## CCB Club Loyalty Program

In 2017 the CCB Club program preserved its stable development. 16 partners participate in this program and provide the following rebates:

- Bulgaria Air provides to clients an attractive rebate of 5% on the price of the airplane tickets, to which is added the rebate upon payment with the CCB–Bulgaria Air cobranded credit card. Precious for clients is the preference in the form of free transportation of additional luggage with each flight of Bulgaria Air.
- Armeec provides a possibility for bonus points in the program in combination with the use of various other rebates from the insurance company;
- Lukoil, due to the nature of its business, provides the greatest frequency of the bonus sales:
  -CCB Club golden card– a rebate of 4%;
  -CCB Club silver card – a rebate of 3.5%;
  -CCB Club business card - a rebate of 3.5%;
  -CCB Club standard card – the rebate of 3% remains;
- HomeMax chain of shops – 5 % rebate;
- The bus companies Etap – Address and Group Plus offer the rebate of 10%, which is exceptionally attractive for clients.
- Happy Bar&Grill chain of restaurants – 5% rebate;
- COOP commercial chain – 3% rebate;
- BM Market food chain – 3 % rebate;
- Sport Depot shops for sports goods – 5% rebate;

- Grand Optics & Joy Optics chain – 20% rebate;
- Frant men's fashion shops – 10% rebate;
- Hush Puppies shoe shops – 5% rebate;
- Special proposals from Mtel for the members of CCB Club;
- CEZ Electro Bulgaria - 25 Kwh daily electricity upon payment of bills to the company via the service of CCB "Subscription for utility bills".

At the end of 2017, the number of clients, participating in the CCB Club loyalty program reached 547 269, and the bonus amount of the sales is above BGN 44.5 million.

## Consumer and mortgage lending

In 2017 lending to individuals continued to be a main priority in the work of Central Cooperative Bank Plc, whereas in this segment the Bank ranked on the second place in absolute growth of the portfolio. The year was especially good for the mortgage loan, which have a growth of more than 70% compared to the previous year. The Bank continued focusing on clients with a good risk profile and good income. The market of consumer and mortgage loans was exceptionally active and banks competed fiercely for clients, improving the parameters and prices of their products. With its aggressive sales policy and attractive products, CCB managed keep its good positions on the market.

The successful implementation of the commercial-oriented model of work at all Bank branches and the adequate commercial policy continued to be the main reason for the achieved good results. Increasing the qualification of the employees, engaged directly with the sales of the credit products and the bank services of the clients of the bank, including via specialized training provided by internal and external trainers, had a direct impact on the results and respectively on the increase in the loan portfolio of the Bank.

The Bank focused on segmenting the clients and splitting them into several target groups, to which to offer highly competitive offers. The Bank has worked actively to attract corporate and institutional clients with attractive conditions for servicing the remuneration of their staff. The Bank applied a personal approach and offering special, individual for the distinct client transaction parameters. We continued the offering of credit products with special conditions for the employees of generally known and stable companies, with which we do not have a contract for transferring salaries.
The Bank employees maintain a close contact with the key employers in the distinct regions and periodically organize presentations of the Bank products for the employees.

The tendency that started during last years of a double-digit growth in the sale of retail products at CCB Plc continued steadily. A main task for the Bank was preserving and increasing the portfolio of consumer and mortgage loans. Periodically during the year we updated and improved the conditions of the loans to individuals and we launched new products on the market. The emphasis in retail lending during the year was mortgage loans.



An analysis of the activity of CCB Plc during last year shows:

From the beginning of the year the Bank has new retail loans for approximately BGN 386,35 million, of which:

- |BGN 234,35 million consumer loans, (including overdraft of electronic debit cards, credit cards and goods on credit)
- BGN 152,00 million mortgage loans
- The newly granted consumer loans increase by approximately 20% in 2017 compared to 2016
- The sale of mortgage loans in 2017 increase by 73.44% compared to 2016.
- As a result of the sales activity, the net increase in the retail portfolio (the increase after deducting the repayments) compared to 2016 is BGN 195,45 thousand.

In 2017 there continued the centralized processing of the applications for consumer loans, credit cards and overdrafts, submitted at the bank branches by the Consumer lending department (Loan centre) within Retail Banking division. During the year over 34 363 submitted applications were reviewed, whereas about 73.6% of them were approved and 26.4 % of them were rejected. The total risk of the consumer loans overdue above 90 days, granted since the beginning of the centralized approval in 2012, as at 31.12.2017 is 0.79%

In 2017 an emphasis in the centralized approval of the mortgage loans was the acceleration of the process of processing the applications, which ensures an additional competitive advantage of the Bank mortgage products. The quality of the mortgage retail portfolio of the Bank is exceptionally good, since the start of the centralized approval of the mortgage loans, there is no loan with an overdue instalment above 90 days.

CCB continued offering to clients the possibility to purchase on credit the goods chosen by them in the trade network of the Bank partners. The processing of the applications, received from the merchants from the whole country, is effected by the head-office employees exceptionally fast, within 20 minutes of receiving the application. This product is important for attracting new borrowers and deploying the base of loyal clients. At the end of 2017 the number of the goods on credit merchants is approximately 600.

In 2017 the Bank optimized the network of external agents, which offer the credit products of the Bank. As a result of the introduction of regulations, the main partners in the intermediation activity are only registered credit intermediaries with a significant market share. Major products in the mutual activity are the loans, secured by real estate, as well as consumer loans for the clients, receiving good income.

The Bank continued to stimulate the initiative and the development of its employees, organizing two cycles of training to streamline their sales skills. More and more active is the participation of the Front Office employees and the experts servicing and sales in the activity, associated with attracting new clients, making presentations and realising retail sales, in the bank rooms, as well as via visits at clients, employers and other partners of the Bank.

The Bank continued to work in the direction of upgrading the bonus system, which takes into account to a maximum extent the contribution of each employee, keeping the close relationship between the achieved results and the bonuses amount.

## CCB Cyprus branch

In December 2005 the Bank obtained a banking license, issued by the Central Bank of Cyprus, by virtue of which the Bank is authorized to perform banking operations as a legally licensed bank branch on the territory of the Republic of Cyprus, in compliance with the requirements of the Cyprus Banking Law. The Branch started its banking activities on the territory of Cyprus on 1 September 2007. One of the main purposes of opening the first branch of the Bank overseas, apart from going abroad, is to grasp the big Bulgarian community that lives and works on the island. Unofficial sources inform that there are more than 30 000 Bulgarians in Cyprus at present. CCB Plc is a long established bank with traditions, expertise and extremely good reputation and Bulgarians have complete trust in it.

The core competence of the Bank is retail banking. The Cyprus Branch offers maintaining and transactions on current and deposit accounts in Euro, USD and BGN, transferring funds from the Cyprus branch to the rest of the 271 locations in Bulgaria at the most favourable rate on the island, granting of both consumer and mortgage loans to physical and legal persons, debit and credit cards, payment of consumables in Bulgaria, payment to numerous suppliers of a variety of services in Bulgaria, Internet banking facilities, cash in Bulgarian leva and others.

The Branch joined the local payment system JCC Transfer, as well as the check clearing house in Cyprus, which allowed a broader assortment of services. Moreover, the wish of numerous clients who would like to deposit their salaries into their accounts is a reality.

All staff are highly educated and speaking several languages, amongst which are Bulgarian, Greek, English, Russian and Persian. Two of the staff have previous experience in serving the Cyprus International Business Companies, which increases the array of offered services.

Last but not least, the Cyprus Branch is conveniently located at the main artery of Nicosia – Makarios Avenue, which facilitates the clients, arriving from other towns and villages in Cyprus.

# INTERNATIONAL PAYMENTS

The outgoing and incoming customer wire transfers are processed by a department at the Bank head-office, which consists of highly qualified professionals, specialized in several directions:

- Transfers
- Documentary operations and trade finance
- Western Union

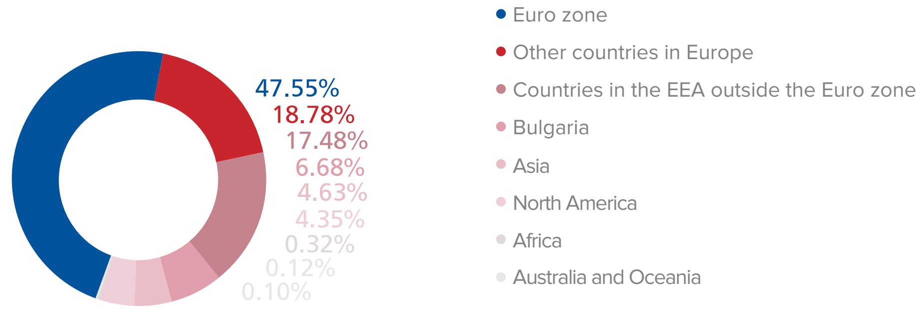


Credit transfers are the most common form of payment, used by clients individuals and by our business clients. For their quality and efficient performance in 2017 the Bank maintains 19 correspondent Nostro accounts in 15 foreign banks in 15 of the currencies most used by business and the population - EUR, USD, GBP, CHF, DKK,SEK, NOK, JPY, CAD, PLN, CZK, RON, RUB, TRY and MKD. The correspondent banks, where CCB maintains its Nostro accounts are some of the most reputable and stable international financial institutions, including Bank of New York Mellon, New York, KBC Bank NV, Brussels, UniCredit S.p.A., Milan, Raiffeisen Bank International AG, Vienna, Bank of New York Mellon, London, PostFinance AG, Berne, Sumitomo Mitsui Banking Corporation, Tokyo, Skandinaviska Enskilda Banken, Stockholm, Danske Bank, Copenhagen, DnB NOR Bank ASA, Oslo, PKO Bank Polski SA, Warsaw, Raiffeisenbank S.A., Bucharest, T.C. Ziraat Bankasi A.S., Ankara. Via its subsidiaries in Russia and Macedonia, CCB Plc provides direct access to the local payment systems in RUB and MKD and in these two countries, which facilitates the payments of our clients to and from these countries. Besides, by virtue of special negotiations with some of the enumerated correspondent banks, CCB effects transfers in some rarely used and exotic currencies, such as Australian and New Zealand dollar, Hungarian Forints, Chinese renminbi, Indian rupee, Indonesian rupee, South African Rand, Israeli shekel, Korean Republic Won, Malaysian ringgit, Philippine peso, etc.

Since November 2008 CCB is an indirect member of the Trans-European payment systems for SEPA transfers STEP2, and since February 2010 CCB is a direct participant in the Trans-European Automated Real-time Gross settlement Express Transfer system TARGET2. From the beginning of 2010 our Bank participates in the local SEPA-compatible payment system for transfers in EUR BISERA7-EUR.

Regarding the volume of the outgoing customer transfers in foreign exchange in 2017 the most important countries were Germany, Macedonia, Italy, Great Britain, Bulgaria, Turkey, Greece, Netherlands, Austria, Spain, USA, France, Romania, Poland and China. During the year transfers were ordered to 127 countries.

**VOLUME OF THE OUTGOING CUSTOMER WIRE TRANSFERS ACCORDING TO GEOGRAPHIC REGIONS**




In terms of value of the ordered customer transfers in foreign exchange the greatest share belongs to the following countries: Bulgaria, Russia, Germany, Netherlands, Great Britain, Italy, USA, Turkey, Ireland, Switzerland, Romania, Macedonia, Belgium, Austria and France.

The incoming wire transfers in 2017 as usual considerably exceeded in terms of volume the outgoing transfers. The main countries during the year were Germany, Netherlands, Great Britain, Spain, France, Italy, Belgium, Austria, Cyprus, Greece, Bulgaria, USA, Switzerland, Ireland and Russia. In 2017 CCB received customer transfers from 114 countries.

The diagram below presents the share of the distinct geographic economic regions all over the world with respect to the received transfers.

**NUMBER OF THE INCOMING CUSTOMER WIRE TRANSFERS ACCORDING TO GEOGRAPHIC REGIONS**




In terms of value of received customer wire transfers the greatest share belongs to the following countries: Bulgaria, Russia, Great Britain, Germany, Italy, USA, France, Switzerland, Turkey, Netherlands, Poland, Israel, Romania, Cyprus and Australia.

CCB regularly receives awards from its partners in Western Europe and USA in the form of certificates for exceptionally high percentage of the sent payments qualified as STP payments, which is an indicator of the high quality of the outgoing payments of CCB.

The transactions concerning documentary operations (documentary LCs and documentary collections) have significantly smaller share compared to the credit transfers, due to the greater complexity and higher price. In 2017 our corporate clients many times used the services of the documentary payments and trade finance department of CCB, which in addition to the quality processing of the documentary transactions, provided expert consulting for import and export LC transactions.

In 2017 the transactions related to confirmed LCs – import and counter guarantees were effected in collaboration with our partners, with which CCB has negotiations for short-term and mid-term commercial confirmations – first-class banks such as Deutsche Bank AG, Frankfurt am Main, UniCredit S.p.A., Milan, Raiffeisen Bank International AG, KBC Bank NV, Brussels.

## FINANCIAL MARKETS

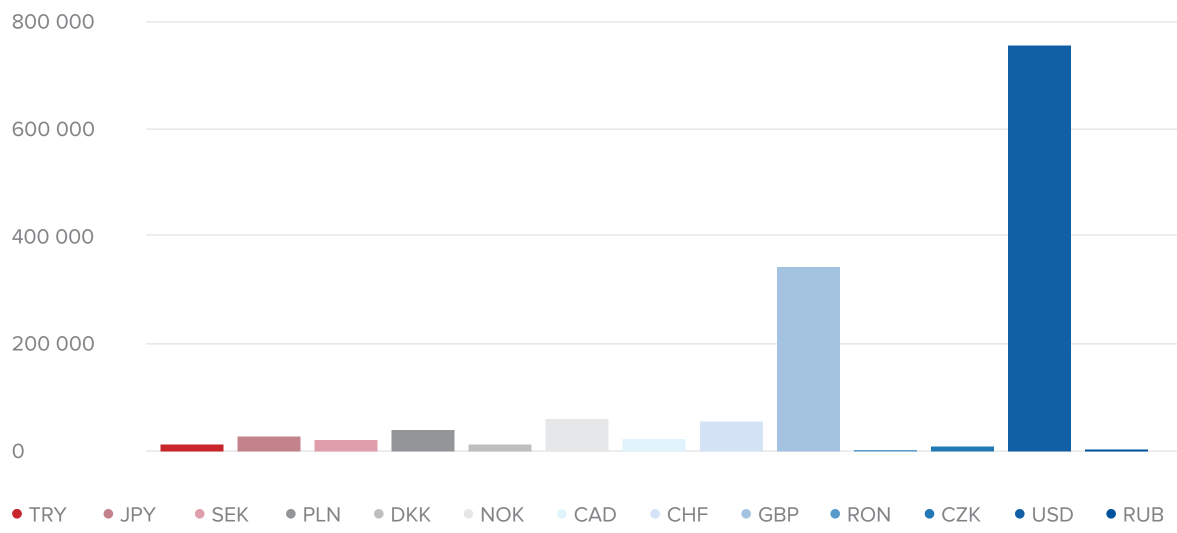
In 2017 financial markets continued to be one of the important segments in the activity of CCB Plc. The Bank affirmed its position as one of the most active banks on the interbank FX market and banknote trade. Being a primary dealer of government securities on the domestic primary market, CCB Plc. effects transactions on its behalf and at its expense and also at the expense of its clients. It maintains excellent relationships with first class foreign banks and places a huge amount of deposits on the Bulgarian and the international markets.

### Foreign exchange

In the field of foreign exchange the Bank offers a number of products and consulting services to investors and corporate clients, as well as to correspondent banks – spot, forward and swap transactions, options, derivatives, hedging, etc. The Bank actively uses the existing FX lines from big European banks. In 2017 CCB Plc continued to use the full capacity of its trading lines, provided by leading financial institutions such as KBC Bank, Brussels, WGZ, Germany, RZB, Austria and Danske Bank, Denmark. The Bank has ISDA agreements with leading European financial institutions such as KBC Bank, Brussels and RZB, Austria, which make it possible for the Bank to provide a wider spectrum of services to its clients.

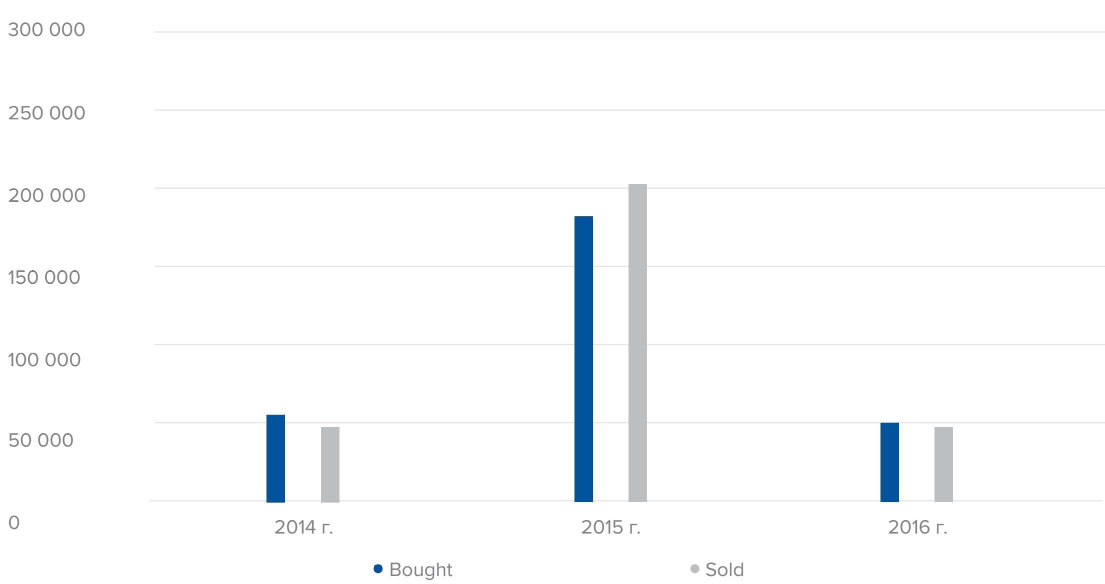
The Bank has lines for margin and netting trade with several leading financial and brokerage houses,

**TRANSACTIONS ON THE FX MARKETS( IN THOUSAND EUR)**



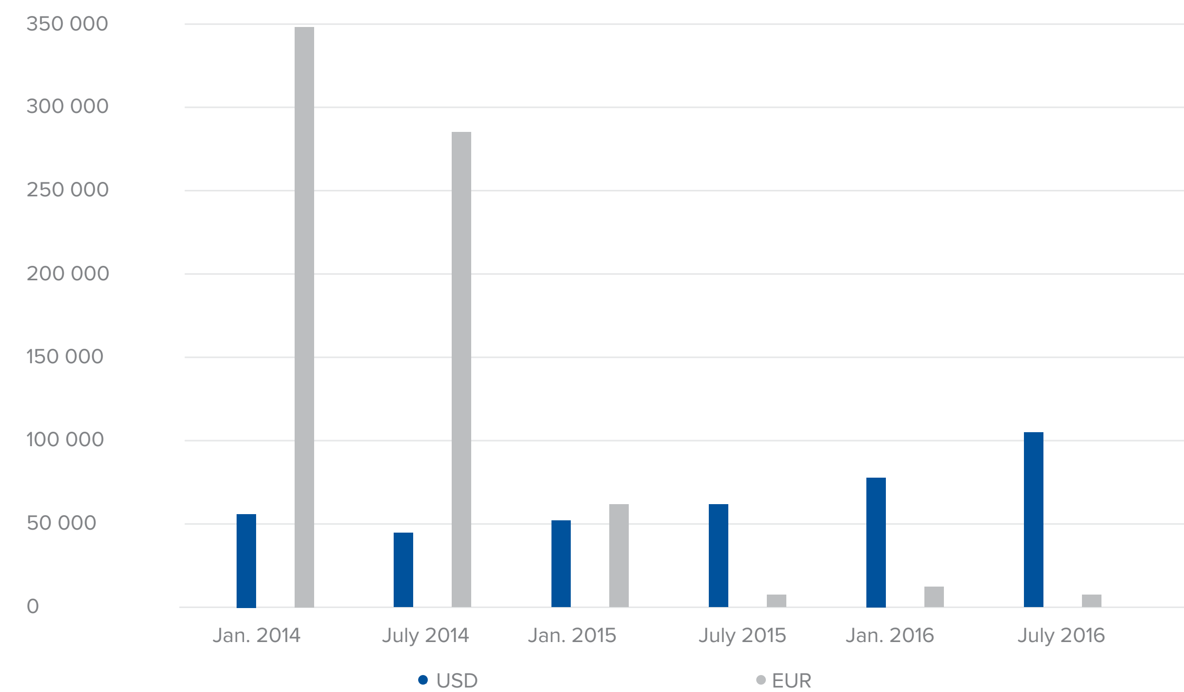

such as Sucden Financial, Man Financial and LaSalle Investment Management. In this way the Bank gives the opportunity to its clients to trade on the international financial markets, concluding contracts for margin trade. These lines allow the Bank to conclude speculative transactions at its expense upon limited risk.

**VOLUME OF THE TRANSACTIONS ON THE FX MARKET AVERAGE PER MONTH( IN THOUSAND EUR)**






**VOLUME OF THE PLACED INTERBANK DEPOSITS FROM JANUARY 2015 TO DECEMBER 2017 ( IN THOUSAND EUR AND USD)**




## Securities

In 2017 CCB Plc continued to actively participate in the primary and secondary market of government securities. In the commerce with government securities of leading importance to the Bank was the acquisition of securities at higher yield, whereas income generating alternatives were sought. During last year the Bank increased its portfolio of securities. Besides the commerce with government securities, CCB Plc was active in the commerce with state bonds, issued by member countries of the European Union.

## Capital markets

CCB Plc has a full license of an investment intermediary since 1997 and offers the following investment services:

- effecting orders for the purchase or sale of securities at the expense of clients or at its own expense;
- preparing prospectuses for initial public offering of securities;
- accepting securities issues.

# INFORMATION TECHNOLOGY

The Bank services its customers on the basis of contemporary banking information technologies. The IT experts within CCB Plc endeavor to assist the business units to keep and extend the market share of the Bank in the country and abroad. In 2017 the Bank information technologies were concentrated on the following main aspects:

- Deploying the features of the centralized information system “AIS 2” used at CCB Plc, a development of “Datamax” AD. Using the advantages of “AIS 2”, the Bank offers to its customers complete bank servicing. From intrabank payments in BGN and foreign currency in real time, international payments, depositing funds, payments between clients without the requirement for customers to have opened bank accounts, etc, to participation on the stock exchange.

- CCB Plc is a licensed agent of the Western Union fast money transfer system and there are over 200 positions for Western Union transactions within the Bank information network.

- CCB Plc is a licensed agent of the EasyPay fast money transfer system, whereas in the information network of the Bank there are over 250 positions for working with EasyPay.

- CCB Plc is a registration operator of the Info notary universal electronic signatures system, whereas in the information network of the Bank there are over 250 positions for working with Info notary.

- CCB Plc is an operator of the system for loyal clients “CCB Club”. In the system there are leading companies from various sectors of the country economy.

- Increasing the average accessibility of the information services via an automatisation of the processes for the services reserving.

# PERSONNEL

CCB Plc human resource is the main pillar for effecting the Bank policy and strategy. At the same time via a proper selection, evaluation, qualification, payment and stimulation, the necessary staff is provided for the performance of tasks with regard to the bank’s competitiveness. Considering the specifics of the business of CCB Plc, the requirements to the quality of the work of the employees are especially high with the aim of reaching the goals set by the Bank. The Bank management aims at creating the conditions for improving the quality of personnel, the personnel professional growing up and development. The ultimate goal is motivating qualified and loyal personnel, unsparing to the objectives of the institution.

As at 31.12.2017 the Bank branches of CCB Plc are 48, including a foreign branch in Cyprus. The Bank representative offices and outlets are 263, compared to 258 as at 31.12.2016.

The total staff number of CCB Plc as at 31.12.2017 is 2152 people, including 266 security guards. In 2016 the total staff number is 2316 people, including 482 security guards.

In 2017 the staff of the head-office of the Bank is 687 employees, including 266 security guards.

In 2016 the staff of the head-office of the Bank is 890 employees, including 482 security guards.



At at 31.12.2017 the total number of the employees /without the security guards/ at the head-office and the branches is 1886 people.

In 2017 at the bank branches there are 1465 employees, compared to 1426 employees in 2016.

The management takes permanent care of the staff number and structure. There are mainly young experts at the Bank with the necessary education and linguistic competence.

Within the Bank in 2016 the employees at the age up to 40 years old are 906 people (without the security guards) or 49 % of the total number (without the security guards). These are the employees at the most vital and creative age and with a certain potential for results in work, also employees, working directly with clients of the Bank, for whom care and efforts are rendered for their motivation for future work at the Bank.

The employees /without the security guards, cleaners, drivers and kitchen workers/ with bank work experience up to 5 years are 431 people or 17.44%. These are mainly employees, servicing clients and cashiers.

As at 31.12.2017 the employees with work experience 5-15 years in the bank system are 973 people /without security guards, cleaners, drivers and kitchen workers/ or 51.59% of all employees, compared to 1046 in 2016. These are mainly management staff at the head-office and the branches, employees of the head-office with methodological functions, managers and sales experts, loan officers, heads front office and other employees with high bank qualification at the branches.

In 2017 the employees with work experience above 15 years in the bank system are 444 employees or 23,54 % of the total bank staff.

CCB Plc pays special attention to the education of employees. The share of the employees / security guards, cleaners, drivers and kitchen workers/ with university education in all its degrees is especially big – 1377 people or 73.01 %. A basic approach upon appointing employees with the proper education and high professionalism is the proper selection of candidates.

The financial stimulus is dominant in creating and maintaining the interest and motivation of employees. With determining the remuneration at CCB Plc we aim at reaching even better relationship between the labor results and the individual remuneration and stimulate the initiative and the ideas of employees, reach better technological and employment discipline, as well as responsibility in the performance of their work functions. The main aspects in determining the employment remuneration consist of the objective evaluation of the labor of employees and determining their individual work salaries.

The long-term Concept for Training and Development of the Bank Personnel is the basis for carrying out the training and qualification of employees. On that grounds we developed a Program for Training and Qualifying Employees within the Bank System for 2017, with the following emphasis: loan operations and credit risk, retail banking, international payments, money markets and securities; information technologies, client servicing, sales skills, etc.

In 2017 special attention was devoted to training with the collaboration of the International Banking Institute, different centres for qualification and training of staff, as well as other Bulgarian and international institutions. The Bank employees participated in many international conferences and courses in our country and abroad with regard to the new requirements of the European Union in the field of banking.

## BRANCH NETWORK

During last year, via the huge branch network, CCB Plc managed to offer competitive financial products and services to its clients, not only in Bulgaria, but also in Cyprus. In 2017 the Bank put an emphasis on increasing the efficiency and functionality of the built up network, the good servicing of its clients and an easy access to the array of products.

Via its branch network the Bank aims to be at the disposal of its clients to a maximum extent, to be able to provide to them convenient, quick and quality servicing.

| Structural units | 31.12. 2017 | 31.12. 2016 | 31.12. 2015 |
|---|---|---|---|
| Bank locations | 311 | 306 | 294 |

## THE BANK IN THE FUTURE

Central Cooperative Bank Plc has always endeavored to increase the number of its clients via maintaining an optimum level of risk and excellent financial results.

The goals of the Bank for the future are:

- Increasing the total assets of the Bank, respectively the market share.
- Development and streamlining the control systems and the systems harmonization with the changes in the BNB regulations.
- Developing and defending the leadership position in the use of the most contemporary channels of distributing the bank products.
- Streamlining and constant adaptation of the client model of the operative organization with the aim of maintaining the high quality of the bank servicing.
- Optimizing the branch network of the Bank.
- Deploying the positions in retail banking. Increasing the volume and the relative share in the loan portfolio of loans to individuals – consumer and mortgage loans.



- Deploying the operations with debit and credit cards. Profiting from the full membership and the accepting rights in the two card associations – Mastercard and Visa International. Optimizing the Bank network of POS terminals and ATMs. Defending the third place in the card business.
- Profiting from the synergy in rendering services to the insurance companies, the pension companies, the health insurance companies and the investment companies from the group of Chimimport – the main shareholder of the Bank.
- Offering services and financing of projects of agricultural producers – under the programs of the structural funds of EU.
- Deploying the volume of the loan portfolio of SMEs.
- Attracting the servicing of new budgetary and municipal structures and companies.
- Development of the subsidiary banks in the Republic of Macedonia and Russia.
- Increasing the qualification of the employees and streamlining the mechanisms for stimulating employees.

# FINANCIAL REVIEW FOR 2017

## MARKET SHARE AND POSITION OF CCB PLC*

According to the classification of BNB, Bulgarian banks are divided into three groups in terms of the amount of the assets: the first group includes the first five banks with the biggest total assets, the second group includes the next 19 banks, and the third group includes the branches of the foreign banks in Bulgaria. At the end of 2017 in terms of total assets CCB Plc occupies the 8th place among all banks, operating on the territory of Bulgaria.

As at 31.12.2017 the total assets of the banking system in Bulgaria are BGN 97,8 billion, whereas the total assets of CCB Plc are BGN 5,411,763 thousand respectively.

The table below presents the main financial highlights of CCB Plc:

| Ratio | CCB Plc |
|---|---|
| Return On Average Equity /ROaE/ | 8,18% |
| 'Return On Average Assets /ROaA/ | 0,70% |
| Liquidity ratio | 46,28% |
| Total capital adequacy ratio | 16,83% |
| Tier I capital adequacy ratio | 14,38% |

## Risk Management

The system for risk management has preventative functions to prevent losses and control the amount of losses and includes:

- policy for risk management;
- rules, methods and procedures for the evaluation and management of the risks;
- organizational structure for risk management;
- parameters and limits for making transactions and operations;
- procedures for reporting, evaluation, information and subsequent control of the risks.

** Source: data, published on the web site of BNB for supervisory purposes, as well as data of banks, participating in BISERA.*



The main principles within the policy of Central Cooperative Bank Plc for risk management are:

- the principle of sharing responsibilities among those who assume risk and those who manage risk;
- the precautionary principle, which assumes the reporting of the simultaneous occurrence of the most unfavourable case for each of the risk weighted assets;
- the principle of managing risk at the source.

The organizational structure for risk management is centralized and has been structured according to the levels of competence as follows:

- Management Board – determines the acceptable levels of risk of the Bank within the adopted strategy for development.
- Specialised collective authorities – affirm the frameworks and parameters of the bank activity in risk management:
- Executive Directors and Procurator – control the process of approval and implementation of adequate policies and procedures within the Strategy for risk management, adopted by the Bank.
- Directors of the structural units at the bank – apply the adopted policy for risk management in organizing the activity of the respective organizational units.

Risk concerns the probability for the factual revenues of a given investment not to correspond to the expected revenues. The specifics of the banking necessitate the implementation of adequate systems for the timely identification and management of the various types of risk. Of special significance are the procedures for managing the risks, the mechanisms for maintaining risks in acceptable boundaries, via an evaluation of the external and internal environment, optimum liquidity, diversification of the portfolio, profitability of the operations. In the activity associated with risk management, CCB Plc applies the new agreement Basel II with the principally new requirements for the management of credit risk and the capital coverage of operational risk.

Credit risk – the probability for the counterparty or borrower not to be able to perform the assumed commitments under contracts with the bank under the conditions and terms specified in the contracts. Detailed procedures are applied in the process of lending concerning the analysis of the economic soundness of each project, the type of collateral, acceptable to the Bank, control over the use of the advanced funds and the associated administration. Every month the Bank makes an evaluation of the risk exposure, stemming from the loan portfolio, classifying and making provisions for loans in the portfolio, according to the requirements of Ordinance Nº 9 of BNB. The big loan exposures under Ordinance Nº 7 of BNB are subject to constant supervision and reporting. The Bank has adopted and follows the compliance of limits for credit exposure according to regions and branches. The above limits aim at limiting the concentration of the loan portfolio in one or another region and branch, which could lead to an increased credit risk.

Liquidity risk – the probability of a difficulty in the payments due to a mismatch in time of the incoming and outgoing cash flows. The Bank manages its assets and liabilities in a way, which guarantees to it that it can regularly and without any delay perform its everyday commitments, in the normal banking environment and in the conditions of a crisis.

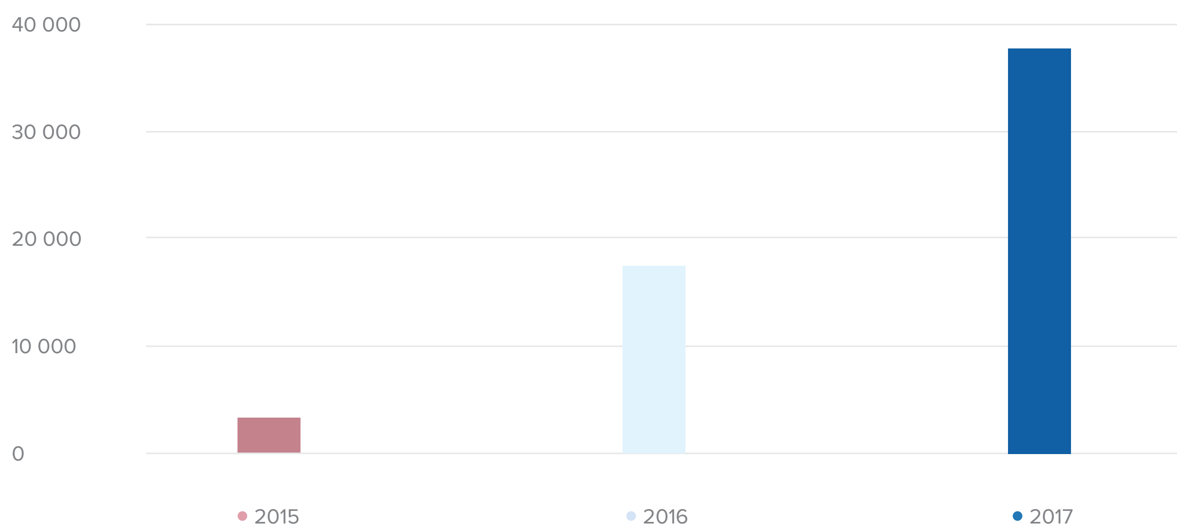
Market risk – the probability of the occurrence of a loss for the Bank as a result of the unfavorable change of the exchange rates, market prices and interest rates;

Operational risk – the probability of direct or indirect losses, stemming from the inadequate functioning or termination of the activity of the processes, systems or staff, internal to the Bank.

# INCOME STATEMENT

In 2017 the net profit of Central Cooperative Bank Plc amounts to BGN 36,814 thousand. In 2016 an audited net profit to the amount of BGN 26,598 thousand was realized.

### NET PROFIT

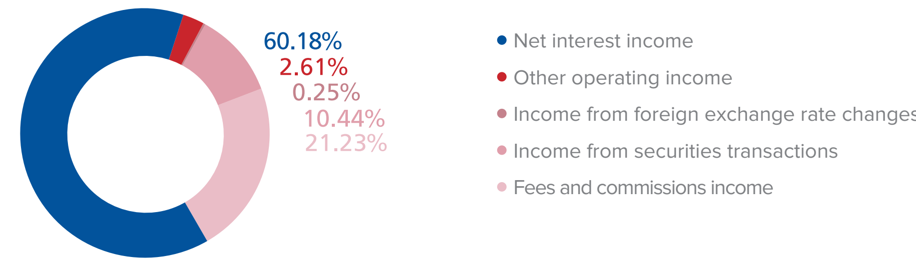



The financial indicators for return on average equity and the return on average assets are 8.18% and 0.70% respectively. The total capital adequacy of the Bank is 16.83%.

In 2017 the net interest income of CCB Plc remains the main source of income, whereas it increases compared to the previous year to BGN 118,848 thousand. The share of the net interest income in total income is 60.18%. The fees and commissions income has a share of 21.23% in total income, followed by income from securities transactions with a share of 10.44%. The other operating income to the amount of 2.61% includes income from dividend, cession contracts, the sale of fixed tangible assets, etc.



### INCOME BREAKDOWN




The interest expenses in 2017 are to the amount of BGN 25,976 thousand, compared to their amount of BGN 39,836 thousand in 2016. The decrease of these expenses amounts to -34 %. The net fees and commissions income increase by 1.67 % compared to 2016 and reach BGN 44,058 thousand.

At the end of 2017 there is an increase in the realized net profit from transactions in securities, which is to the amount of BGN 20,628.

The operating expenses of CCB Plc in 2017 increase by 1.78 % compared to their level at the end of 2016 and reach the absolute value of BGN 119,930 thousand.

The ratio operating expenses / total income decreases to 63.40 % compared to 64 % in 2016.

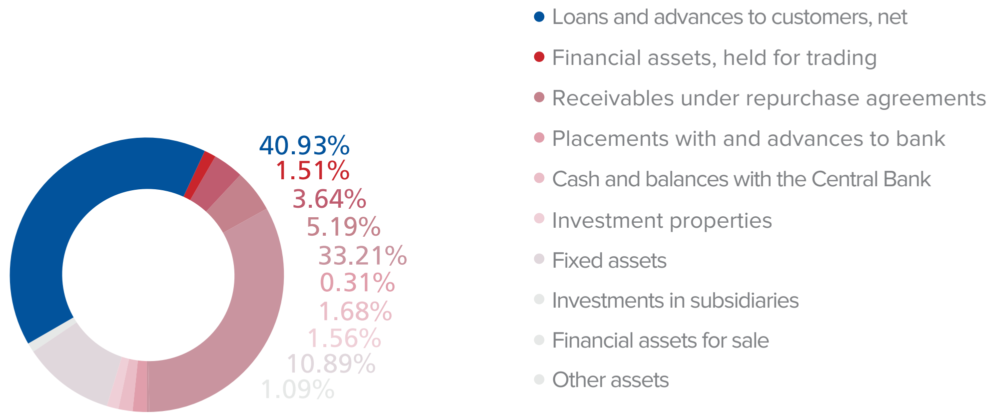
# AN ANALYSIS OF THE ASSETS AND LIABILITIES

## Assets

As at 31 December 2017 the book value of the assets of CCB Plc is BGN 5,411,847 thousand, whereas a year earlier they amount to BGN 4,970,131 thousand. Compared to 31 December 2016 the assets increase by BGN 441,716 thousand or 8.89 %.

The assets breakdown during last year has been reflected in the table below:

## ASSETS BREAKDOWN

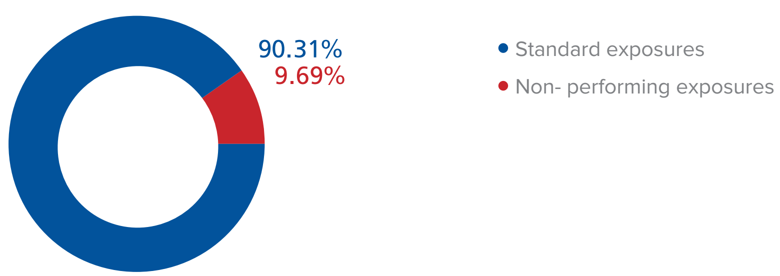



The cash and balances with BNB amount to BGN 1,797,053 thousand and are 33.21 % of total assets, compared to 26.19 % in 2016. The funds with first-class banks, correspondent accounts and short-term deposits have a weight of 5.19 % of the Bank assets, compared to 5.31 % a year earlier.

The investments in securities, including government securities, corporate bonds, shares and compensation instruments are an instrument for improving the profitability of the Bank. Their amount has 12.39 % of total assets, compared to 15.68 % in 2016. Central Cooperative Bank Plc maintains a diversified portfolio, the main purpose of which is increasing the gains and profits from the traded securities, as well as the provision of a high degree of liquidity.

The greatest share in total assets have the loans and advances granted to clients. As at 31.12.2017 the loan portfolio of the Bank amounts to BGN 2,214,894 thousand, compared to BGN 2,160,083 thousand one year earlier. In 2017 total loans have 40.93 % of the assets, whereas a year earlier they amount to 43.96% of total assets. The Bank constantly aims at improving its market positions in retail banking, as well as financing SMEs.

## BREAKDOWN OF THE LOAN PORTFOLIO ACCORDING TO THE CLASSIFICATION OF CREDIT RISK

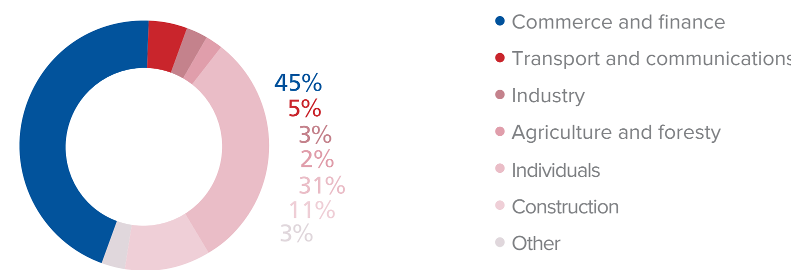



The quality of the loan portfolio is very good, the regular exposures are 90.31 %, and the non-performing exposures have a share of 9.69%.



CCB Plc grants loans to clients from various sectors of the economy. Almost one half of the gross loans are in commerce and finance. They have 45 % of the total portfolio, followed by the loans to individuals – 31%. As at 31.12.2017 the breakdown of the loan exposures according to branches has been reflected in the table below, as follows:

## BREAKDOWN OF THE LOANS ACCORDING TO BRANCHES




# Liabilities

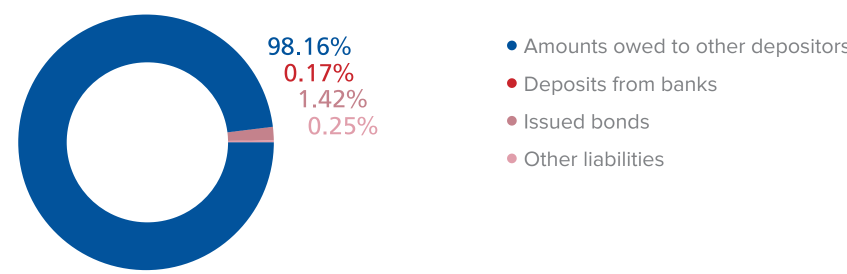
CCB Plc maintains a stable structure of the attracted funds, which allows it not to be dependent on external financing.

As at 31.12.2017 the total liabilities of CCB Plc are BGN 4,950,232 thousand. They have 91 % of the total liabilities, whereas their increase compared to the previous year is by 8.76%.

The main source of attracted funds for CCB Plc are the attracted funds from other depositors – individuals, companies and other institutions. Their amount reaches BGN 4,859,073 thousand, which is 89.79% of the total liabilities. In 2016 they were BGN 4,457,515 thousand or there is an increase by 9 %.

The breakdown of the Bank liabilities has been illustrated in the following graph:

## LIABILITIES BREAKDOWN

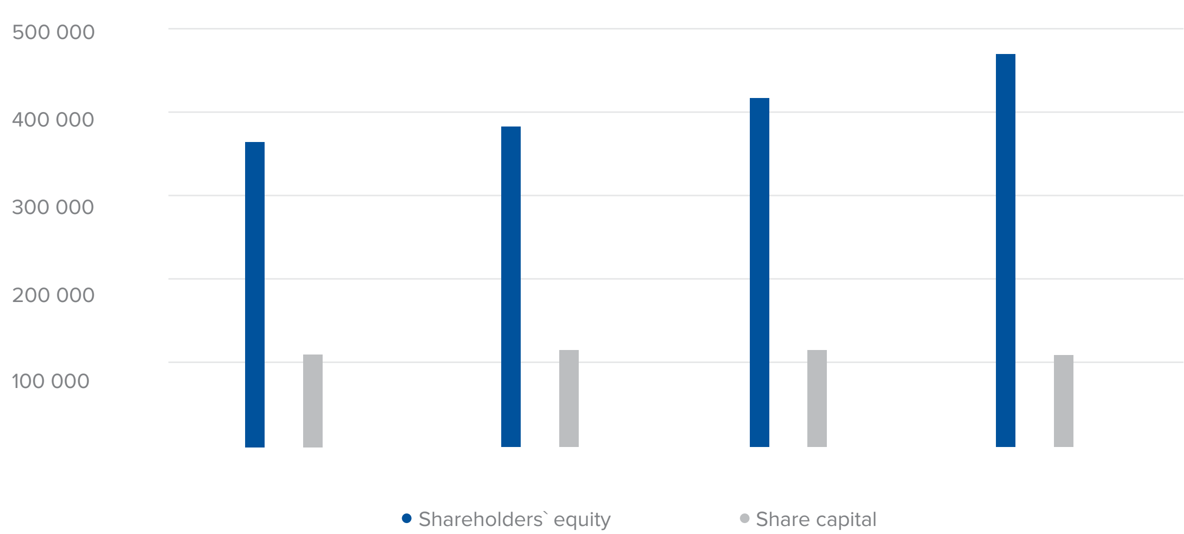


The considerable share of the funds attracted from the population is an important and stable source for the Bank. This is due to the strategy chosen by the Bank to concentrate on retail banking.

## Shareholders' equity

At the end of 2017 shareholders' equity of CCB Plc amounts to BGN 461,615 thousand. The increase in shareholders' equity compared to the previous year is 10.29 % and is mostly the result of the capitalized profit and the increased reserves. As at 31 December 2017 the issued, called and paid in share capital of the Bank consists of 113,154,291 ordinary voting shares, with a nominal value of BGN 1 for each share. The net profit in 2017 is to the amount of BGN 36,814 thousand, whereas at the end of 2016 it was BGN 26,598 thousand.

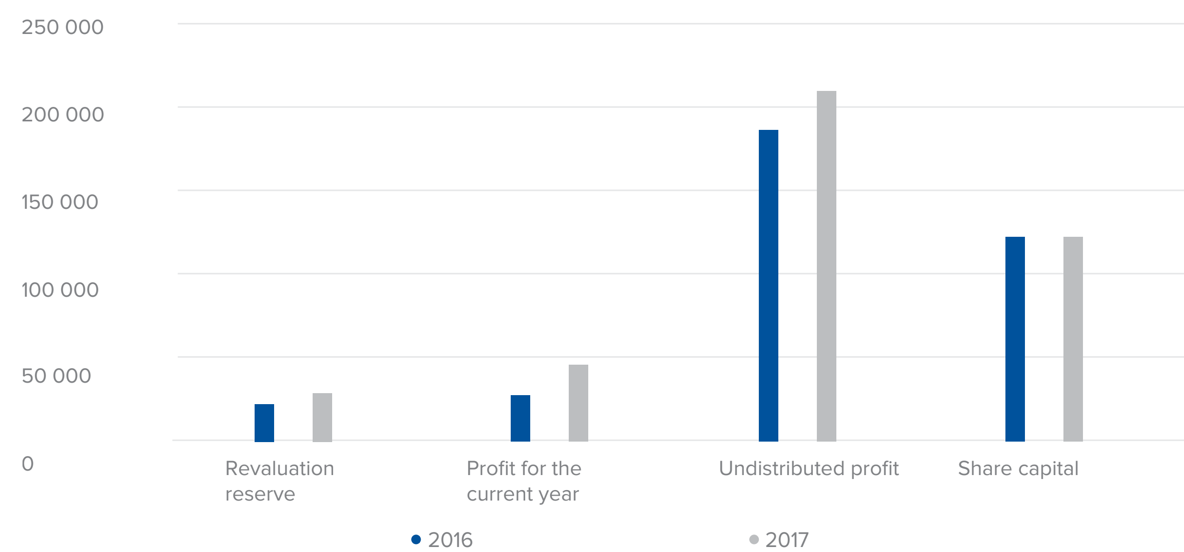
**INCREASE IN SHAREHOLDERS` EQUITY AND SHARE CAPITAL**





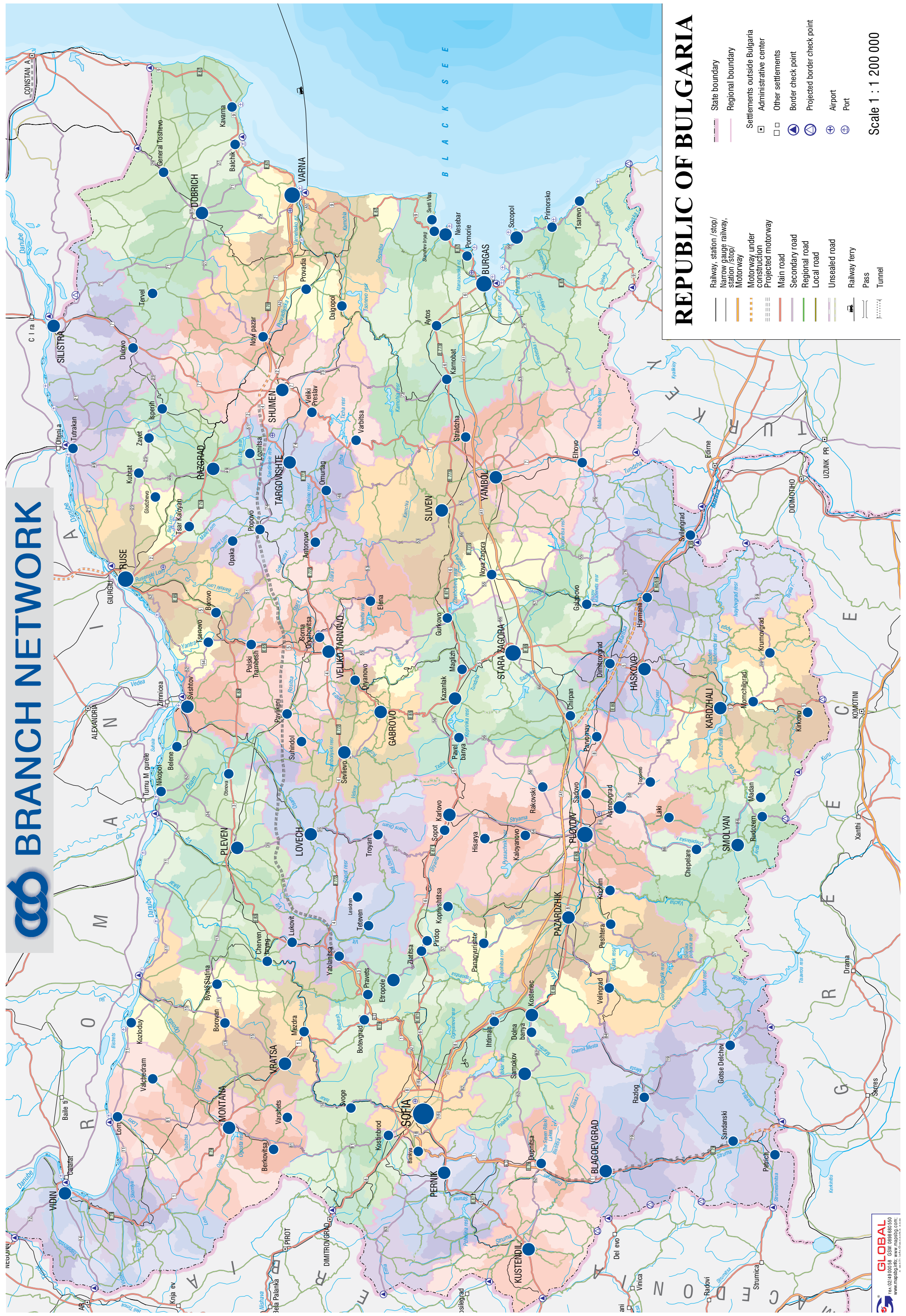

During this year the Bank continues its present policy via capitalization of the profits to assist the capital increase and its assets.

**SHAREHOLDERS` EQUITY**




Central Cooperative Bank Plc is a public company, the share of which are traded on the Bulgarian Stock Exchange since March 1999.

# APPENDIX N°1: BRANCH NETWORK




## BRANCH NETWORK OF CENTRAL COOPERATIVE BANK

**Pernik Branch**
4 Krakra Pernishki Str.
2300 Pernik
phone: +359 76 688 330

**Pleven Branch**
150 Vasil Levski Str.
5800 Pleven
phone: +359 64 882 310

**Plovdiv Branch**
5 Beethoven Str.
4000 Plovdiv
phone: +359 32 654 950

**Plovdiv-Bulgaria Branch**
31 Bulgaria Blvd.
4003 Plovdiv
phone: +359 32 921 111

**Razgrad Branch**
7 Stefan Karadzha Str
7200 Razgrad
phone: +359 84 661 290

**Ruse Branch**
1 Han Kubrat Sq.
7000 Ruse
phone: +359 82 826 070

**Samokov Branch**
33 Targovska Str.
2000 Samokov
phone: +359 722 68 910

**Svishtov Branch**
104 Tsar Osvoboditel Str.
5250 Svishtov
phone: +359 631 61 251

**Sevlievo Branch**
70 Stara planina Str.
5400 Sevlievo
phone: +359 675 85 050

**Silistra Branch**
1 G. S. Rakovski Str.
7500 Silistra
phone: +359 86 821 236

**Sliven Branch**
1 Aleksander Stamboliyski Sq.
8800 Sliven
phone: +359 44 662 945

**Smolyan Branch**
1 Bulgaria Blvd.
1470 Smolyan
phone: +359 301 62 163

**Sofia City Branch**
103 G. S. Rakovski Str.
1000 Sofia
phone: +359 2 9 266 114

**Sofia West Branch**
442 Pancho Vladigerov Blvd.
1359 Sofia
phone: +359 2 9 238 022

**Sofia South Branch**
23 Emine Str., Hipodruma District
1612 Sofia
phone: +359 2 8 188 081

**Stara Zagora Branch**
54 Kolyo Ganchev Str.
6000 Stara Zagora
phone: +359 42 220 369

**Targovishte Branch**
5 Vasil Levski Str.
7700 Targovishte
phone: +359 601 69 111

**Haskovo Branch**
1 Skopie Str.
6300 Haskovo
phone: +359 38 607 830

**Central Branch**
18 Gurgulyat Str.
1463 Sofia
phone: +359 2 9 263 062

**Head Office Branch**
87 Tsarigradsko shose Blvd.
1113 Sofia
phone: +359 2 923 47 54

**Cherno more Branch**
17 Apolonia Str.
8130 Sozopol
phone: +359 550 26 372

**Shumen Branch**
13 A Slavyanski Blvd.
9700 Shumen
phone: +359 54 868 930

**Yambol Branch**
8600 Yambol
7 Osvobozhdenie Sq.
phone: +359 46 662 045

**Nicosia (Cyprus)**
69 Arch. Makarios III Ave., Tlais Tower
1070 Nicosia,Cyprus
phone: +357 22 447 757

# APPENDIX N°2: NOSTRO ACCOUNTS

| Bank | BIC | Currency | Account N° |
|---|---|---|---|
| KBC Bank NV, Brussels | KREDBEBB | EUR | 488-5918232-05 |
| UniCredit SPA, Milan | UNCRITMM | EUR | 0995 172 |
| Raiffeisen Bank International AG, Vienna | RZBAATWW | EUR | 000-50.098.938 |
| Landesbank Baden-Wuerttemberg, Stuttgart | SOLADEST | EUR | 2809474 |
| The Bank of New York Mellon, New York, USA | IRVTUS3N | USD | 8901366536 |
| KBC Bank NV, Brussels | KREDBEBB | CHF | 488-5921128-88CHF |
| PostFinance AG, Berne, Switzerland | POFICHBE | CHF | 91-160-3 |
| The Bank of New York Mellon (International) Limited, London, UK | IRVTGB2X | GBP | 3506738260 |
| KBC Bank NV, Brussels | KREDBEBB | CAD | BE56488592112888CAD |
| Danske Bank Aktieselskab, Copenhagen | DABADKKK | DKK | 3996024253 |
| Skandinaviska Enskilda Banken AB (Publ), Stockholm | ESSESESS | SEK | 52018518488 |
| DnB NOR Bank ASA, Oslo | DNBANOKK | NOK | 7001.02.05172 |
| Sumitomo Mitsui Banking Corporation, Tokyo | SMBCJPJT | JPY | 4280 |
| PKO BANK POLSKI SA | BPKOPLPW | PLN | PL09102000161201110000005877 |
| Central Cooperative Bank AD Skopje | CECBMK22 | MKD | BBAN 320-9100030020-62 |
| T.C. ZIRAAT BANKASI A.S., Ankara | TCZBTR2A | TRY | 99902050-5001 |
| Raiffeisen Bank SA, Bucharest, Romania | RZBRROBU | RON | RO26RZBR0000000202309461 |
| KBC Bank, Belgium | KREDBEBB | CZK | BE56488592112888CZK |
| JSC IC Bank | CECBRU2K | RUB | 30111810000000000001 |

# INDEPENDENT AUDITORS' REPORT

To the shareholders of Central Cooperative Bank AD

## REPORT ON THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS

### Opinion

We have audited the accompanying separate financial statements of Central Cooperative Bank AD (the "Bank"), which comprise the separate statement of financial position as at December 31, 2017, and the separate statement of profit or loss and other comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017, and 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 separate 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 separate financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the requirements of IFAA. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| Impairment of loans and advances<br><br>Notes 8, 29 and 34 to the separate financial statements<br><br>The Bank records allowances for uncollectability of loans and advances in accordance with IFRS. The balance of the allowances for impairment and uncollectability of loans and advances was BGN 118,221 thousand as of December 31, 2017, as disclosed in notes 8, 29 and 34 to the accompanying separate financial statements.<br><br>The valuation of loans and advances depends on the credit risk associated to the borrower. When there is objective evidence that a loan may not be fully recovered in accordance with the contractual terms, the credit risk and the loan valuation is assessed on individual and collective basis according to the Bank's policies and procedures. In determining the necessary allowances, management applies judgment regarding the factors it considers relevant. These factors include the financial condition of the borrower, the realization period and value of collateral, the expected cash flows from the borrower's activity, the local economic environment, the structure of the loan portfolio and the past experience in respect to overdue advances.<br><br>Due to the significance of the valuation of loans and advances for the separate financial statements, and due to the fact that the assumptions in determining the allowances for uncollectability by definition include significant estimates, we identified impairment calculation for loans and advances as a key audit matter. | Our audit procedures were focused on the following:<br><br>We obtained understanding of the processes and policies for determination of impairment of loans and advances, applied by the Bank.<br><br>We assessed the adequacy of the policies, procedures and implemented controls in the process for compliance with IFRS and industry's best practices.<br><br>We evaluated the design and implementation of controls, as well as their operating effectiveness.<br><br>We challenged management's classification of loans and identification of impairment by selecting a sample of loans from the portfolio and performing detailed substantive procedures to verify the classification and amount of the loans. We analysed the financial condition of the borrowers and enquired about any breaches of the terms and conditions of the contract. We have considered the impact of the current economic conditions, the valuation of assets held as collateral, and other factors that may affect the recoverability of loans and advances included in our sample.<br><br>We applied our professional judgment to assess the inputs used in the calculation of impairment losses.<br><br>We evaluated management's calculation of impairment losses by applying our professional judgement to independently determine estimates and comparing them to the estimates applied by the Bank.<br><br>We evaluated the adequacy of disclosures in the consolidated financial statements, including disclosures of the main assumptions and estimates. |



## Information Other than the separate financial statements and Auditors' Report Thereon

The Management Board of the Bank ("the Management") is responsible for the other information. The other information comprises the annual report on activities, the corporate governance statement and the non-financial declaration prepared by the management in accordance with Chapter Seven of the Accountancy Act, but does not include the separate financial statements and our auditors' report thereon.

Our opinion on the separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless it is not specifically stated in our auditors' report and to the extent it is specifically stated.

In connection with our audit of the separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate 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.

## Responsibilities of Management and Those Charged with Governance for the separate financial statements

Management is responsible for the preparation and fair presentation of the separate 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 separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate 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.

The Supervisory Board and the Audit Committee of the Bank ("Those charged with governance") are responsible for overseeing the Bank's financial reporting process.

## Auditors' Responsibilities for the Audit of the separate financial statements

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 separate 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 separate financial statements, including the disclosures, and whether the separate 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

We are jointly responsible for the performance of our audit and the audit opinion expressed by us, in accordance with the requirements of the IFAA, applicable in Bulgaria. In accepting and performing the joint audit engagement, in respect to which we are reporting, we have considered the Guidelines for performing joint audits, issued on June 13, 2017 by the Institute of Certified Public Accountants in Bulgaria and the Commission for Public Oversight of the Registered Auditors in Bulgaria.

# REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

## ADDITIONAL MATTERS, REQUIRED TO BE REPORTED BY THE ACCOUNTANCY ACT AND PUBLIC OFFERING OF SECURITIES ACT

In addition to our reporting responsibilities according to ISAs described in section "Information Other than the separate financial statements and Auditor's Report Thereon", with respect to the annual report on activities, the corporate governance statement and the non-financial declaration, we have also performed the procedures required by the "Guidelines regarding new extended reports and communication by the auditor" of the Professional Organization of Registered Auditors in Bulgaria - Institute of Certified Public Accountants (ICPA). These procedures include tests over the existence, the form and the content of the other information in order to assist us in forming an opinion as to whether the other information includes the disclosures and reporting as required by Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (art. 100m, para 10 of POSA in relation to art. 100m, para 8, p. 3 and 4 of POSA), applicable in Bulgaria.

## OPINION UNDER ARTICLE 37, PARAGRAPH 6 OF THE ACCOUNTANCY ACT

Based on the procedures performed, in our opinion:

- The information included in the annual separate report on the activities for the financial year for which the separate financial statements have been prepared, is consistent with the separate financial statements.

- The annual separate report on the activities has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100m, paragraph 7 of the Public Offering of Securities Act.

- The information required by Chapter Seven of the Accountancy Act and Art. 100m, para 8 of the Public Offering of Securities Act is presented in the corporate governance statement covering the financial year for which the separate financial statements have been prepared.

- The non-financial Declaration, covering the financial year for which the separate financial statements have been prepared, has been provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.



## INFORMATION IN ACCORDANCE WITH ART. 33 OF ORDINANCE 38/2007 OF THE FINANCIAL SUPERVISORY COMMISSION (FSC) OUTLINING THE REQUIREMENTS FOR THE ACTIVITIES OF THE INVESTMENT INTERMEDIARIES

Based on the performed audit procedures and the acquired understanding of the Bank's activities in the context and the course of our audit of the Bank's separate financial statements as a whole, we have identified that the established and applied in the Bank organization related to the keeping of clients' assets complies with the requirements of art. 28-31 of Ordinance 38 of FSC regarding the Bank's activity as an investment intermediary.

## OPINION UNDER ART. 100M, PARA 10 IN RELATION TO ART. 100M, PARA 8, P. 3 AND 4 OF THE PUBLIC OFFERING OF SECURITIES ACT

Based on the procedures performed during our audit and as a result of the acquired knowledge and understanding of the Bank and the environment in which it operates, acquired during our audit, in our opinion, the description of the main features of the Bank's internal control and risk management systems in relation to the financial reporting process as part of the annual report on activities (as element of the content of the corporate governance statement) and the information under Article 10, paragraph 1, letter „c", „d", „e", „h" and „i" of the Directive 2004/25/EC of the European Parliament and of the EU Council of April 21, 2004 related to takeover bids, do not contain cases of material misrepresentations.

## ADDITIONAL REPORTING IN RELATION TO THE AUDIT OF THE SEPARATE FINANCIAL STATEMENTS UNDER ART 100M, PARA 4, P. 3 OF THE PUBLIC OFFERING OF SECURITIES ACT

Reporting in relation to Art 100m, para 4, p. 3, l. "b" of the Public Offering of Securities Act.

Information on related party transactions is disclosed in Note 35 to the accompanying separate financial statements. Based on the procedures performed on related party transactions in the context of our audit of the separate financial statements as a whole, nothing has come to our attention indicating that the related party transactions are not disclosed in the accompanying separate financial statements for the year ended December 31, 2017, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. We have considered the results of our audit procedures on related party transactions in forming our opinion on the separate financial statements as a whole and not for the purpose of providing a separate opinion on the related party transactions.
Reporting in relation to Art 100m, para 4, p. 3, l. "c" of the Public Offering of Securities Act

Our responsibilities for the audit of the separate financial statements described in section "Auditor's

Responsibilities for the Audit of the separate financial statements" include evaluating whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation. Based on the procedures performed on the material transactions underlying the separate financial statements for the year ended December 31, 2017, nothing has come to our attention indicating any instances of material unfair presentation and disclosure under the applicable IFRS as adopted by the European Union. We have considered the results of our audit procedures on the material transactions underlying the separate financial statements in forming our opinion on the separate financial statements as a whole and not for the purpose of providing a separate opinion on these material transactions.

## REPORTING IN ACCORDANCE WITH ART. 10 OF REGULATION (EU) NO 537/2014 IN CONNECTION WITH THE REQUIREMENTS OF ART. 59 OF THE INDEPENDENT FINANCIAL AUDIT ACT

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- Deloitte Audit OOD and Grant Thornton OOD were appointed as statutory auditors of the separate financial statements of the Bank for the year ended December 31, 2017 by the general meeting of shareholders held on June 29, 2017 for a period of one year.

- The audit of the separate financial statements of the Bank for the year ended December 31, 2017 represents twentieth total consecutive statutory audit engagement for the Bank carried out by Deloitte Audit OOD and first statutory audit engagement for the Bank carried out by Grant Thornton OOD.

- We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to the Bank's audit committee, in compliance with the requirements of Art. 60 of the IFAA.

- No prohibited non-audit services referred to in Art. 64 of the IFAA were provided.

- We hereby confirm that in conducting the audit we have remained independent of the Bank.

- For the period to which our joint statutory audit refers, we have not provided other services to the Bank in addition to the statutory audit, which have not been disclosed in the Bank's report on the activities or separate financial statements.



On behalf of Deloitte Audit OOD

**Assen Dimov**
Statutory Manager
Registered Auditor, responsible for the audit

Одиторско дружество
София
Рег. № 033
Делойт Одит ООД

103, Al. Stambolijski Blvd
Sofia Tower (Mall of Sofia)
1303 Sofia, Bulgaria

April 2, 2018

On behalf of Grant Thornton OOD

**Zornitza Djambazka**
Statutory Manager
Registered Auditor, responsible for the audit

**Marii Apostolov**
Statutory Manager

Одиторско дружество
София
Рег. № 032
Грант Торнтон ООД

26, Cherni Vrah Blvd.
1421 Sofia, Bulgaria

# ANNUAL SEPARATE REPORT ON THE ACTIVITIES, INDEPENDENT AUDITORS' REPORT, AND ANNUAL SEPARATE FINANCIAL STATEMENTS

December 31, 2017

| ASSETS | Note | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|---|
| Cash and balances with the Central Bank | 4 | 1,797,053 | 1,301,490 |
| Placements with and advances to banks, net | 5 | 281,016 | 263,847 |
| Receivables under repurchase agreements | 6 | 196,910 | 199,258 |
| Financial assets held for trading | 7 | 81,775 | 115,047 |
| Loans and advances to customers, net | 8 | 2,214,894 | 2,160,083 |
| Other assets | 9 | 59,009 | 61,801 |
| Financial assets available for sale | 10 | 589,318 | 664,189 |
| Investments in subsidiaries | 11 | 84,333 | 84,333 |
| Non-current assets | 12 | 91,020 | 96,044 |
| Investment property | 14 | 16,519 | 17,222 |
| Non-current assets held for sale | 15 | - | 6,817 |
| TOTAL ASSETS | | 5,411,847 | 4,970,131 |

| LIABILITIES AND SHAREHOLDERS' EQUITY | Note | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|---|
| LIABILITIES | | | |
| Deposits from banks | 16 | 8,434 | 12,451 |
| Amounts owed to other depositors | 17 | 4,859,073 | 4,457,515 |
| Other attracted funds | 18 | - | 39 |
| Issued bonds | 19 | 70,235 | 70,126 |
| Provisions | 20 | - | 1,034 |
| Other liabilities | 21 | 12,490 | 10,410 |
| TOTAL LIABILITIES | | 4,949,384 | 4,551,575 |
| SHAREHOLDERS' EQUITY | | | |
| Issued capital | 22.1 | 113,154 | 113,154 |
| Premium reserve | | 79,444 | 79,444 |
| Reserves, including retained earnings | 22.2 | 205,059 | 178,461 |
| Revaluation reserve | 22.3 | 27,144 | 20,899 |
| Current year profit | | 36,814 | 26,598 |
| TOTAL SHAREHOLDERS' EQUITY | | 461,615 | 418,556 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 5,411,847 | 4,970,131 |
| Contingent liabilities | 32 | 162,747 | 174,810 |



These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on March 30, 2018 by:

**Georgi Kostov**
Executive Director

**Sava Stoynov**
Executive Director

**Tihomir Atanassov**
Procurator

**Yordan Hristov**
Chief Accountantr

Signed according to Auditors' Report dated April 2, 2018:

On behalf of Deloitte Audit OOD

**Assen Dimov**
Statutory Manager
Registered Auditor, responsible for the audit

On behalf of Grant Thornton OOD

**Zornitza Djambazka**
Statutory Manager
Registered Auditor, responsible for the audit

**Marii Apostolov**
Statutory Manager

The accompanying notes are an integral part of these separate financial statements.

| | Note | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|---|
| Interest income | 23 | 144,824 | 150,140 |
| Interest expenses | 23 | (25,976) | (39,836) |
| Net interest income | | 118,848 | 110,304 |
| | | | |
| Fees and commissions income | 24 | 52,377 | 50,497 |
| Fees and commissions expense | 24 | (8,319) | (7,161) |
| Net fees and commissions income | | 44,058 | 43,336 |
| Gains from transactions with securities, net | 25 | 20,628 | 20,367 |
| Foreign exchange rate gains, net | 26 | 495 | 5,955 |
| Other operating income, net | 27 | 5,149 | 4,167 |
| Operating expenses | 28 | (119,930) | (117,834) |
| Provisions | | - | (1,034) |
| Impairment and uncollectibility expense, net | 29 | (30,727) | (34,640) |
| Profit for the period before taxes | | 38,521 | 30,621 |
| Taxes | 30 | (1,707) | (4,023) |
| | | | |
| PROFIT FOR THE PERIOD | | 36,814 | 26,598 |
| Earnings per share (in BGN) | 31 | 0,34 | 0,24 |
| Diluted earnings per share (in BGN) | 31 | 0,29 | 0,22 |
| Other comprehensive income | | | |
| Items not reclassified in the profit or loss: | | | |
| Financial assets available for sale, net of taxes | | 6,245 | 12,040 |
| Total other comprehensive income, net of taxes | | 6,245 | 12,040 |
| TOTAL COMPREHENSIVE INCOME AFTER TAXES | | 43,059 | 38,638 |



These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on March 30, 2018 by:

**Georgi Kostov**
Executive Director

**Sava Stoynov**
Executive Director

**Tihomir Atanassov**
Procurator

**Yordan Hristov**
Chief Accountantr

Signed according to Auditors' Report dated April 2, 2018:

On behalf of Deloitte Audit OOD

**Assen Dimov**
Statutory Manager
Registered Auditor, responsible for the audit

On behalf of Grant Thornton OOD

**Zornitza Djambazka**
Statutory Manager
Registered Auditor, responsible for the audit

**Marii Apostolov**
Statutory Manager

The accompanying notes are an integral part of these separate financial statements.

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Cash flows from operating activities: | | |
| Profit before taxes | 38,521 | 30,621 |
| Change in operating assets: | | |
| Decrease/ (increase) in placements with and advances to banks with maturity above 90 days | 2,151 | (6,598) |
| Decrease/ (increase) in receivables under repurchase agreements | 2,348 | (46,810) |
| Decrease in financial assets held for trading | 41,999 | 93,820 |
| Increase in loans and advances to customers | (85,538) | (108,679) |
| Decrease/ (increase) in other assets | 2,793 | (7,848) |
| Decrease/ (increase) in non-current assets held for sale | 6,817 | (4,280) |
| | (29.430) | (80.395) |
| Change in operating liabilities: | | |
| (Decrease) / increase in deposits from banks | (4,017) | 2,778 |
| Decrease in liabilities under repurchase agreements | - | (9,000) |
| Increase in amounts owed to other depositors | 401,558 | 290,914 |
| Decrease in other attracted funds | (39) | (66) |
| (Decrease)/ increase in liabilities for provisions | (1,034) | 1,034 |
| Increase in other liabilities | 5,585 | 2,137 |
| | 402,053 | 287,797 |
| Other non-cash transactions, included in the profit before taxation: | | |
| Net loss from investing activities | (8,727) | (6,201) |
| Increase of adjustment for impairment of loans and advances to clients | 30,727 | 35,674 |
| Depreciation and amortization | 9,187 | 9,306 |
| Carrying amount of assets written-off | 112 | 7 |
| Change in deferred taxes | 37 | (46) |
| Effects from amortization of financial liability | 109 | 71 |
| | 31,445 | 38,811 |
| Income tax paid | (6,181) | (240) |
| NET CASH FLOW FROM OPERATING ACTIVITIES | 436,408 | 276,594 |
| Cash flows from investing activities: | | |
| Sale/ (acquisitions) of financial assets available for sale, net | 81,809 | (28,470) |
| Proceeds from sale of financial assets held to maturity, net | - | 221,678 |
| Payments for purchase of non-current assets | (3,570) | (6,032) |
| Proceeds from sale of non-current assets | 2,771 | 3,548 |
| Acquisition of investment property | - | (17,737) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | 81,010 | 172,987 |
| Cash flows from financing activities: | | |
| Interest paid on issued bonds | (2,535) | (3,168) |
| NET CASH FLOWS FOR FINANCING ACTIVITIES | (2,535) | (3,168) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 514,883 | 446,413 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note 33) | 1,549,123 | 1,102,710 |
| CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 33) | 2,064,006 | 1,549,123 |



These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on March 30, 2018 by:

**Georgi Kostov**
Executive Director

**Sava Stoynov**
Executive Director

**Tihomir Atanassov**
Procurator

**Yordan Hristov**
Chief Accountantr

Signed according to Auditors' Report dated April 2, 2018:

On behalf of Deloitte Audit OOD

**Assen Dimov**
Statutory Manager
Registered Auditor, responsible for the audit

On behalf of Grant Thornton OOD

**Zornitza Djambazka**
Statutory Manager
Registered Auditor, responsible for the audit

**Marii Apostolov**
Statutory Manager

The accompanying notes are an integral part of these separate financial statements.

| | Issued capital | Premium reserve | Reserves, including retained earnings | Revaluation reserves | Current year profit | TOTAL |
|---|---|---|---|---|---|---|
| BALANCE AS OF JANUARY 1, 2016 | 113,154 | 79,444 | 171,757 | 8,859 | 6,704 | 379,918 |
| Net profit for the year ended December 31, 2016 | - | - | - | - | 26,598 | 26,598 |
| Other comprehensive income for the year ended December 31, 2016, net of taxes | - | - | - | 12,040 | - | 12,040 |
| Total comprehensive income for the year ended December 31, 2016 | - | - | - | 12,040 | 26,598 | 38,638 |
| Net profit for the year ended December 31, 2015, transferred to retained earnings | - | - | 6,704 | - | (6,704) | - |
| **BALANCE AS OF DECEMBER 31, 2016** | **113,154** | **79,444** | **178,461** | **20,899** | **26,598** | **418,556** |
| Net profit for the year ended December 31, 2017 | - | - | - | - | 36,814 | 36,814 |
| Other comprehensive income for the year ended December 31, 2017, net of taxes | - | - | - | 6,245 | - | 6,245 |
| Total comprehensive income for the year ended December 31, 2017 | - | - | - | 6,245 | 36,814 | 43,059 |
| Net profit for the year ended December 31, 2016, transferred to retained earnings | - | - | 26,598 | - | (26,598) | - |
| **BALANCE AS OF DECEMBER 31, 2017** | **113,154** | **79,444** | **205,059** | **27,144** | **36,814** | **461,615** |



These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on March 30, 2018 by:

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Executive Director

**Sava Stoynov**
Executive Director

**Tihomir Atanassov**
Procurator

**Yordan Hristov**
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Signed according to Auditors' Report dated April 2, 2018:

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**Marii Apostolov**
Statutory Manager

The accompanying notes are an integral part of these separate financial statements.

# 1. OPERATING POLICY

Central Cooperative Bank AD, Sofia (the "Bank"), UIC 831447150, was established in 1991. The Bank's activities and operations are governed by the Law on Credit Institutions. The Bank currently operates under a banking license granted by the Bulgarian National Bank (BNB), pursuant to which it may accept deposits in local and foreign currency, extend loans in local and foreign currency, open and maintain nostro accounts in foreign currency abroad, deal with securities and foreign currency and perform all other banking activities and transactions, permitted by the Law on Credit Institutions.

In December 2005 the Bank obtained a bank license, issued by the Central Bank of Cyprus, under which the Bank is authorized to perform bank activity as a legally licensed bank branch on the territory of the Republic of Cyprus, in compliance with the requirements of the Cyprus Law on Banks. The Bank started its banking activity on the territory of Cyprus in 2007.

The Bank is a public entity and is listed on the Bulgarian Stock Exchange – Sofia with BSE code 4CF for ordinary shares of the Bank. The Bank is a member of the European Association of Cooperative Banks. The Bank has a primary dealer status for transactions with government securities.

The Bank provides services as investment intermediary under the provisions of the Public Offering of Securities Act (POSA). As an investment intermediary the Bank complies with specific requirements for protection of clients' interests under the Markets in Financial Instruments Act (MFIA) and Ordinance 38 issued by the Financial Supervision Commission (FSC). The Bank implements organization related to the conclusion and execution of contracts with customers involving requesting customer data, keeping records and clients' assets in compliance with the requirements under art. 28-31 of Ordinance 38. The Bank applies rules and procedures for internal control to ensure compliance with the requirements under art. 28-31 of Ordinance 38.

As of December 31, 2017 the Bank's operations are conducted through a head-office located in Sofia, Bulgaria, 47 branches and 263 remote offices throughout the country and one branch in the Republic of Cyprus.

Chimimport AD is the ultimate parent company of the Bank, whose shares are listed on the Bulgarian Stock Exchange – Sofia AD.



# 2. BASIS FOR PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS

## GENERAL FRAMEWORK FOR FINANCIAL REPORTING

These financial statements are separate financial statements prepared for the year ended December 31, 2017. These separate financial statements have been prepared for general purposes under the going concern principle. The amounts in the separate financial statements are stated in thousand Bulgarian levs (BGN'000). The separate financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS), developed and published by the International Accounting Standards Board (IASB) and approved by the European Union (IFRS as approved by the EU). Within the meaning of para. 1, item 8 of the Supplementary Provisions to the Accountancy Act, applicable in the Republic of Bulgaria, the term "IFRS as approved by the EU" stands for the International Accounting Standards (IAS), adopted in compliance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

The Bank controls the subsidiaries Central Cooperative Bank AD Skopje, the Republic of Macedonia and CCB Assets Management EAD, Sofia, Bulgaria and AO "IK Bank", Kazan, Republic of Tatarstan, Russian Federation.

# 2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

According to the requirements of IFRS 10 „Consolidated financial statements," the Bank prepares also consolidated financial statements. The consolidated financial statements will be published in April 2018.

The separate financial statements are prepared under the historical cost convention, modified by the revaluation to fair value of financial assets and liabilities held for trading, available for sale and all derivative contracts. Loans and receivables, and financial assets held to maturity are carried at amortized cost.

## CHANGES IN IFRS

*Initial application of new amendments to the existing standards effective for the current reporting period*

The following amendments to the existing standards issued by the IASB and adopted by the EU are effective for the current reporting period:

- Amendments to IAS 7 "Statement of Cash Flows" - Disclosure Initiative – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after 1 January 2017),

- Amendments to IAS 12 "Income Taxes" - Recognition of Deferred Tax Assets for Unrealised Losses – adopted by EU on November 6, 2017 (effective for annual periods beginning on or after January 1, 2017),

- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to existing standards has not triggered changes in the accounting policies of the Bank.

*Standards and amendments to the existing standards issued by IASB and adopted by the EU but not yet effective*

At the date of authorisation of these financial statements, the following new standards issued by IASB and adopted by the EU are not yet effective as of the end of the reporting period:

- IFRS 9 "Financial Instruments" - adopted by the EU on November 22, 2016 (effective for annual periods beginning on or after January 1, 2018),

- IFRS 15 "Revenue from Contracts with Customers" and amendments to IFRS 15 "Effective date of IFRS 15" - adopted by the EU on September 22, 2016 (effective for annual periods beginning on or after January 1, 2018),

- IFRS 16 "Leases" – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2019),

- Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on November 3, 2017 (effective for annual periods beginning on or after January 1, 2018 or when IFRS 9 "Financial Instruments" is applied first time),

# 2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

- Amendments to IFRS 15 "Revenue from Contracts with Customers" - Clarifications to IFRS 15 Revenue from Contracts with Customers – adopted by the EU on October 31, 2017 (effective for annual periods beginning on or after January 1, 2018),

- Amendments to various standards "Improvements to IFRSs (cycle 2014-2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 8 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).



The Bank expects the adoption of the new standard and amendments not to have a significant impact over the individual financial statement of the Bank in the period of their implementation excluding for:

- IFRS 9 published by IASB and adopted by the EU is mandatory for periods beginning on or after January 1, 2018.

IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial instruments: Recognition and Measurement" contains general requirements in relation to recognition and measurement, impairment, derecognition and recognition of hedges.

The Bank identified the differences between currently applied policies under IAS 39 and the taking effect requirements of IFRS 9 related to classification methodology, measurement, impairment of financial assets and liabilities and hedge accounting.

## CLASSIFICATION AND MEASUREMENT

IFRS 9 introduced a new approach for the classification of financial assets driven by cash flow characteristics and the business model. This single, principle-based approach replaces existing rule-based requirements.

## HEDGE ACCOUNTING

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns hedge accounting treatment with risk management activities having enabled entities to better reflect these activities in their financial statements. In addition, users of the financial statements are provided with better information about risk management and the effect of hedge accounting on the financial statements.

## IMPAIRMENT

IFRS 9 has introduced a new, expected-loss impairment model that requires more timely recognition of expected credit losses. The standard requires entities to account for expected credit losses from when financial instruments are first recognised.

# 2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

With the purpose to define the expected-loss model Bank's management analysed the current status against the requirements of IFRS 9, as well as a quantitative research of the expected impact. The quantitative impact of IFRS 9 is estimated according to the expected-loss calculation methodology adopted by the Bank and the defined parameters for risk measurement.

The assessment of the effect of initial application of IFRS 9 on the Bank's separate financial statements is related to the application of new methodology for defining the expected losses. Upon analyzing the Bank's financial assets no significant effect was identified with regards to the change in classification characteristics of the new groups of financial assets defined in accordance with IFRS 9 due to the fact that the definition for non-compliance applied for internal risk management purposes remains the same compared to the one so far used under IAS 39 and no significant change in the business model for Bank's assets management is applied.

The expected effect of credit risk allowance recognition for unutilized loan commitments and financial guarantees amounts to BGN 524 thousand.

As of the date of initial application of IFRS 9 the main effect results from the application of the new expected-loss impairment model that will increase the impairment of financial assets and contingent liabilities allowances.

The effects of the initial application of IFRS 9 Financial Instruments for the Bank are the following:

1. The estimated amount of the expected net effect of reclassification with regards to certain financial assets is BGN 526 thousand;

2. The expected net effect of the application of expected-loss model with regards to financial assets measured at amortized cost and at fair value through other comprehensive income amounts to BGN 11,703 thousand, out of which unutilized commitments at the amount of BGN 524 thousand.

In relation to adopted Regulation EU 2017/2395 introducing transition measures for mitigating the impact of IFRS 9 implementation with regards to the capital of banks for regulatory purposes, Central Cooperative Bank AD intends to use this arrangement in full. During the analysis of the capital ability to cover expected credit losses (CRD/CRR) the disclosed expected impairment effects under IFRS 9 estimated as of the date of the standard adoption will insignificantly impact the capital adequacy (excluding tax effect) – decrease of Common equity Tier 1 capital (CET1) under 0.2% and decrease of capital adequacy ratios under 0.02%.

- IFRS 16 "Leases"

As of December 31, 2017 the Bank has commitments under operating lease as lessee. The preliminary assessment shows that these contracts match the definition for lease under IFRS 16 and respectively the Bank will recognize the right-of-use asset for the asset and associated liability under these contracts, unless they match the requirements for low value or short term when IFRS 16 is applied. The new requirement for recognition of the right-of-use asset for the asset and associated lease liability are expected to impact the amounts, recognised in the financial statements of the Bank, whereas the Management is currently assessing the expected effect.



# 2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

*New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU*

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following new standards, amendments to the existing standards and new interpretations, which were not endorsed for use in EU as of the date of publication of these financial statements:

- IFRS 14 "Regulatory Deferral Accounts" (effective for annual periods beginning on or after 1 January 2016) - the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021),

- Amendments to IFRS 2 "Share-based Payment" - Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after January 1, 2018),

- Amendments to IFRS 9 "Financial Instruments" - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019),

- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded),
- Amendments to IAS 19 "Employee Benefits" - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

- Amendments to IAS 28 "Investments in Associates and Joint Ventures" - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019),

- Amendments to IAS 40 "Investment Property" - Transfers of Investment Property (effective for annual periods beginning on or after January 1, 2018),

- Amendments to various standards due to "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after January 1, 2019),

- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after January 1, 2018),

# 2. BASIS FOR THE PREPARATION OF THE SEPARATE FINANCIAL STATEMENTS (CONTINUED)

- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after January 1, 2019).

The Bank expects the adoption of these new standards, amendments to existing standards and new clarifications not to have a significant impact over the individual financial statement of the Bank in the period of their initial implementation.

# 3. ACCOUNTING POLICY

## 3.1. SCOPE AND OBJECTIVE

The accounting policy comprises principles and basic assumptions, concepts, rules, practices, bases and procedures, adopted by management for reporting the activity of the Bank, and the preparation and presentation of the financial statements.

The purpose of the accounting policy is to provide the necessary organizational and methodological uniformity in the process of financial reporting of the Bank's activities, aimed at providing a true and fair presentation of the Bank's financial position and result of operations in the annual financial statements.

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY

### 3.2.1. Interest income and expenses

Interest income and expenses are recognized on a time proportion basis using the effective interest method, as the difference between the amount at initial recognition of the respective asset or liability and the amount at maturity is amortized.

For loans granted by the Bank and amounts owed to depositors, where the interest is calculated on a daily basis by applying the contractual interest rate to the outstanding balance, the effective interest rate is considered to be approximately equal to the contractual interest rate due to the nature of the contractual terms.
Interest earned as a result of holding securities is reported as interest income. Interest income includes the amount of amortization of any discount, premium or other difference between the initial cost of debt securities and their amount at maturity.

Upon acquisition of an interest-bearing investment, the interest accrued as of the acquisition date is accounted for as interest receivable.



The Bank does not accrue any interest income on the balance sheet or in the income statement from receivables after change of their status to "court". After the date of classification to court status, interest income from court receivables is recognized on the balance sheet and in the income statement only in case of their payment.

# 3. ACCOUNTING POLICY (CONTINUED)

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

### 3.2.1. Fees and commissions

Fees and commissions consist mainly of fees for payment transactions in BGN and in foreign currency, fees for granting and management of loans, opening of letters of credit and issuance of guarantees. Fees and commissions are recognized when the service is performed or becomes due.

Commissions arising from foreign currency transactions are reported in the statement of comprehensive income on their receipt. Fees and commissions for granting and management of loans when considered to be part of the effective income are amortized during the loan term and are recognized as current financial income during the period by adjusting the effective interest income.

### 3.2.2. Foreign currency transactions

Transactions denominated in foreign currency are converted into BGN at the exchange rates set by BNB for the transaction date. Receivables and liabilities denominated in foreign currency are converted into BGN as of the date of statement of financial position preparation at the exchange rates of BNB for the same date.

Net foreign exchange rate gains or losses, arising from translation at the rates of BNB as of the transaction date, are included in the statement of comprehensive income for the period, when they arise. The Bank carries out daily revaluation of all currency assets and liabilities and off-balance sheet positions at the official BNB rate for the respective day, with the exception of non-monetary positions in foreign currency within the meaning of IAS 21, which are reported at exchange rate as of the transaction date. The net gains and losses, arising from revaluation of balance sheet currency positions, are reported in the statement of comprehensive income for the period, in which they arise.

As of 2002 the Bulgarian Lev is fixed to the Euro at the rate of EUR 1 = BGN 1.95583.

The exchange rates of USD and the Bulgarian Lev as of December 31, 2017 and 2016 are as follows:

| December 31,2017 | December 31,2016 |
|---|---|
| USD 1 =BGN 1.63081 | USD 1 = BGN 1.85545 |

The functional currency of the Bank's subsidiary in the Republic of Cyprus is EUR.

# 3. ACCOUNTING POLICY (CONTINUED)

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

### 3.2.3. Financial assets

Financial assets held for trading are acquired by the Bank with the purpose of generating income from short-term price or dealing margin fluctuations, or they are assets, included in a portfolio, for which a short-term profit realization is probable. These include discount and interest-bearing government and corporate securities held for trade, as well as acquired corporate securities of financial and non-financial companies, in which the Bank does not have a controlling interest.

Financial assets available for sale are those financial assets, which are not held for trading, not held to maturity and are not loans and receivables, which have initially originated at the Bank. Financial assets available for sale include acquired interest-bearing government and corporate securities, as well as acquired equity investments in financial and non-financial enterprises.

Financial assets held to maturity are assets with fixed payments and maturity, which the Bank has the intention and ability to hold to maturity, irrespective of the possibility to sell them upon arising of favourable conditions in the future. These assets consist of acquired interest-bearing government and corporate securities.

Loans and advances, originated initially by the Bank with a fixed maturity date, are financial assets, incurred by direct granting of funds or services with fixed maturity to certain customers.

**Recognition**

Financial assets are recognized only when the Bank becomes a party under the contract provisions of the instrument. Their initial recognition is on the contract settlement date /payment date/.

**Initial measurement**

Financial assets held for trading are recognized initially at fair value. All expenses related directly to the acquisition of the financial asset are reported as current.



Financial assets, other than financial assets held for trading, are recognized initially at fair value, which is equal to the amount of the fair value of the consideration given and the related expenses. The expenses related to the transaction and included in the acquisition cost are fees, commissions and other remuneration paid to agents, brokers, consultants, dealers, and other persons directly involved in the transaction, taxes, charges, permits, etc. paid to stock exchanges and regulatory authorities. All other expenses are reported as current expenses in the period when incurred. Acquisition cost does not include accrued interest on the financial asset, not paid as of the date of acquisition. Such interest is reported as receivable.

**Subsequent measurement**

After initial recognition, financial assets held for trading are stated at fair value. Fair value is determined on the basis of quoted prices on an active market. The difference between the carrying amount of the financial asset and its fair value is reported as a current financial income or current financial expense in the period of occurrence.

After initial recognition, financial assets held for trading are stated at fair value. Fair value is determined on the basis of quoted prices on an active market or other reliable models for measurement, which reflect the specific circumstances of the issuer. The difference between the carrying amount of the financial asset and its fair value is accounted for as an increase or decrease of revaluation reserve. After initial recognition, equity instruments, classified as financial assets available for sale, for which there are no quoted prices on an active market and/or for which no reliable models for measurement can be applied are stated at cost.

# 3. ACCOUNTING POLICY (CONTINUED)

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

### 3.2.4. Financial assets (continued)

After initial recognition, loans and advances originated initially by the Bank with fixed maturity are reported at amortized cost, applying the effective interest method and are not subject to revaluation. The amortized cost is the initial value of the asset (cost), increased by the accumulated amortization for any difference between the initial amount and the amount at maturity, less repayments of the principle, accumulated amortization for any difference between the initial amount and the amount at maturity and the allowance for impairment and/or uncollectibility. The amortization is calculated by applying the effective interest rate.

After initial recognition, loans and advances originated initially by the Bank with fixed maturity are reported at amortized cost, applying the effective interest method and are not subject to revaluation.

The amortized cost is the initial value of the asset, increased by the accumulated amortization for any difference between the initial amount and the amount at maturity, less repayments of the principle and the allowance for impairment and/or uncollectibility. The amortization is calculated by applying the effective interest rate.

### Derecognition

Financial assets are derecognized when the Bank loses control over the contractual rights in relation to realizing the rights associated with the asset, waiver of the rights associated with the asset and expiry of the term for realizing of the rights associated with the asset. Net profit or loss as a result of the write off is reported in the statement of comprehensive income in the period of its occurrence. The revaluation reserve accumulated as of the date of derecognition is recognized as current financial expense or current financial income.

### Impairment for uncollectibility

Financial assets are impaired if any conditions for impairment exist: there is evidence about financial difficulties; there is an actual breach of the contract; other triggers.

For the purpose of preparation of the financial statements, financial assets available for sale, which are stated at fair value are reviewed for impairment, if impairment is not already provided in the revaluation performed as of the date of annual financial statements. In case of existing condition for impairment, the recoverable amount of financial assets is determined. If the expected recoverable amount of the financial assets is lower than their carrying amount, impairment is provided as follows:

- if at the moment of impairment there is no revaluation reserve – the difference between the carrying amount and the expected recoverable amount is recorded as a current financial expense and a decrease in the value of financial assets;

- if at the moment of impairment there is a revaluation reserve, which is positive and lower than the amount of impairment – the carrying amount of the assets and the amount of the revaluation reserve /which becomes zero/ are decreased by the amount of impairment up to the revaluation reserve balance. The remaining part of the amount of impairment is accounted for as a current financial expense and a decrease in the carrying amount of assets;

# 3. ACCOUNTING POLICY (CONTINUED)

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

### 3.2.4. Financial assets (continued)

- if at the moment of impairment there is a revaluation reserve, which is negative, the difference between the carrying amount and the expected recoverable value is recorded as a current financial expense and a decrease in the value of the financial assets, and the negative value of the revaluation reserve is transferred to and stated in the current financial expenses;



- if at the moment of impairment there is a revaluation reserve, which is positive and is greater than the amount of impairment, the value of the investment and the amount of the revaluation reserve are decreased by the impairment amount.

Financial assets held to maturity are reviewed for indications of impairment, in relation to preparation of the annual financial statements. Allowances for impairment and uncollectibility of the securities held by the Bank, measured at amortized cost, are determined as the difference between the carrying amount and the present value of the future cash flows, discounted at the original effective interest rate. If the present value of the future cash flows of securities is lower than their carrying amount, then allowance for impairment is provided. The difference is reported as current financial expense and decrease in the value of securities. Decrease of allowances for impairment and uncollectibility is stated in the statement of comprehensive income for the respective period. Recovered amounts, previously written off, are treated as income by releasing the allowances for impairment and uncollectibility for the respective year.

Loans and advances, originated initially by the Bank with a fixed maturity, are reviewed for indications of impairment, in relation to preparation of the annual financial statements. Allowances for impairment and uncollectibility of loans originated by the Bank, measured at amortized cost, are determined as the difference between the carrying amount and the present value of the future cash flows discounted at the loan original effective interest rate, where appropriate. Management determines the expected future cash flows based upon reviews of individual borrowers, loan exposures and other relevant factors. If the present value of the future cash flows of loans is lower than their carrying amount, then allowance for impairment is provided. The difference is reported as a current financial expense and a decrease in the value of loans. Decrease of allowances for impairment and uncollectibility is stated in the statement of comprehensive income for the respective period. Recovered amounts, previously written off, are treated as income by releasing the allowances for impairment and uncollectibility for the respective year. Loans and advances that cannot be recovered and are fully impaired, are written off and charged against the accumulated allowances for impairment and uncollectibility. Such loans are written off after all necessary legal procedures have been completed and the amount of the loss has been determined.

# 3. ACCOUNTING POLICY (CONTINUED)

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

### 3.2.4. Financial assets (continued)

The Bank has adopted a methodology for the calculation of allowances for impairment of loans based on IFRS. The Bank classifies its loans in two groups. Except for the group of regular loans and the insignificant loans within the group of non-performing loans and given that the Bank does not have the expected future cash flows or the provided ones from the debtor are not sufficiently reliable, a specified percentage rate is applied to contractual cash flows as a mean to determine the expected cash flows, which are then to be discounted as stated above. with the purpose of assessment of the allowances for impairment of loans liquid collaterals are recognized, as the value with which they participate when forming the allowances shall be defined based on the type of the collateral and its state.

The amount of potential losses, which are not exactly identified, but based on previous experience may be expected for a group of loans with similar characteristics, is also charged as expense for allowances and decrease of the loans' carrying amount. The expected losses are measured based on previous experience, customers' credit rating, and economic environment.

The amount of losses on insignificant loans within the group of non-performing loans based on collective measurement is also charged as expense for allowances and decrease of the loans' carrying amount.

### 3.2.4. Investments in subsidiaries

Subsidiaries are all entities under the Bank's control. Control is present, if the Bank is exposed or entitled to the variable return on investment in the enterprise, and is able to influence this return on the investment through its power over the enterprise, invested in.

In the separate financial statements of the Bank the shares and interests in the subsidiaries are initially recognized at acquisition cost. Subsequently, the Bank performs reviews periodically to determine whether there are indications for impairment. Impairment is recognized in the statement of comprehensive income as impairment losses of investments in subsidiaries.

Dividends in subsidiaries, are recognized and reported in the statement of comprehensive income, when the right of the Bank for receiving dividend is established.

### 3.2.5. Receivables and liabilities under repurchase agreements

Receivables and liabilities under repurchase agreements are recognized at cost, which is equal to the fair value of the funds placed/obtained by the Bank, secured by the value of the securities. Interest due on the fair value of the funds placed/obtained for the term of the agreement is accounted and recognized as interest income/expense in the period of its occurrence.

Securities pledged as collateral on repurchase agreements are not derecognized in the separate statement of financial position of the Bank in cases when the risks and rewards of ownership are not transferred.

Securities received as collateral under repurchase agreements are not recorded in the statement of financial position of the Bank in cases when the risks and rewards of ownership are not transferred.

### 3.2.6. Cash and cash equivalents

Cash and cash equivalents, for the purpose of the cash flows statement preparation, include cash, balances with the Central Bank (BNB) and nostro accounts, which are unrestricted demand deposits at other banks, as well as placements with, loans and advances to other banks with a maturity up to 3 months.



# 3. ACCOUNTING POLICY (CONTINUED)

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

### 3.2.7. Fair value of financial assets and liabilities

IFRS 7 "Financial Instruments: Disclosure" provides for the disclosure in the notes to the financial statements of information about the fair value of the financial assets and liabilities. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date. Fair value under IFRS 13 is an exit price, regardless of whether that price is directly observable or estimated using another valuation technique.

It is the policy of the Bank to disclose fair value information on those assets and liabilities, for which published market information is readily available and whose fair value significantly differs from their carrying amounts. The fair value of cash and cash equivalents, deposits and loans, granted by the Bank, other receivables, deposits, borrowings and other current liabilities approximates their carrying amount, in case they mature in a short period of time. In the opinion of the management, under these circumstances, the reported recoverable amounts of the financial assets and liabilities are the most reliable and efficient for the purposes of the separate financial statements.

For the assets and liabilities recognized at fair value in the statement of financial position the Bank discloses for each class financial instruments the hierarchy level of fair value to which the measurements of fair value are categorized in their full scope, each significant transfer between level 1 and 2 of the fair value hierarchy and the respective reasons, as well as reconciliation of opening and closing balances for the level 3 measurements.

Fair value hierarchy

The Bank uses the following hierarchy to measure and disclose the fair value of financial instruments through evaluation technique:

- Level 1: quoted (unadjusted) prices of active markets for identical assets or liabilities;
- Level 2: other techniques for which the whole incoming information that has material effect on the reported fair value is subject to direct or indirect monitoring;
- Level 3: techniques which use incoming information that has material effect on the reported fair value and are not based on monitored market data.

### 3.2.8. Netting

The financial assets and liabilities are netted, and the net value is presented in the statement of financial position when the Bank is entitled by law to net the recognized values, and the transactions are intended to be settled on a net basis.

# 3. ACCOUNTING POLICY (CONTINUED)

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

### 3.2.9. Provisions for credit commitments and other liabilities

The amount of provisions for guarantees, other off-balance credit commitments and other liabilities is recognized as an expense and a liability when the Bank has current legal or constructive obligations, which have occurred as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle that obligation and a reasonable estimate of the amount of the liability can be made. Any loss resulting from recognition of provisions for liabilities is reported in the statement of comprehensive income for the respective period.

### 3.2.10. Derivatives

Derivatives are stated at fair value and recognized in the statement of financial position as derivatives for trading. The fair value of derivatives is based on the market price or relevant valuation models. Derivative assets are presented as part of the financial assets held for trading, while the derivative liabilities are presented as part of other liabilities. Any change in the fair value of derivatives for trade is recognized as a part of the net trading income in the statement of comprehensive income.

### 3.2.11. Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are identifiable non-monetary assets acquired and possessed by the Bank and held for use in the production and/or rendering of services, for renting, administrative and other purposes. They are stated at acquisition cost, less charged depreciation and accumulated impairment losses.



Depreciation of property, plant and equipment and amortization of intangible assets are calculated by using the straight-line method designed to write off the assets value over their estimated useful life. The annual depreciation and amortization rates are as follows:

| Buildings | 4% | 25 years |
|---|---|---|
| Fixtures and fittings | 15% | 7 years |
| Motor vehicles | 15% | 7 years |
| Other assets | 15% | 7 years |
| Special equipment, cable networks and security systems | 4% | 25 years |
| Equipment, including hardware and software | 20% | 5 years |

Land, assets for resale, assets under construction, assets to be disposed and fully depreciated assets to their residual value are not subject to depreciation.

The management of the Bank has performed a review for impairment of property, plant and equipment and intangible assets as of the date of preparation of these separate financial statements. No evidence of impairment of property, plant and equipment and intangible assets has been identified; therefore they have not been impaired.

# 3. ACCOUNTING POLICY (CONTINUED)

## 3.2. MAJOR COMPONENTS OF THE ACCOUNTING POLICY (CONTINUED)

### 3.2.12. Accounting of operating lease agreements

When the Bank is a lessee under an operating lease agreement, the assets received under the contract are not stated in the separate statement of financial position of the Bank. The contractual payments made by the Bank are recognized as expenses using the straight-line method for the term of the agreement. The expenses related to the operating lease, such as maintenance and insurance expenses, are recognized in the profit or loss at the moment of their occurrence.

When the Bank is a lessor under an operating lease agreement, the assets leased by the Bank are stated in the Bank's statement of financial position and depreciated in accordance with the depreciation policy adopted by the Bank with regards to such assets and the requirements of IAS 16 "Property, plant and equipment" or IAS 38 "Intangible assets". The income from operating lease agreements is recognized by the Bank directly as income in the statement of comprehensive income over the respective reporting period.

## 3.2.13. Assets acquired as collateral

Real estate and movable property acquired by the Bank as a mortgage creditor on granted and not serviced loans is classified as assets acquired from collateral and are stated initially at cost. After initial recognition, these assets are reported at the lower of their current carrying amount or net realizable value. The amount of any impairment of these assets to their net realizable value is recognized as an expense for the impairment period. No depreciation is accrued for these assets.

## 3.2.14. Investment properties

Investment property is property (land or a building) acquired or held by the Bank to earn rentals or for capital appreciation or both rather than for own use. An investment property is measured initially at its cost. Transaction costs are included in the initial measurement. As accounting policy the Bank chose the cost model in IAS 16 for subsequent measurement of such properties. Investment properties are measured at acquisition cost, less charged depreciation and accumulated losses from impairment. Depreciation of buildings, reported as investment properties, are calculated by using the straight-line method. Their annual depreciation rate is 4% (25 years). Land plots are not depreciated.

## 3.2.15. Taxation

Corporate income tax is calculated on the basis of profit for the period and includes current and deferred taxes. Taxes due are calculated in accordance with the Bulgarian tax legislation.

Current income tax is calculated on the basis of the taxable profit by adjusting the statutory financial result for certain income and expenditure items, not approved for tax purposes, as required under Bulgarian accounting legislation, applicable for banks.



## 3.2.16. Taxation (continued)

Deferred income taxes are calculated using the balance sheet liability method. Deferred income taxes represent the net tax effect of all temporary differences between the tax basis of assets and liabilities and their carrying amount for financial reporting purposes. Deferred tax assets and liabilities are calculated at the tax rates, which are expected to apply to taxable profit for the period, when the temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the date of the statement of financial position to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are recognized regardless when the temporary difference is likely to reverse.



Any tax effect, related to transactions or other events, recognized in the statement of comprehensive income, is also recognized in the statement of comprehensive income and tax effect, related to transactions and events, recognized directly in equity, is also recognized directly in equity.

A deferred tax liability is recognized for all taxable temporary differences, unless it arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognized for all deductible temporary differences to the extent that taxable profit is probable, against which the deductible temporary difference can be utilized, unless the deferred asset arises from the initial recognition of an asset or liability in a transaction, which at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Current and deferred taxes are recognized as income or expense and are included in the net profit for the period, except to the extent that the tax arises from a transaction or event, which is recognized in the same or different period, directly in equity. Deferred taxes are charged or deducted directly in equity, when the tax relates to items that are charged or deducted in the same or different period, directly in equity.

## 3.2.16. Operating segments

The Bank does not disclose information by operating segments, because it considers the business activities which constitute its bank activities, possess similar economic characteristics, lack material difference in the essence of products offered and the regulatory environment where they take place. The operating result from the activities is reviewed and evaluated by the Bank's Management on a regular basis. The Bank does not identify separate segments meeting the requirements set out in IFRS 8 “Operating segments”.


# 3. ACCOUNTING POLICY (CONTINUED)


## 3.3. ACCOUNTING ESTIMATES, ASSUMPTIONS AND KEY AREAS OF UNCERTAINTY

The presentation of financial statements requires management to apply certain accounting estimates and reasonable assumptions that affect some of the carrying amounts of assets and liabilities, revenues and expenses for the reporting period and disclosures of contingent assets and liabilities. Although these estimates and assumptions are based on the best estimate as of the date of the preparation of the separate financial statements, they may differ from the future actual results.

The most significant areas of uncertainty, which require estimates and assumptions in applying the accounting policies of the Bank are as follows:

- Fair value of the financial instruments;
- Allowances for impairment losses on loans;
- Useful life of the depreciable assets;
- Impairment of financial assets available for sale and financial assets held to maturity.

In the last several years, as a result of the global economic crisis, different industries and sectors in the Bulgarian economy have marked a decline, which causes uncertainty and risks for their development in the foreseeable future. The declining rates of economic development increase the risks of the economic environment in which the Bank operates. As a consequence, the amount of impairment losses on loans and advances, financial assets available for sale, other financial instruments, as well as the values of other accounting estimates in subsequent reporting periods may differ from those measured and reported in these separate financial statements. The recoverability of the loans and the adequacy of the recognized impairment losses, as well as the maintaining of the Bank's liquidity ratios depend on the financial position of the borrowers and their ability to settle their obligations at contracted maturity in subsequent reporting periods. Bank's management applies the necessary procedures to manage these risks, as disclosed in note 34.

## 3.4. CAPITAL MANAGEMENT

The Bank defines its risk-bearing capacity as the amount of financial resources that are available for absorbing losses, which may be incurred due to the risk profile of the Bank. Financial resources are classified into Tiers of risk capital according to their ability to cover losses, ability to defer payments, and permanence.

The Bank monitors the allocation of financial resources to risk capital levels through Asset and Liability Management Committee. The Bank's capital management policy is regularly reviewed by the Bank's Management Board.

The Bank calculates, monitors and reports its risk capital for all major risk categories – credit, market and operational risk. In managing its risk capital, the Bank follows the legal framework, as well as its own objectives. For 2017 and 2016 the Bank is in compliance with the regulatory requirements for minimum capital adequacy, as the bank's capital adequacy levels exceed the regulatory requirements.



# 4. CASH AND BALANCES WITH THE CENTRAL BANK

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Cash in hand: | | |
| In BGN | 157,655 | 158,476 |
| In foreign currency | 71,428 | 62,607 |
| Cash in transit: | | |
| In BGN | 1,862 | 1,173 |
| In foreign currency | 220 | 18 |
| Cash in Central Bank: | | |
| Current account in BGN | 1,564,600 | 1,077,200 |
| Current account in foreign currency | 77 | 2 |
| Reserve guarantee fund RINGS | 1,211 | 2,014 |
| **TOTAL CASH AND BALANCES WITH THE CENTRAL BANK** | **1,797,053** | **1,301,490** |

The current account with BNB is used for direct participation in the government securities and money market, as well as for the purposes of interbank settlement in the country.

Commercial banks in Bulgaria are required to maintain minimum required reserves at BNB. The minimum obligatory reserve, periodically set by BNB, is interest-free and is calculated as a percentage ratio based on the attracted funds in BGN and foreign currency. These reserves are regulated on a monthly basis as any deficit incurs interest penalties. No restrictions are imposed by the Central Bank for using the minimum reserves, as daily fluctuations within the one-month regulation period are allowed.

In compliance with the Ordinances of the Central Bank, the Bank allocates reserve guarantee fund to ensure the settlement of payments by means of the Real Time Gross Settlement system RINGS.

# 5. PLACEMENTS WITH, AND ADVANCES TO BANKS

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Term deposits with local banks | | |
| In BGN | 8,000 | 17,000 |
| In foreign currency | 27,727 | 94,962 |
| Term deposits with foreign banks in foreign currency | 192,351 | 116,037 |
| Nostro accounts with local banks In BGN | 152 | 13 |
| In foreign currency | 5 | 6 |
| Nostro accounts with foreign banks in foreign currency | 56,494 | 40,053 |
| Impairment for uncollectibility | (3,713) | (4,224) |
| **TOTAL PLACEMENTS WITH, AND ADVANCES TO BANKS** | **281,016** | **263,847** |

# 6. RECEIVABLES UNDER REPURCHASE AGREEMENTS

As of December 31, 2017 the Bank has signed repurchase agreements at the total amount of BGN 196,910 thousand, including interest receivables. For BGN 54,933 thousand thereof the Bank has pledged Bulgarian government securities at approximately equal value as collateral to secure the receivable. For the remaining amount of BGN 141,977 thousand the Bank has pledged corporate securities at approximately equal value as collateral. The agreements' maturities are between January and June 2018.

As of December 31, 2016 the agreements with repurchase clause amount to BGN 199,258 thousand in total, including interest receivables.



# 7. FINANCIAL ASSETS HELD FOR TRADING

Financial assets held for trading consist of trading securities, including the amount of accrued interest, based on their original maturity as well as derivatives, held for trading, as follows:

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Long-term Bulgarian government notes | 2 | 1,411 |
| Foreign government securities | 940 | 922 |
| Bulgarian corporate securities | 79,808 | 112,693 |
| Derivatives, held for trading | 1,025 | 21 |
| **TOTAL FINANCIAL ASSETS HELD FOR TRADING** | **81,775** | **115,047** |

## LONG-TERM BULGARIAN GOVERNMENT BONDS

As of December 31, 2017 and 2016 the long-term bonds amounting to BGN 2 thousand and BGN 1,411 thousand, respectively, are stated at fair value and include securities in BGN, issued by the Bulgarian government.

## FOREIGN GOVERNMENT SECURITIES

As of December 31, 2017 and 2016 the foreign corporate securities of a country outside the European Union amount to BGN 940 thousand and BGN 922 thousand.

## BULGARIAN CORPORATE SECURITIES

As of December 31, 2017 the Bank owns corporate securities, issued by non-financial companies and financial institutions, amounting to BGN 79,808 thousand, including BGN 56,031 thousand in shares of Bulgarian public companies, listed on the Bulgarian Stock Exchange, which ae stated at fair value in these financial statements.

As of December 31, 2017 the Bank owns shares in mutual funds at the amount of BGN 11,661 thousand.

As of December 31, 2017 the Bank owns bonds of two commercial entities at the amount of BGN 12,116 thousand.

# 7. FINANCIAL ASSETS HELD FOR TRADING (CONTINUED)

As of December 31, 2016 the Bank owns corporate securities, issued by non-financial companies and financial institutions, amounting to BGN 112,693 thousand, including BGN 88,381 thousand in shares of Bulgarian public companies, listed on the Bulgarian Stock Exchange, which are stated in these financial statements at fair value.

As of December 31, 2016 the Bank owns shares in mutual funds at the amount of BGN 11,253 thousand.

As of December 31, 2016 the Bank owns bonds of two commercial entities at the amount of BGN 13,059 thousand.

## DERIVATIVES HELD FOR TRADING

As of December 31, 2017 and 2016 derivatives, held for trading, at the amount of BGN 1,025 thousand and BGN 21 thousand respectively, are carried at fair value and include sale-purchase transactions of foreign currency, forward agreements and currency swaps on the open market.

## BULGARIAN SECURITIES PLEDGED AS A COLLATERAL

As of December 31, 2017 and 2016 no government bonds issued by the Bulgarian government are pledged as security for servicing budget accounts.



# 8. LOANS AND ADVANCES TO CUSTOMERS, NET

## (A) ANALYSIS BY TYPE OF CLIENTS

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Individuals: | | |
| In BGN | 656,450 | 458,581 |
| In foreign currency | 46,944 | 49,449 |
| Enterprises: | | |
| In BGN | 815,324 | 824,700 |
| In foreign currency | 814,397 | 918,290 |
| Allowance for impairment and uncollectibility | (118,221) | (90,937) |
| **TOTAL LOANS AND ADVANCES TO CUSTOMERS, NET** | **2,214,894** | **2,160,083** |

Loans and advances to customers as of December 31, 2017 include deposits with international financial institutions on margin transactions with derivatives amounting to BGN 14,514 thousand (2016: BGN 243 thousand), including result of transactions.

# 8. LOANS AND ADVANCES TO CUSTOMERS, NET (CONTINUED)

## (B) ANALYSIS BY ECONOMIC SECTORS

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Agriculture and forestry | 59,114 | 65,064 |
| Manufacturing | 81,919 | 74,752 |
| Construction | 249,558 | 288,903 |
| Trade and finance | 1,010,851 | 1,075,182 |
| Transport and communications | 124,758 | 138,106 |
| Individuals | 703,394 | 508,030 |
| **Other** | **103,521** | **100,983** |
| | 2,333,115 | 2,251,020 |
| Allowance for impairment and uncollectibility | (118,221) | (90,937) |
| **TOTAL LOANS AND ADVANCES TO CUSTOMERS, NET** | **2,214,894** | **2,160,083** |

## (C) INTEREST RATES

Loans denominated in BGN and foreign currency carry interest at floating rates. Under the terms of these loans, the interest rate is calculated as the Bank base interest rate or other interest index (SOFIBOR, EURIBOR, LIBOR), plus a margin. The interest rate margin on performing (regular) loans varies from 2% to 6% based on the credit risk associated with the borrower, and an additional margin on the agreed interest rate is charged as penalty on overdue loans.

# 9. OTHER ASSETS

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Deferred tax assets | 314 | 277 |
| Current tax assets | 13 | 6 |
| Deferred expenses | 2,169 | 2,258 |
| Established real rights for use of buildings | 33,026 | 39,508 |
| Assets acquired as collateral | 16,289 | 11,440 |
| Other assets | 7,198 | 8,312 |
| **TOTAL OTHER ASSETS** | **59,009** | **61,801** |

Deferred expenses represent prepaid amounts for advertising, rent, insurance, etc.

The established real rights for use of buildings are received as follows:

- in December 2008 from two Bulgarian commercial companies. The real rights are related to two solid administrative buildings, which are situated in the very center of Sofia, which will be used for the purposes of the head office of the Bank. The real right of use on the first building is established for a period of 98 months for the amount of EUR 5,372 thousand. The real right of use on the second building is established for a period of 149 months for the amount of EUR 15,598 thousand.



# 9. OTHER ASSETS (CONTINUED)

- in June 2010 from a Bulgarian commercial company. The real rights are related to fourteen solid administrative buildings located in several big cities throughout the country, which will be used as Bank's offices. The rights of use on the buildings are established for a period between 115 and 120 months for the total amount of BGN 20,327 thousand.

- in December 2010 the term of the real right of use on one of the administrative buildings situated in the very center of Sofia was extended by three months at the amount of EUR 292 thousand.

- in June 2011 from a Bulgarian commercial company. The real rights are related to eleven solid administrative buildings located in several big cities throughout the country, which will be used as Bank's offices. The rights of use on the buildings are established for a period of 132 months for the total amount of BGN 12,797 thousand.

- in the period July - December 2014 from two Bulgarian commercial companies. The rights are related to thirteen solid administrative buildings located in various cities throughout the country, which will be used as Bank's offices. The rights of use on the buildings are established for periods ranging between 115 and 137 months for the total amount of BGN 11,937 thousand.

- in December 2016 from one Bulgarian commercial company. The rights are related to independent sites /offices/ in a solid administrative building in Sofia, which will be used for the Bank's operating activity. The rights of use on the sites /offices/ are established for a period of 180 months for the total amount of EUR 2,100 thousand.

- in March 2017 from one Bulgarian commercial company. The rights are related to one solid administrative building in Sofia, which will be used for the Bank's operating activity. The rights of use on the building are established for a period of 24 months for the total amount of EUR 1,318 thousand.

The carrying amount of established real rights includes also the expenses for taxes and fees related to the establishment. The carrying amount of each real right for use will be amortized in equal parts for the respective period of use of the buildings.

# 10. FINANCIAL ASSETS AVAILABLE FOR SALE, NET

Financial assets available for sale consist of equity and debt securities, including the amount of accrued interest, based on their original maturity, as follows:

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Medium-term Bulgarian government bonds | 11,816 | 72,612 |
| Long-term Bulgarian government bonds | 289,688 | 355,278 |
| Foreign government bonds | 165,111 | 109,922 |
| Equity investments in financial institutions | 9 | 9 |
| Equity investments in non-financial institutions | 79,841 | 78,439 |
| Bulgarian corporate securities | 36,258 | 42,589 |
| Foreign corporate securities | 8,425 | 5,340 |
| Allowance for impairment and uncollectibility | (1,830) | - |
| **TOTAL FINANCIAL ASSETS AVAILABLE FOR SALE** | **589,318** | **664,189** |

## BULGARIAN SECURITIES PLEDGED AS A COLLATERAL

As of December 31, 2017 government bonds issued by the Bulgarian government amounting to BGN 235,668 thousand are pledged as collateral for servicing of budget accounts.

# 10. FINANCIAL ASSETS AVAILABLE FOR SALE, NET (CONTINUED)

## BULGARIAN SECURITIES PLEDGED AS A COLLATERAL (CONTINUED)

As of December 31, 2016 government bonds issued by the Bulgarian government amounting to BGN 139,061 thousand are pledged as collateral for servicing of budget accounts.



## EQUITY INVESTMENTS IN FINANCIAL INSTITUTIONS

As of December 31, 2017 equity investments in financial institutions comprise shares in a commercial bank.

## EQUITY INVESTMENTS IN NON-FINANCIAL INSTITUTIONS

As of December 31, 2017 equity investments in non-financial institutions comprise shares in commercial companies and in mutual funds.

As of December 31, 2017 the equity investments in non-financial institutions measured at fair value amount to BGN 76,451 thousand. The remaining part of the investments in non-financial institutions is measured at cost and as the date of these financial statements amount to BGN 3,390 thousand.

## BULGARIAN CORPORATE SECURITIES

As at December 31, 2017 the Bulgarian corporate securities available for sale represent bonds. None of these investments are in a subsidiary or in an associated company.

## FOREIGN GOVERNMENT BONDS

As of December 31, 2017 foreign government bonds are of EU member states.

## FOREIGN CORPORATE SECURITIES

As of December 31, 2017 foreign corporate securities represent bonds in foreign commercial companies.

# 11. INVESTMENTS IN SUBSIDIARIES

## 11.1. INVESTMENT IN SUBSIDIARY CENTRAL COOPERATIVE BANK AD, SKOPJE, REPUBLIC OF MACEDONIA

In February 2008 the Bank acquired control on the equity of the subsidiary Central Cooperative Bank AD, Skopje in the Republic of Macedonia. In October 2009 22,354 ordinary voting shares owned by the Bank were converted into privileged shares with no voting rights. In December 2009 Central Cooperative Bank AD Skopje withdrew 208 of its own privileged shares.

# 11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

In 2010 by resolution of the General meeting of the shareholders of the subsidiary all privileged shares with no voting rights were converted into ordinary voting shares at the rate of one privileged share with no voting rights for one ordinary voting share. As of December 31, 2010 the Bank owns 263,696 ordinary voting shares representing 82.63% of the subsidiary's equity

In April 2010 the Bank acquired 317,864 ordinary voting shares of the share capital of Stater Bank, Kumanovo, Republic of Macedonia and obtained control of the subsidiary's equity. Before the acquisition the Bank owned 5,975 privileged shares with no voting rights of the subsidiary. Later, within the year, by resolution of the General meeting of the shareholders of the subsidiary all privileged shares with no voting rights were converted into ordinary voting shares at the ratio of one privileged share with no voting rights for one ordinary voting share. As of December 31, 2010 the Bank owns 323,839 ordinary voting shares representing 93.79% of the subsidiary's equity.

On 9 December 2010, by resolutions of the General meetings of the shareholders of the subsidiaries Stater Bank AD Kumanovo and Central Cooperative Bank AD Skopje an agreement was reached to merge Stater Bank AD Kumanovo into Central Cooperative Bank AD Skopje. According to this merger agreement Central Cooperative Bank AD Skopje issued 233,944 new ordinary shares with nominal value of EUR 41,2069 or MKD 593,795,205 each. All new shares were given only to the shareholders of Stater Bank AD Kumanovo and the coefficient of exchange of the existing shares of Stater Bank AD Kumanovo with the shares of the new issue was 1:0.6776. As a result of the exchange Central Cooperative Bank AD Sofia acquired 219,425 ordinary shares of the new issue of Central Cooperative Bank AD Skopje in place of the 323,839 ordinary shares of the equity of Stater Bank AD Kumanovo owned as of December 31, 2010.

On 3 January 2011 the merger of Stater Bank AD Kumanovo in Central Cooperative Bank AD Skopje was concluded and all assets of Stater Bank AD Kumanovo were transferred to Central Cooperative Banks AD Skopje. On 3 January 2011, by decision of the Central Register of Republic of Macedonia, Stater Bank AD Kumanovo ceased to exist as legal entity. After conclusion of the merger the capital of Central Cooperative Bank AD Skopje consists of 553,087 ordinary shares with nominal value of EUR 41.2069 each.

As of December 31, 2011 Central Cooperative Bank AD Sofia owns 483,121 ordinary shares in the equity of Central Cooperative Bank AD Skopje which represent 87.35% of the share capital of the subsidiary.

During the period 2012-2017, there were no changes in the shareholding of Central Cooperative Bank AD, Sofia in Central Cooperative Bank AD, Skopje, and therefore as of December 31, 2017 Central Cooperative Bank AD, Sofia owns 483,121 ordinary shares in the equity of Central Cooperative Bank AD Skopje which represents 87.35% of the share capital of the subsidiary. As of December 31, 2017 and 2016 the Bank's investment in its subsidiary amounts to BGN 46,216 thousand.



# 11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

## 11.2. INVESTMENT IN SUBSIDIARY MANAGEMENT COMPANY CCB ASSETS MANAGEMENT EAD, SOFIA, BULGARIA

In December 2011 the Bank acquired 500,000 non-materialised, ordinary registered shares with voting rights and with nominal value of BGN 1.00 each, representing 100% of the capital of the Management Company CCB Assets Management EAD with which the Bank received controlling interest in the capital of the subsidiary.

During the period 2012-2017 there were no changes in the shareholding of the Central Cooperative Bank AD, Sofia in Management Company CCB Assets Management EAD, therefore as of the December 31, 2017 Central Cooperative Bank AD, Sofia owns 500,000 ordinary shares of Management Company CCB Assets Management EAD, which represents 100% of the share capital of the subsidiary. As of December 31, 2017 and 2016 the Bank's investment in its subsidiary amounts to BGN 3,200 thousand.

## 11.3. INVESTMENT IN SUBSIDIARY ZAO "IC BANK", KAZAN, REPUBLIC OF TATARSTAN, RUSSIAN FEDERATION

In May 2012 the Bank acquired 15,000,000 ordinary shares with voting rights at nominal value of RUB 10 each from the share capital increase of ZAO AKB TatInvestBank, Kazan, Republic of Tatarstan, Russian Federation and in this way obtained a controlling interest in the subsidiary's share capital. Before the acquisition the Bank owned 1,422,630 ordinary shares with voting rights of the subsidiary's equity. Later in the year, the Bank acquired additional 3,351 ordinary shares with voting rights of the subsidiary's share capital. As of December 31, 2012 the Bank owns 16,425,981 ordinary shares with voting rights, representing 55,93% of the subsidiary's share capital.

In 2013 the Bank acquired additional 71,924 ordinary shares with voting rights from the share capital of ZAO AKB TatInvestBank, Kazan, Republic of Tatarstan, Russian Federation. As a result, as of December 31, 2013, the Bank owns 16,497,905 ordinary shares with voting rights, representing 56.20 % of the subsidiary's share capital.

In March 2014 ZAO AKB TatInvestBank changed its name to ZAO IC Bank.

In April 2014 the Bank acquired 8,840,489 shares with option in the capital of ZAO IC Bank, Kazan, Republic of Tatarstan, Russian Federation. On June 26, 2014 the Board of the Bank decided to sell this minority stake, which decision to be submitted for consideration and adoption by the Supervisory Board of the Bank. On August 15, 2014 the Supervisory Board of the Bank adopted the decision of the Board of the Bank for the sale of the minority stake. In this regard, as of December 31, 2014 a minority package is presented in the category Financial assets available for sale. During the second half of April 2016 with Decision of the MB of the Parent bank, adopted by the Supervisory Board of the Parent bank, the prior decision is amended and with the new decision the Parent bank decided to sell the majority stake of the subsidiary's capital ZAO IC Bank, Kazan, Republic of Tatarstan, Russian Federation. In this regard, as of December 31, 2016 and 2017 the minority stake presented as of December 31, 2015 and 2014 in the category Financial assets available for sale, is presented together with the rest of the shares owned by the Parent bank as Investments in subsidiaries.

## 11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

After additional acquisition as of December 31, 2014 Central Cooperative Bank Sofia owns 25,338,394 ordinary shares of ZAO IC Bank, Kazan, Republic of Tatarstan, Russian Federation, representing 86.273% of the subsidiary's share capital.

During the period 2015-2017 there were no changes in the shareholding of the Central Cooperative Bank AD, Sofia in of ZAO IC Bank, Kazan, Republic of Tatarstan, Russian Federation as a result of which as of December 31, 2017 and 2016 Central Cooperative Bank AD, Sofia owns 25,338,394 ordinary shares in the equity of ZAO IC Bank, Kazan, Republic of Tatarstan, Russian Federation which is 86.273 % of the subsidiary's equity.

| Subsidiary | Incorporated in | Principal activities | 31.12.2017 BGN'000 | Shareholding % | 31.12.2016 BGN'000 | Shareholding % |
|---|---|---|---|---|---|---|
| Central Cooperative Bank AD, Skopje | Republic of Macedonia | Banking | 46,216 | 87.35% | 46,216 | 87.35% |
| Management Company CCB Assets Management EAD | Bulgaria | Financial sector | 3,200 | 100.00% | 3,200 | 100.00% |
| ZAO IC Bank | Russian Federation | Banking | 34,917 | 86.27% | 34,917 | 86.27% |
| | | | 84,333 | | 84,333 | |

## 12. NON-CURRENT ASSETS

| | Land and buildings | Equipment | Motor vehicles | Fixtures and fittings | Fixed assets in process of acquisition | Other fixed assets | Tota |
|---|---|---|---|---|---|---|---|
| 1 January 2016 | 74,309 | 36,281 | 7,391 | 26,222 | 2,722 | 26,352 | 173,277 |
| Acquisitions | - | 2,936 | 1,038 | 607 | 4,979 | 143 | 9,703 |
| Disposals | - | (12) | (684) | (233) | (3,671) | - | (4,600) |
| 31 December 2016 | 74,309 | 39,205 | 7,745 | 26,596 | 4,030 | 26,495 | 178,380 |
| Acquisitions | 187 | 1,715 | 458 | 715 | 4,125 | 470 | 7,670 |
| Disposals | - | (22) | (331) | (68) | (4,099) | - | (4,520) |
| 31 December 2017 | 74,496 | 40,898 | 7,872 | 27,243 | 4,056 | 26,965 | 181,530 |
| Depreciation | | | | | | | |
| 1 January 2016 | 2,292 | 25,417 | 4,178 | 19,117 | - | 23,463 | 74,467 |
| Net charge for period | 2,580 | 3,005 | 665 | 1,705 | - | 836 | 8,791 |
| Depreciation on disposals | - | (12) | (675) | (235) | - | - | (922) |
| 31 December 2016 | 4,872 | 28,410 | 4,168 | 20,587 | - | 24,299 | 82,336 |
| Net charge for period | 2,585 | 3,114 | 756 | 1,398 | - | 631 | 8,484 |
| Depreciation on disposals | - | (22) | (244) | (44) | - | - | (310) |
| 31 December 2017 | 7,457 | 31,502 | 4,680 | 21,941 | - | 24,930 | 90,510 |
| Net book value | | | | | | | |
| 31 December 2016 | 69,437 | 10,795 | 3,577 | 6,009 | 4,030 | 2,196 | 96,044 |
| 31 December 2017 | 67,039 | 9,396 | 3,192 | 5,302 | 4,056 | 2,035 | 91,020 |

The tangible assets in progress include repair works, performed by the Bank, concerning the reconstruction of the leased premises into bank offices, which repair works have not been finished as at the date of preparing the separate statement of financial position.

# 13. LEASES

## 13.1. OPERATING LEASE AS LESSEE

Future minimum payments under operating lease agreements which the Bank has entered into as lessee for rental of real estate, automobiles and other property, plant and equipment are stated as follows:

| | Payable minimum lease payments | | | |
|---|---|---|---|---|
| | Up to 1 year | From 1 to 5 years | Over 5 years | Total |
| As of December 31, 2017 | 11,785 | 23,922 | 5,679 | 41,386 |
| As of December 31, 2016 | 11,928 | 16,518 | 2,294 | 30,740 |

## 13.2. OPERATING LEASE AS LESSOR

Future minimum payments under operating lease agreements which the Bank has entered into as lessor for lending of real estate and other property, plant and equipment are stated as follows

| | Payable minimum lease payments | | | |
|---|---|---|---|---|
| | Up to 1 year | From 1 to 5 years | Over 5 years | Total |
| As of December 31, 2017 | 1,173 | 2,909 | 1,385 | 5,467 |
| As of December 31, 2016 | 1,201 | 3,386 | 1,646 | 6,233 |

Lease payments, recognized as income for the period amount to BGN 1,401 thousand (2016: BGN 1,354 thousand).



# 14. INVESTMENT PROPERTY

| | Land | Buildings | Total |
|---|---|---|---|
| January 1, 2016 | - | - | - |
| Additions | 159 | 17,578 | 17,737 |
| Disposals | - | - | - |
| December 31, 2016 | 159 | 17,578 | 17,737 |
| Additions | - | - | - |
| Disposals | - | - | - |
| December 31, 2017 | 159 | 17,578 | 17,737 |
| **Depreciation** | | | |
| January 1, 2016 | - | - | - |
| Charged for the period, net | - | 515 | 515 |
| Depreciation of disposals | - | - | - |
| December 31, 2016 | - | 515 | 515 |
| Charged for the period, net | - | 703 | 703 |
| Depreciation of disposals | - | - | - |
| December 31, 2017 | - | 1,218 | 1,218 |
| Net book value | | | |
| December 31, 2017 | 159 | 17,063 | 17,222 |
| December 31, 2017 | 159 | 16,360 | 16,519 |

# 14. INVESTMENT PROPERTY (CONTINUED)

The investment property of the Bank as of December 31, 2016 and 2017 comprise land and commercial buildings, part of which have been rented for a period of 10 years. Income from rent of investment properties for the year ended December 31, 2016 and 2017 amount of BGN 117 and 176 thousand, respectively.

## Fair value of investment property

Fair value of investment property as of December 31, 2017 amounts to BGN 18,435 thousand and is determined by licensed external appraisers with the appropriate professional qualification and experience in valuation of property in similar categories and location such as the ones of the Bank's investment properties.

# 15. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale represent real estate and moveable property acquired by the Bank as mortgage creditor on granted and not serviced loans. These assets will not be used in Bank's activity and actions have been undertaken for their sale in 2018.

The movement of non-current assets held for sale during the year is as follows:

| | BGN'000 |
|---|---|
| Balance as of January 1, 2016 | 2,537 |
| Acquired | 19,257 |
| Disposals | (3,537) |
| Transfers | (11,440) |
| Balance as of December 31, 2016 | 6,817 |
| Acquired | 436 |
| Disposals | (2,404) |
| Transfers | (4,849) |
| **Balance as of December 31, 2017** | **-** |

Assets at the amount of BGN 11,440 thousand which as of December 31, 2016 did not match the criteria for classification as "Held for sale" were transferred in 2016 to item "Other assets" and reported as per the requirements of IAS 2 Inventories (see note 9).

Assets at the amount of BGN 4,849 thousand which as of December 31, 2017 did not match the criteria for classification as "Held for sale" were transferred in 2017 to item "Other assets" and reported as per the requirements of IAS 2 Inventories (see note 9).



# 16.DEPOSITS FROM BANKS

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Demand deposits – local banks: | | |
| - in BGN | 756 | 486 |
| - in foreign currency | 3,847 | 7,200 |
| | | |
| Demand deposits – foreign banks in foreign currency | 896 | 1,831 |
| Term deposits – foreign banks in foreign currency | 489 | 486 |
| Term deposits – local banks in foreign currency | 2,446 | 2,448 |
| **TOTAL DEPOSITS FROM BANKS** | **8,434** | **12,451** |

# 17. AMOUNTS OWED TO OTHER DEPOSITORS

## (A) ANALYSIS BY TERM AND CURRENCY

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Demand deposits | | |
| In BGN | 1,108,577 | 870,614 |
| In foreign currency | 167,403 | 143,222 |
| | **1,275,980** | **1,013,836** |
| Term deposits | | |
| In BGN | 1,261,923 | 1,214,932 |
| In foreign currency | 859,327 | 863,519 |
| | **2,121,250** | **2,078,451** |
| Savings accounts | | |
| In BGN | 990,327 | 914,839 |
| In foreign currency | 448,486 | 435,973 |
| | **1,438,813** | **1,350,812** |
| Other deposits | | |
| In BGN | 19,750 | 13,546 |

| | | |
|---|---|---|
| In foreign currency | 3280 | 870 |
| | **23,030** | **14,416** |
| **TOTAL AMOUNTS OWED TO OTHER DEPOSITORS** | **4,859,073** | **4,457,515** |

## (B) ANALYSIS BY CUSTOMER AND CURRENCY TYPE

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Deposits of individuals | | |
| In BGN | 2,312,471 | 2,152,129 |
| In foreign currency | 1,278,324 | 1,242,109 |
| | **3,590,795** | **3,394,238** |
| Deposits of enterprises | | |
| In BGN | 1,046,906 | 848,742 |
| In foreign currency | 198,342 | 200,119 |
| | **1,245,248** | **1,048,861** |
| Deposits of other institutions | | |
| In BGN | 19,750 | 13,546 |
| In foreign currency | 3280 | 870 |
| | **23,030** | **14,416** |
| **TOTAL AMOUNTS OWED TO OTHER DEPOSITORS** | **4,859,073** | **4,457,515** |

# 18. OTHER ATTRACTED FUNDS

As of December 31, 2016 other attracted funds represent financing from the State Agricultural Fund amounting to BGN 39 thousand (including interest), respectively, for granting loans to the agricultural sector.

As of December 31, 2017 the financing has been closed.

# 19. ISSUED BONDS

In December 2013 the Bank issued through public offering convertible bonds in the amount of EUR 36,000,000, distributed in 36,000 bonds with a nominal value of EUR 1,000. The bonds are subordinated, unsecured, interest-bearing, freely transferable, dematerialised, convertible



into ordinary shares of the Bank. Debenture loan is signed for a period of 7 years at 4.5% annual interest rate and the principal of the loan is paid off at maturity of the issue – 10.12.2020. Interest payments are made annually with maturities as follows: 10.12.2014, 10.12.2015, 10.12.2016, 10.12.2017, 10.12.2018, 12.10.2019 and 10.12.2020. Under the terms of issue, bond holders are not entitled to early collection of interest and principal on the bond loan, including in case of default of the issuer, except under certain conditions at the time of payment and subject to prior authorization by BNB. Amendments and supplements to the conditions of the bond issue can be made only with the prior written permission of BNB. In December 2016 the second interest payment on the bond issue was made in the amount of EUR 1,620 thousand, which amount was paid to the bondholders. The value of the liability as of December 31, 2016 is in the amount of BGN 70,126 thousand, including obligations for interest and reflected costs associated with the issuance.

In December 2016 after the initial permission of BNB changes were made to the terms of the debenture issue according to which:

- the maturity date is changed from 7 years after the issue date to 10 years after the issue date. The maturity date of the debenture issue after the change is 10.12.2023.

- the interest due is changed from 4.5% to 3.6% effective from 11.12.2016 (the date following the maturity date for the forthcoming interest payment for 2016).

In December 2017 the next consecutive interest payment on the bond issue was made at the amount of EUR 1,296 thousand, which amount was paid to the bondholders. The value of the liability as of December 31, 2017 is at the amount of BGN 70,235 thousand, including interest payables and reflected costs associated with the issuance.

# 20. PROVISIONS

Provisions for court proceedings are recognized when based on expert legal estimate it is established that it is most likely that the Bank has to meet these obligations in the near future. As of December 31, 2016 the Bank has performed an analysis of the legal proceedings against the bank and accrued provision at the amount of BGN 1,304 thousand.

In 2017 the Bank made a payment with regard the legal proceedings against it, which the provision was established for.

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Court proceedings | - | 1,034 |
| **TOTAL PROVISIONS FOR LIABILITIES** | **-** | **1,034** |

# 21. OTHER LIABILITIES

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Liabilities for unused paid leave | 2,410 | 1,516 |
| Derivatives, held for trading | 3,396 | 209 |
| Other liabilities | 4,905 | 7,730 |
| Liabilities for retirement benefits | 848 | - |
| Deferred income | 554 | 578 |
| Deferred tax liabilities | 377 | 377 |
| **TOTAL OTHER LIABILITIES** | **12,490** | **10,410** |

## DERIVATIVES HELD FOR TRADING

As of December 31, 2017 and 2016 derivatives held for trading at the amount of BGN 3,396 thousand and BGN 209 thousand are presented at fair value and include sale and purchase transactions of foreign currency, forward contracts and foreign currency swaps on the open market.

## LIABILITIES FOR RETIREMENT BENEFITS

As of December 31, 2017 the Bank calculates the effect of future liabilities for retirement benefits and allocates and recognizes the relevant provision in the separate statement of profit or loss and other comprehensive income for the effect determined for a 10-year period of time. The period after the 10th year is considerably remote in time, therefor considerable uncertainty exists regarding the realization of the assumptions of the future events and circumstances, giving rise to insufficient reliability of the effect determined for the relevant period. The financial assumptions used by the Bank are applied in forecasting the development of cash flows in time and are reflected in the amount of future liability and the calculation of its current value by determining the discount interest rates and income increase rates. When determining the liabilities for retirement benefits the Bank applies 3.64% discount rate and 0.06% annual increase in remuneration. In the process of determining the liabilities for retirement benefits the Bank employs consultancy services, provided by a licensed actuary.



# 22. EQUITY

## 22.1. ISSUED CAPITAL

As of December 31, 2017 and 2016 the issued, called-up and fully paid-in share capital of the Bank comprises 113,154,291 ordinary voting shares with a nominal value of BGN 1 each. Each of the shares has dividend and liquidating dividend rights and represent one vote at the general meeting of the shareholders of the Bank.

The Bank's Parent company CCB Group EAD is a subsidiary of Chimimport AD, which is a public company and its shares are traded on the Bulgarian Stock Exchange.

| Principal shareholders | 2017 | | 2016 | |
|---|---|---|---|---|
| | Share capital | Percentage | Share capital | Percentage |
| CCB Group EAD | 77,584 | 68.56 | 77,584 | 68.56 |
| Chimimport AD | 7,475 | 6.61 | 7,524 | 6.65 |
| ZAD Armeec AD | 3,851 | 3.40 | 3,851 | 3.40 |
| Universal Pension Fund Suglasie | 4,854 | 4.29 | 4,829 | 4.27 |
| Other | 19,390 | 17.14 | 19,366 | 17.12 |
| | **113,154** | **100** | **113,154** | **100** |

# 22. EQUITY (CONTINUED)

## 22.2 RESERVES, INCLUDING RETAINED EARNINGS

As of December 31, 2017 reserves, including retained earnings include undistributable portion of BGN 7,059 thousand and distributable portion of BGN 198,000 thousand.

## 22.3 REVALUATION RESERVE

The revaluation reserve is formed by revaluation of financial instruments available for sale.

# 23. INTEREST INCOME/ INTEREST EXPENSE

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Interest income by source: | | |
| Loans | | |
| Securities | | |
| Deposits in banks | | |
| **TOTAL INTEREST INCOME** | | |

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Interest expenses by recipients: | | |
| Deposits to customers | 18,556 | 34,204 |
| Deposits to banks | 307 | 287 |
| Negative interest on excess reserves at BNB | 4,311 | 2,153 |
| Issued bonds | 2,535 | 3,130 |
| Other | 267 | 62 |
| **TOTAL INTEREST EXPENSES** | **25,976** | **39,836** |

# 24. INCOME FROM/EXPENSES FOR FEES AND COMMISSIONS

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Granting and repayment of loans | 2,774 | 2,240 |
| Servicing of off-balance sheet commitments | 868 | 1,063 |
| Servicing of accounts | 13,486 | 12,446 |
| Bank transfers - domestic and international | 23,725 | 23,798 |



| | | |
|---|---|---|
| Other income | 11,524 | 10,950 |
| **TOTAL FEES AND COMMISSIONS INCOME** | **52,377** | **50,497** |

# 24. INCOME FROM/EXPENSES FOR FEES AND COMMISSIONS (CONTINUED)

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Servicing of accounts | 503 | 230 |
| Bank transfers - domestic and international | 6,835 | 5,985 |
| Securities transactions | 150 | 68 |
| Clearing valuable consignments | 459 | 319 |
| Other expenses | 372 | 559 |
| **TOTAL EXPENSES FOR FEES AND COMMISSIONS** | **8,319** | **7,161** |

# 25. GAINS FROM DEALING WITH SECURITIES, NET

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Gains on dealing with securities available for sale, net | 14,598 | 13,119 |
| Gains on dealing with securities held to maturity, net | - | 496 |
| (Loss from)/ gains on dealing with securities held for trading, net | (2,696) | 551 |
| Gains on revaluation of securities held for trading, net | 8,726 | 6,201 |
| **TOTAL GAINS FROM DEALING WITH SECURITIES, NET** | **20,628** | **20,367** |

# 26. FOREIGN EXCHANGE GAINS, NET

Net gains from foreign exchange rate differences is the result of:

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Dealing (loss)/ gains, net | (591) | 1,796 |
| Revaluation gains, net | 1,086 | 4,159 |
| **TOTAL FOREIGN EXCHANGE GAINS, NET** | **495** | **5,955** |

Dealing gains represent net gains arising from purchases and sales of foreign currency. Revaluation gains represent gains in BGN arising from the revaluation of assets and liabilities, denominated in foreign currency.

# 27. OTHER OPERATING INCOME, NET

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Income from dividends | 2,186 | 1,630 |
| Income from cession contracts | 184 | 86 |
| Income from sale of property, plant and equipment | 24 | 48 |
| Income from sale of non-current assets held for sale | 233 | 216 |
| Other operating income | 2,522 | 2,187 |
| **TOTAL OTHER OPERATING INCOME, NET** | **5,149** | **4,167** |

The income from cession contracts in 2017 originates from cash receivables from contracts transferred by the Bank through cession. In 2016 income from cession contracts amounted to BGN 86 thousand.



# 28. OPERATING EXPENSES

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Salaries and other personnel costs | 38,807 | 35,942 |
| Administrative and marketing costs | 46,563 | 47,288 |
| Other expenses | 22,864 | 22,498 |
| Depreciation/amortization | 9,187 | 9,306 |
| Materials and repair works | 2,509 | 2,800 |
| **TOTAL OPERATING EXPENSES** | **119,930** | **117,834** |

The operating expenses include the amounts for performance of independent financial audit for 2017 and 2016 by registered auditors in the amount of BGN 826 thousand for 2017, including BGN 666 thousand for independent financial audit and BGN 160 thousand for other services, and BGN 578 thousand for 2016 for independent financial audit and BGN 130 thousand for other services.

# 29.IMPAIRMENT AND UNCOLLECTIBILITY

| | Financial liabilities available for sale (see note 10) | Loans and advances to banks (see note 5) | Loans granted to clients (see note 8) | Total |
|---|---|---|---|---|
| BALANCE AS OF JANUARY 1, 2016 | - | 4,075 | 56,573 | 60,648 |
| Charges for the period | - | 149 | 44,812 | 44,961 |
| Recoveries during the period | - | - | (10,321) | (10,321) |
| Written off | - | - | (127) | (127) |
| **BALANCE AS OF DECEMBER 31, 2016** | **-** | **4,224** | **90,937** | **95,161** |
| Charges for the period | 1,830 | - | 40,240 | 42,070 |
| Recoveries during the period | - | (511) | (10,832) | (11,343) |
| Written off | - | - | (2,124) | (2,124) |
| **BALANCE AS OF DECEMBER 31, 2017** | **1,830** | **3,713** | **118,221** | **123,764** |

# 30.TAXES

Tax expenses are presented as follows:

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Current tax expenses | 2,437 | 3,977 |
| Income (expenses) from deferred taxes, related to the origination or change of deferred tax assets and liabilities | (730) | 46 |
| **TOTAL TAX EXPENSES** | **1,707** | **4,023** |

Current tax expenses represent the amount of the tax due according to Bulgarian legislation and the applicable tax rates of 10% for 2017 and 2016. Deferred tax income and expenses result from the change in the carrying amount of deferred tax assets and liabilities. The deferred tax assets and liabilities as of December 31, 2017 and 2016 are calculated based on the tax rate of 10%, effective for 2018 and 2017.

Deferred tax assets are as follows:

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Deferred tax assets: | | |
| Other liabilities (unused annual paid leaves) | 227 | 171 |
| Liabilities for retirement benefits | 85 | - |
| Provisions for liabilities | - | 104 |
| Property, plant and equipment and intangible assets | 2 | 2 |
| **DEFERRED TAX ASSET** | **314** | **277** |

Deferred tax liabilities are as follows:

| | As of 31.12.2017 | As of 31.12.2017 |
|---|---|---|
| Deferred tax liabilities: | | |
| Merge of entities during 2010 | 209 | 209 |
| Merger of a company in 2016 | 168 | 168 |
| **DEFERRED TAX LIABILITY** | **377** | **377** |



The relationship between tax expense in the statement of comprehensive income and the accounting profit is as follows:

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Profit before taxes | 38,521 | 30,621 |
| Taxes at applicable tax rates: 10% for 2017 and 10% for 2016 | 3,852 | 3,062 |
| Tax effect on non-taxable income/ non-taxable deductible expenses from transactions with shares on a regulated local exchange, dividends and other, net | (2,145) | 961 |
| TAX EXPENSES | 1,707 | 4,023 |
| EFFECTIVE TAX RATE | 4.43% | 13.14% |

# 31.EARNINGS PER SHARE (IN BGN)

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Net profit after taxation in BGN'000 | 36,814 | 26,598 |
| Weighted average number of shares | 113,154,291 | 113,154,291 |
| EARNINGS PER SHARE (IN BGN) | 0.33 | 0.24 |

The basic earnings per share is determined by dividing the net profit for the period, attributable to ordinary shareholders, by the weighted average number of ordinary shares outstanding during the years ended December 31, 2017 and 2016.

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Adjusted net profit after taxation in BGN'000 | 39,096 | 29,415 |
| Weighted average number of shares | 135,020,713 | 135,020,713 |
| DILUTED EARNINGS PER SHARE (IN BGN) | 0.29 | 0.22 |

The adjusted net profit for the purpose of determining the diluted earnings per share is calculated through adjustment of the net profit for the period with the interest expenses on issued bond issue.

# 32. CONTINGENT LIABILITIES

The total amount of contingent liabilities as of the year end is as follows:

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Bank guarantees | | |
| In BGN | 38,096 | 41,058 |
| In foreign currency | 15,492 | 14,834 |
| Irrevocable commitments | 109,159 | 118,784 |
| Other contingent liabilities | - | 134 |
| **TOTAL CONTINGENT LIABILITIES** | **162,747** | **174,810** |

As of December 31, 2017 and 2016 the Bank has signed contracts for granting loans to customers at the total amount of BGN 109,159 thousand and BGN 118,784 thousand, respectively. The future utilization of these amounts depends on the customers' ability to meet certain criteria, including no record of overdue payments on previously granted loans, provided collateral of suitable quality and liquidity, etc.

# 33. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

| | Year ended 31.12.2017 | Year ended 31.12.2016 |
|---|---|---|
| Cash | 231,165 | 222,274 |
| Balances with the Central Bank | 1,565,888 | 1,079,216 |
| Placements with, and advances to banks with residual maturity up to 3 months | 266,953 | 247,633 |
| **TOTAL CASH AND CASH EQUIVALENTS AS OF DECEMBER 31** | **2,064,006** | **1,549,123** |



# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT

The risk inherent to the Bank's operations with financial instruments is the possibility that actual proceeds from owned financial instruments could differ from the estimated ones. The specifics of banking necessitate adequate systems for timely identification and management of different types of risk, whereas emphasis is put on risk management procedures, mechanisms for maintaining risk in reasonable limits, optimal liquidity and portfolio diversification. The main risk management goal is to present and analyze the types of risks, which the Bank is exposed to, in a convincing and comprehensive manner.

The risk management system has preventive functions for loss prevention and control of the amount of incurred loss and includes:

- risk management policy;
- rules, methods and procedures for assessment and risk management;
- risk management organizational structure;
- parameters and limits for transactions and operations;
- procedures for reporting, assessment, notification and subsequent control of risks.

The main underlying principles in the Bank's risk management policy are:

- separation of responsibilities between those taking the risk and those managing risk;
- the principle of caution, which presumes the consideration of the worst case scenario for each of the risk-weighted assets;
- the principle of source risk management.

The risk management organizational structure is centralized and structured in terms of competency levels as follows:

- Management Board - determines the acceptable levels of risk for the Bank within the adopted development strategy;
- Special collective bodies – prepare proposals to MB, the Executive directors and the Procurator regarding the Bank's risk management framework and activity parameters;
- Executive directors and Procurator – fulfil the general control, organize and manage the approval process and application of adequate policies and procedures within the frameworks of the risk management strategy, adopted by the Bank;

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

- Heads of structural units within the Bank - implement the adopted risk management policy in the organization of the activities of the respective organizational units.

The Bank's exposures in derivative financial instruments are presented at fair value transactions for the purchase and sale of foreign currency, forward contracts and foreign currency swaps on the open market. These transactions traded by the Bank for its own account are insignificant in amount and the Bank is not exposed to significant risks originating from these instruments.

The nature and the essence of the risks, inherent to financial instruments of the Bank are as follows:

## CREDIT RISK

Credit risk is the risk of loss due to the probability that a counterparty will be unable to pay its obligations when due or at all. The Bank manages the credit risk inherent for banking portfolio and trade portfolio. For the individual business segments the Bank applies individual credit policies.

For credit risk limitation, the Bank has implemented system of limits by exposure classes, business sectors, geographical regions, client profile and credit groups bearing common risk. The limits define the risk appetite and tolerance to credit risk and the capital planned allocation needed for its covering.

To mitigate credit risk, respective collaterals and guarantees are required according to the internal credit rules, the applied approach for calculating the capital requirements and the Bulgarian legislation in effect.

Cash and balances with the Central Bank at the amount of BGN 1,797,053 thousand does not bear credit risk to the Bank due to their nature and the fact that they are at the Bank's disposal.

Placements with, and advances to banks at the amount of BGN 281,016 thousand comprise mostly deposits in first-class international and Bulgarian financial institutions with maturity up to 7 days. Generally, according to the policy of the Bank, these financial assets bear some credit risk as its maximum exposure as per the Bank's policy can be 20%, 50% and 100%, whereas the percentage is defined based on the quality characteristics of the financial institution.

Receivables under repurchase agreements of securities at the amount of BGN 196,910 thousand bear credit risk for the Bank depending on the provided collateral. Part of the receivables at the amount of BGN 54,933 thousand does not bear credit risk for the Bank due to the fact that they are secured by Bulgarian government securities, guaranteed by the Republic of Bulgaria. The residual part of the receivables at the amount of BGN 141,977 thousand is secured with corporate securities and bears the following risk: BGN 136,766 thousand - 100% risk and BGN 5,211 thousand – 150% risk.

Financial assets held for trading at the amount of BGN 81,755 thousand bear mainly market risk for the Bank which is discussed in the market risk disclosures.



Equity securities, available for sale at the amount of BGN 79,850 thousand, represent shares in financial and non-financial enterprises and mutual funds which bear maximum credit risk exposure of 100% as a percentage or of BGN 79,850 thousand as an absolute amount.

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

## CREDIT RISK (CONTINUED)

Debt securities available for sale and issued by the Republic of Bulgaria at the amount of BGN 301,504 thousand do not bear credit risk as they are guaranteed by the Bulgarian state. Debt securities available for sale and issued by other European countries in the amount of BGN 165,111 thousand bear credit risk for the Bank depending on the country of issue.

Debt securities available for sale and issued by local companies at the amount of 42,853 thousand, bear credit risk for the Bank with maximum exposure of 100% as a percentage or BGN 42,853 thousand as an absolute amount.

The investments in the subsidiaries of the Bank, Central Cooperative Bank AD, Skopje, Republic of Macedonia, ZAO IK Bank, Kazan, Republic of Tatarstan, Russian Federation and Management Company CCB Assets Management EAD, Sofia, Republic of Bulgaria amounting to BGN 84,333 thousand bear a credit risk, the maximum exposure of which is 100% or BGN 84,333 thousand as an absolute amount.

Loans and advances to customers with carrying amount of BGN 2,214,894 thousand bear credit risk for the Bank. In order to determine the Bank's exposure to this risk, an analysis of each individual risk for the Bank, arising from each particular exposure is conducted by applying criteria for risk exposures assessment and classification in compliance with the banking legislation of the Republic of Bulgaria and IFRS. According to these criteria and the conducted analysis, the maximum exposure to credit risk of the Bank is at the amount of BGN 1,785,151 thousand. For credit risk mitigation purposes, detailed procedures for analysis of the economic reasonableness of every project, types of collateral acceptable to the Bank, control over granted funds and the respective administration are applied in the lending process.

The Bank keeps ratio of total capital adequacy above the regulatory requirements, generally as a precaution against the risk from concentrations. The acceptance and control over the limits for credit risk restrains the concentrations of risk exposures by geographical regions, sectors, business segments and credit groups bearing common risk.

The Bank has adopted methodology for calculation of allowances for impairment of loans and advances to customers in compliance with the requirements of IFRS.

As of December 31, 2017 the allocated allowances for impairment loss of loans and advances to customers are at the amount of BGN 118,221 thousand.

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

## QUALITY OF THE CREDIT PORTFOLIO

Classification groups as of December 31, 2017:

| Debt | By granted loans | | Undrawn commitment | By provided letters of guarantee | |
|---|---|---|---|---|---|
| Group | Amount | Allowances | Amount | Amount | Allowances |
| Regular | 2,107,057 | 19,226 | 86,800 | 53,538 | - |
| Non-performing | 226,058 | 98,995 | 358 | 50 | - |
| **Total** | **2,333,115** | **118,221** | **87,158** | **53,588** | **-** |

Classification groups as of December 31, 2016:

| Debt | By granted loans | | Undrawn commitment | By provided letters of guarantee | |
|---|---|---|---|---|---|
| Group | Amount | Allowances | Amount | Allowances | Amount |
| Regular | 2,030,192 | 13,434 | 88,381 | 55,831 | - |
| Non-performing | 220,828 | 77,503 | 403 | 61 | - |
| **Total** | **2,251,020** | **90,937** | **88,784** | **55,892** | **-** |

The loans granted by the Bank can be summarized in the following table:

| Groups | 31.12.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | Loans, granted to non-financial customers | Loans, granted to banks and receivables under repurchase agreements | Loans, granted to non-financial customers | Loans, granted to banks and receivables under repurchase agreements |
| | BGN'000 | | BGN'000 | |
| Neither past due nor impaired on individual basis | 2,047,509 | 196,911 | 1,933,467 | 199,258 |
| Past due, but not impaired on individual basis | 95,197 | - | 133,978 | - |
| Impaired on individual basis | 190,409 | - | 183,575 | - |
| **Total** | **2,333,115** | **196,911** | **2,251,020** | **199,258** |
| Allowances for impairment provided | (118,221) | - | (90,937) | |
| **Net loans** | **2,214,894** | **196,911** | **2,160,083** | **199,258** |



As of December 31, 2017 and 2016 the prevailing part of the loans classified as past due but not impaired consists of loans overdue within 30 days. The Bank considers that such delays are not an indication for impairment of the respective loans.

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Loans and advances, which are neither overdue, nor impaired on individual basis, are presented in the following table:

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Individuals | | |
| Credit cards and overdrafts | 19,865 | 19,792 |
| Consumer loans | 364,386 | 270,747 |
| Mortgage loans | 245,706 | 143,308 |
| Corporate clients | 1,417,552 | 1,499,620 |
| **Total** | **2,047,509** | **1,933,467** |

The carrying amount of loans, which are overdue, but have not been impaired is stated below. Most of these loans are not impaired due to the fact that the nature of the overdue loans is accidental and the overdue period is within 30 days, which dismisses the necessity of their impairment.

| | As of 31.12.2017 | As of 31.12.2016 |
|---|---|---|
| Individuals | | |
| Credit cards and overdrafts | 10,767 | 11,836 |
| Consumer loans | 34,589 | 31,583 |
| Mortgage loans | 14,601 | 15,143 |
| Corporate clients | 35,240 | 75,416 |
| **Total** | **95,197** | **133,978** |

The carrying amount of the loans, which have been provided allowances for on an individual basis as of December 31, 2017 and 2016 is BGN 190,409 thousand and BGN 183,575 thousand. These amounts exclude cash flows from utilization of collaterals under these loans.

| December 31, 2017 | Carrying amount before impairment | Impairment | Carrying amount after impairment |
|---|---|---|---|
| Consumer loans | 11,479 | 10,542 | 937 |
| Mortgage loans | 2,001 | - | 2,001 |
| Corporate clients | 176,929 | 77,998 | 98,931 |
| **Total** | **190,409** | **88,540** | **101,869** |

| December 31, 2017 | Carrying amount before impairment | Impairment | Carrying amount after impairment |
|---|---|---|---|
| Consumer loans | 12,350 | 9,657 | 2,693 |
| Mortgage loans | 1,996 | - | 1,996 |
| Corporate clients | 169,229 | 58,423 | 110,806 |
| **Total** | **183,575** | **68,080** | **115,495** |

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

The total amount of the net exposure for 2017 and 2016 of the five largest exposures is BGN 296,143 thousand and BGN 318,549 thousand respectively, and represents 12.69 and 14.75% from the loans and advances of the Bank's customers.



Business sector, classification group and overdue as of December 31, 2017:

| | Regular | | | Including overdue on: | | | | |
|---|---|---|---|---|---|---|---|---|
| **Sector** | **Group** | **Number of transactions** | **Liability** | **Principal** | **Interest** | **Court receivables** | **Allowances** | **Unutilized commitment** |
| | Regular | 82,686 | 663,646 | 547 | 176 | - | 2,401 | 48,895 |
| **Retail** | | | | | | | | |
| | Non-performing | 4,675 | 39,748 | 2,242 | 1,773 | 17,367 | 19,059 | 251 |
| **Total** | | **87,361** | **703,394** | **2,789** | **1,949** | **17,367** | **21,460** | **49,146** |
| | Regular | 613 | 1,430,315 | 249 | 116 | - | 16,824 | 37,327 |
| **Corporate** | | | | | | | | |
| | Non-performing | 196 | 186,315 | 28,428 | 7,374 | 60,069 | 79,937 | 107 |
| **Total** | | **809** | **1,616,630** | **28,677** | **7,490** | **60,069** | **96,761** | **37,434** |
| | Regular | 6 | 13,091 | - | - | - | - | 578 |
| **Budget** | | | | | | | | |
| | Non-performing | - | - | - | - | - | - | - |
| **Total** | | **6** | **13,091** | **-** | **-** | **-** | **-** | **578** |
| | **Total portfolio** | **88,176** | **2,333,115** | **31,466** | **9,439** | **77,436** | **118,221** | **87,158** |

Business sector, classification group and overdue as of December 31, 2016:

| | Regular | | | Including overdue on: | | | | |
|---|---|---|---|---|---|---|---|---|
| **Sector** | **Group** | **Number of transactions** | **Liability** | **Principal** | **Interest** | **Court receivables** | **Allowances** | **Unutilized commitment** |
| | Regular | 77,703 | 467,342 | 790 | 222 | - | 2,121 | 45,937 |
| **Retail** | | | | | | | | |
| | Non-performing | 5,088 | 40,688 | 2,078 | 2,038 | 15,514 | 17,043 | 296 |
| **Total** | | **82,791** | **508,030** | **2,868** | **2,260** | **15,514** | **19,164** | **46,233** |
| | Regular | 705 | 1,549,924 | 5,933 | 3,011 | - | 11,313 | 41,887 |
| **Corporate** | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Non-performing | 199 | 180,140 | 43,790 | 10,401 | 55,625 | 60,460 | 107 |
| **Total** | | **904** | **1,730,064** | **49,723** | **13,412** | **55,625** | **71,773** | **41,994** |
| | Regular | 7 | 12,926 | | - | - | - | 557 |
| **Budget** | | | | | | | | |
| | Non-performing | - | - | - | - | - | - | - |
| **Total** | | **7** | **12,926** | **-** | **-** | **-** | **-** | **557** |
| | **Total portfolio** | **83,702** | **2,251,020** | **52,591** | **15,672** | **71,139** | **90,937** | **88,784** |

## LOAN EXPOSURES FOR RESTRUCTURING

The Bank accepts as exposures for restructuring those loan exposures on which the initial contractual terms have been changed due to deterioration of the debtor's financial position, which leads to impossibility to repay on time the full amount of the debt, and which compromise the Bank would not make in other circumstances.

The changes to the initial contract terms in case of restructuring measures may include:

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

- Decrease/writing off/ of the debt or a part of it;
- Replacement of part of the debt by property;
- Refinancing of exposures, which the debtor cannot service with the current contract terms;
- When the contract contains more favorable terms for repayment of liabilities compared to the terms, which the Bank would offer to customers with similar risk profile;
- Decrease of the interest rate on the contract, except for change of the interest rate originated by changes in market interest rates.



The information of loan exposures for restructuring is as follows:

| 2017 | Corporate customers | Individuals |
|---|---|---|
| Amount before impairment | 276,255 | 1,574 |
| Impairment | (44,124) | (452) |
| Amount after impairment | 232,131 | 1,122 |

| 2016 | Corporate customers | Individuals |
|---|---|---|
| Amount before impairment | 150,854 | 1,297 |
| Impairment | (26,339) | (533) |
| Amount after impairment | 124,515 | 764 |

As of December 31, 2017 exposures to corporate customers at the amount of BGN 150,068 thousand before impairment comprise regular exposures without any defaults.

## COLLATERALS ON LOANS GRANTED

## HOUSING MORTGAGE LOANS TO INDIVIDUALS

The table below presents the carrying amount of reported housing mortgage loans to individuals based on loan-to-value ratio. The ratio is calculated as a correlation of the gross amount of loan exposure to the collateral value. Collateral value on housing mortgage loans is determined upon loan granting and is updated in case of significant changes in the prices of real estate market.

| Loan-to-value | 2017 | 2016 |
|---|---|---|
| Below 50% | 57,507 | 40,993 |
| From 50% to 75% | 105,019 | 62,458 |
| From 75% to 90% | 89,197 | 47,978 |
| From 90% to 100% | 7,431 | 6,157 |
| Above 100% | 3,534 | 2,284 |
| **Total** | **262,688** | **159,870** |

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

## LOANS GRANTED TO LEGAL ENTITIES

With regard to loans granted to legal entities the Bank determines the creditability of each client as a most appropriate indicator for risk exposure. Therefore, the Bank has adopted an approach for individual credit evaluation and test of impairment of loans granted to companies. For additional security purposes along with the regular monitoring of the financial position of the companies-borrowers, the Bank requires collaterals on credit exposures to be established. The Bank accepts loans to companies to be secured by mortgages on real estates, pledges on going concern, special pledges on tangible assets, as well as other guarantees and titles.

The Bank analyses and updates on a regular basis the collateral value considering any significant changes in the market environment, regulatory framework and other circumstances incurred. If there is a decrease in the collateral value, as a result of which the Bank believes it is no more sufficient, the borrower is required to establish further collaterals within a given term

## LIQUIDITY RISK

Liquidity risk arises from the mismatch of the assets' and liabilities' maturity and the lack of sufficient funds for the Bank to meet its obligations on its current financial liabilities, as well as to provide funding for the increase in financial assets and the potential claims on off-balance sheet commitments.

Adequate liquidity is achieved if the Bank is able to provide enough funds for the above purposes by increasing liabilities and transforming assets as soon as possible and at relatively low costs through potential sale of liquid assets or attraction of additional funds from cash, capital or currency markets. The preventive function of liquidity risk management consists in maintaining a reasonable level of liquidity to avoid potential loss from unexpected sale of assets.

The Bank observes its responsibilities and limitations resulting from the Law on Credit Institutions and Ordinance No. 11 of the Bulgarian National Bank on liquidity management and supervision of banks. The special collective body for liquidity management in the Bank is the Assets and Liabilities Management Committee. It applies the policy on liquidity risk management adopted by the Bank.

Quantity measure of the liquidity risk according to BNB regulations is the liquid assets coefficient being the ratio between the liquid assets (cash in hand and at accounts with BNB, unencumbered government securities of the Republic of Bulgaria, deposits at financial institutions with maturity up to 7 days) to the funds attracted by the Bank.



# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Traditionally, the Bank maintains high volume of liquid assets – cash in hand and at BNB, which guarantees it to meet easily its liquid needs. As of December 31, 2017 their share is over 33.21% of the Bank's total assets. As additional instrument to provide high liquidity, the Bank uses placements with and advances to financial institutions. These comprise mostly deposits in first-class international and Bulgarian financial institutions with maturity within 30 days. As of December 31, 2017 such deposits represent approximately 4.93% of the total assets. The government securities of the Republic of Bulgaria and EU member-states, owned and not pledged by the Bank, comprise over 4.27% of its total assets. By maintaining above 42% of its assets in highly liquid assets the Bank is able to meet all payment needs on matured financial liabilities.

The allocation of the Bank's financial liabilities as of December 31, 2017, according to their time remaining to maturity is as follows:

| | Up to 1 month | From 1 to 3 moths | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| FINANCIAL LIABILITIES | | | | | | |
| Deposits from banks | 8,434 | - | - | - | - | 8,434 |
| Liabilities to other depositors | 2,408,779 | 356,499 | 1,063,874 | 1,028,474 | 1,447 | 4,859,073 |
| Other attracted funds | - | - | - | - | - | - |
| Issued bonds | - | - | - | 70,235 | - | 70,235 |
| Provisions for liabilities | - | - | - | - | - | - |
| Other liabilities | 11,642 | - | - | - | 848 | 12,490 |
| **TOTAL FINANCIAL LIABILITIES** | **2,428,855** | **356,499** | **1,063,874** | **1,098,709** | **2,295** | **4,950,232** |

The financial liabilities of the Bank are mainly formed by attracted funds from other depositors – deposits from individuals and legal entities.

The allocation of the Bank's financial liabilities as of December 31, 2016, according to their time remaining to maturity is as follows:

| | Up to 1 month | From 1 to 3 moths | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| FINANCIAL LIABILITIES | | | | | | |
| Deposits from banks | 12,451 | - | - | - | - | 12,451 |
| Liabilities to other depositors | 2,027,669 | 387,632 | 1,079,796 | 961,955 | 463 | 4,457,515 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other attracted funds | 4 | 21 | 14 | - | - | 39 |
| Issued bonds | - | - | - | | 70,126 | 70,126 |
| Provisions for liabilities | - | - | - | - | - | 1,034 |
| Other liabilities | 10,410 | - | - | - | | 10,410 |
| **TOTAL FINANCIAL LIABILITIES** | **2,050,534** | **387,653** | **1,080,844** | **961,955** | **70,589** | **4,551,575** |

The tables above feature part of the attracted funds in current accounts without residual maturity amounting to BGN 1,014,579 thousand as of December 31, 2017 and BGN 952,262 thousand as of December 31, 2016, and they are presented within the range from 1 to 5 years since the Bank regards this availability as a long-term reliable resource based on the average daily availability in these accounts for 2017 and 2016.

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

## MARKET RISK

Market risk is the risk, at which it is possible that the changes in the market prices of the financial assets, the interest rates or the currency rates have an unfavorable effect on the result of the Bank activity. Market risk arises on opened exposures on interest, currency and capital instruments, as all of them are sensitive to general and specific market movements. Exposure to market risk is managed by the Bank in accordance with risk limits, stipulated by the Management.

## INTEREST RATE RISK

Interest rate risk is the possibility of potential fluctuation of the net interest income or the net interest rate margin, due to changes in the general market interest rates. The Bank manages its interest rate risk through minimizing the risk of decrease of the net interest income resulting from changes in the interest rates.

For measurement and evaluation of the interest rate risk the Bank applies the method of the GAP analysis (analysis of mismatch/imbalance). The sensitivity of the expected income and expenses toward the interest rate development is identified through this analysis.

The method of the GAP analysis aims to determine the Bank position, in total and separately by financial assets and liabilities types, regarding expected changes in interest rates and the influence of this change on the net interest income. It helps the management of the assets and liabilities and is an instrument for assurance of sufficient and stable net interest rate profitability.



The gap of the Bank between the interest-bearing assets and liabilities as of December 31, 2017 is negative and amounts to BGN 1,722,397 thousand. GAP coefficient, as a sign of this imbalance, compared to the total earning assets of the Bank (interest-bearing assets, equity securities, derivatives and investments in subsidiaries) is minus 49,95%.

| | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| INTEREST-BEARING ASSETS | | | | | | |
| Placements with, and advances to, banks | 266,953 | - | 3,129 | 10,934 | - | 281,016 |
| Receivables under repurchase agreements of securities | 66,376 | 45,364 | 85,170 | - | - | 196,910 |
| Financial assets held for trading | - | - | - | 13,057 | - | 13,057 |
| Loans and advances to customers, net | 76,760 | 73,884 | 310,766 | 1,189,811 | 563,673 | 2,214,894 |
| Financial assets available for sale | 14,937 | 3,114 | 21,295 | 213,137 | 256,985 | 509,468 |
| TOTAL INTEREST-BEARING ASSETS | 425,026 | 122,362 | 420,360 | 1,426,939 | 820,658 | 3,215,345 |
| INTEREST-BEARING LIABILITIES | | | | | | |
| Deposits from banks | 8,434 | - | - | - | - | 8,434 |
| Liabilities to other depositors | 2,408,779 | 356,499 | 1,063,874 | 1,028,474 | 1,447 | 4,859,073 |
| Other attracted funds | - | - | - | - | - | - |
| Issued bonds | - | - | - | - | 70,235 | 70,235 |
| **TOTAL INTEREST-BEARING LIABILITIES** | **2,417,213** | **356,499** | **1,063,874** | **1,028,474** | **71,682** | **4,937,742** |
| **NET INTEREST-BEARING ASSETS AND LAIBILITIES IMBALANCE** | **(1,992,187)** | **(234,137)** | **(643,514)** | **398,465** | **748,976** | **(1,722,397)** |

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

## INTEREST RATE RISK (CONTINUED)

The maintenance of negative imbalance exposes the Bank to risk of decrease of the net interest income when interest rates increase. The effect of the imbalance, reported as of December 31, 2017 on the net interest income, with forecast for 2% increase in interest rates in a period of one year is decrease of the net interest income by BGN 2,470 thousand (2016: BGN 2,048 thousand).

The mismatch of the Bank between the interest-bearing assets and liabilities as of December 31, 2016 is negative and amounts to BGN 1,321,150 thousand. GAP coefficient, as a sign of this imbalance, compared to the total earning assets of the Bank (interest-bearing assets, equity securities, derivatives and investments in subsidiaries) is minus 37,89%.

| | Up to 1 month | From 1 to 3 months | From 3 months to 1 year | From 1 to 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|
| INTEREST-BEARING ASSETS | | | | | | |
| Placements with, and advances to, banks | 247,633 | - | 13,280 | 2,934 | - | 263,847 |
| Receivables under repurchase agreements of securities | 73,275 | 41,626 | 84,357 | - | - | 199,258 |
| Financial assets held for trading | 1,172 | - | 1,954 | 12,266 | - | 15,392 |
| Loans and advances to customers, net | 98,451 | 126,489 | 295,270 | 1,055,601 | 584,272 | 2,160,083 |
| Financial assets avail-able for sale | - | 5,815 | 84,381 | 76,399 | 413,806 | 580,401 |
| TOTAL INTEREST-BEAR-ING ASSETS | 420,531 | 173,930 | 479,242 | 1,147,200 | 998,078 | 3,218,981 |
| INTEREST-BEARING LIABILITIES | | | | | | |
| Deposits from banks | 12,451 | - | - | - | - | 12,451 |
| Liabilities to other depositors | 2,027,669 | 387,632 | 1,079,796 | 961,955 | 463 | 4,457,515 |
| Other attracted funds | 4 | 9 | 26 | - | - | 39 |
| Issued bonds | - | - | - | - | 70,126 | 70,126 |
| **TOTAL INTER-EST-BEARING LIABIL-ITIES** | **2,040,124** | **387,641** | **1,079,822** | **961,955** | **70,589** | **4,540,131** |
| **NET INTEREST-BEAR-ING ASSETS AND LAI-BILITIES IMBALANCE** | **(1,619,593)** | **(213,711)** | **(600,580)** | **182,245** | **927,489** | **(1,321,150)** |

The maintenance of negative imbalance exposes the Bank to risk of decrease of the net interest income when interest rates increase. The effect of the imbalance, reported as of December 31, 2016 on the net interest income, with forecast for 2% increase in interest rates in a period of one year is decrease of the net interest income by BGN 2,048 thousand (2015: BGN 1,872 thousand).

The tables above feature part of the attracted funds in current accounts without remaining maturity amounting to BGN 1,014,579 thousand as of December 31, 2017 and BGN 952,262 thousand as of December 31, 2016 and they are presented within the range from 1 to 5 years since the Bank regards this availability as a long-term reliable resource based on the average daily availability in these accounts for 2017 and 2016.



## FOREIGN CURRENCY RISK

Foreign currency risk is the risk for the Bank to realize loss as a result of fluctuations in the foreign exchange rates.

In the Republic of Bulgaria the rate of the Bulgarian lev to the Euro is fixed by the Currency Board Act due to which the Bank's long position in EUR does not bear risk for the Bank. The risk weighted net currency position as of December 31, 2017 in financial instruments, denominated in other currencies, different from BGN or EUR is below 2% of the capital base and capital requirements for currency risk shall not be applied by the Bank.

# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

## FOREIGN CURRENCY RISK (CONTINUED)

The currency structure of the financial assets and liabilities by carrying amount as of December 31, 2017 is as follows:

| | BGN | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| FINANCIAL ASSETS | | | | | |
| Placements with, and advances to, banks | 8,152 | 45,757 | 170,827 | 56,280 | 281,016 |
| Receivables under repurchase agree-ments of securities | 164,378 | 32,532 | - | - | 196,910 |
| Financial assets held for trading | 67,763 | 12,955 | 1 | 1,056 | 81,775 |
| Loans and advances to customers, net | 1,420,920 | 783,138 | 7,274 | 3,562 | 2,214,894 |
| Financial assets available for sale | 170,979 | 415,124 | 3,215 | - | 589,318 |
| Investments in subsidiaries | 3,200 | 46,216 | - | 34,917 | 84,333 |
| **TOTAL FINANCIAL ASSETS** | **1,835,392** | **1,335,722** | **181,317** | **95,815** | **3,448,246** |
| FINANCIAL LIABILITIES | | | | | |
| Deposits from banks | 757 | 6,213 | 1,176 | 288 | 8,434 |
| Amounts owed to other depositors | 3,380,513 | 1,181,752 | 222,187 | 74,621 | 4,859,073 |
| Issued bonds | - | 70,235 | - | - | 70,235 |
| **TOTAL FINANCIAL LIABILITIES** | **3,381,270** | **1,258,200** | **223,363** | **74,909** | **4,937,742** |
| **NET POSITION** | **(1,545,878)** | **77,522** | **(42,046)** | **20,906** | **(1,489,496)** |

The currency structure of the financial assets and liabilities by carrying amount as of December 31, 2016 is as follows:

| | BGN | EUR | USD | Other | Total |
|---|---|---|---|---|---|
| FINANCIAL ASSETS | | | | | |
| Placements with, and advances to, banks | 17,013 | 57,271 | 148,693 | 40,870 | 263,847 |
| Receivables under repurchase agreements of securities | 149,637 | 49,621 | - | - | 199,258 |
| Financial assets held for trading | 100,146 | 14,844 | 43 | 14 | 115,047 |
| Loans and advances to customers, net | 1,244,255 | 899,103 | 12,451 | 4,274 | 2,160,083 |
| Financial assets available for sale | 150,855 | 506,401 | 6,933 | - | 664,189 |
| Investments in subsidiaries | 3,200 | 46,216 | - | 34,917 | 84,333 |
| **TOTAL FINANCIAL ASSETS** | **1,665,106** | **1,573,456** | **168,120** | **80,075** | **3,486,757** |
| FINANCIAL LIABILITIES | | | | | |
| Deposits from banks | 485 | 7,291 | 3,905 | 770 | 12,451 |
| Amounts owed to other depositors | 3,014,378 | 1,157,266 | 226,817 | 59,054 | 4,457,515 |
| Other attracted funds | 39 | - | - | - | 39 |
| Issued bonds | - | 70,126 | - | - | 70,126 |
| Provision for liabilities | 2 | 831 | 180 | 21 | 1,034 |
| **TOTAL FINANCIAL LIABILITIES** | **3,014,904** | **1,235,514** | **230,902** | **59,845** | **4,541,165** |
| **NET POSITION** | **(1,349,798)** | **337,942** | **(62,782)** | **20,230** | **(1,054,408)** |



# 34. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

## FOREIGN CURRENCY RISK (CONTINUED)

### Price risk

Price risk is related to changes in market prices of the financial assets and liabilities, for which the Bank can suffer a loss. The main threat for the Bank is the decrease of the market prices of its equity instruments held for trading, which could lead to a slump in the net profit. The Bank does not have material exposures in derivative instruments, based on equity instruments or indexes, so its exposure to price risk is related to the carrying amount of equity instruments and shares in mutual funds from the portfolio of financial assets held for trading at the amount of BGN 67,694 thousand (2016: BGN 99,634 thousand).

# 35. INFORMATION REGARDING THE FAIR VALUE OF THE ASSETS AND LIABILITIES

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date. Fair value under IFRS 13 is an exit price, whether that price is directly regardless of whether that price is directly observable or estimated using another valuation technique. Sufficient market experience, stability and liquidity do not currently exist for purchases and sales of loans and advances to customers and for some other assets and liabilities, for which published market information is not easily accessible. Accordingly, their fair values cannot be reliably determined. Management considers that their carrying amounts are the most valid and useful reporting amounts under these circumstances.

The fair value of the financial assets and liabilities, distributed in accordance with the hierarchy of the fair values as of December 31, 2017 and 2016 is as follows:

| 2017 | Carrying amount | Level 1 – quoted market price | Level 2 – Techniques for assessment of observed market levels | Level 3 – Techniques for assessment –non-observed market levels |
|---|---|---|---|---|
| ASSETS | | | | |
| Financial assets held for trading | 81,775 | 54,749 | 27,025 | 1 |
| Financial assets available for sale | 589,318 | 546,730 | 34,412 | 8,176 |
| **TOTAL ASSETS** | **671,093** | **601,479** | **61,437** | **8,177** |

| | | | | |
|---|---|---|---|---|
| LIABILITIES | | | | |
| Derivative financial instruments | 3,396 | - | 3,396 | - |
| **TOTAL LIABILITIES** | **3,396** | **-** | **3,396** | **-** |

| 2016 | Carrying amount | Level 1 – quoted market price | Level 2 – Techniques for assessment of observed market levels | Level 3 – Techniques for assessment –non-observed market levels |
|---|---|---|---|---|
| ASSETS | | | | |
| Financial assets held for trading | 115,047 | 113,515 | 21 | 1,511 |
| Financial assets available for sale | 664,189 | 656,725 | - | 7,464 |
| **TOTAL ASSETS** | **779,236** | **770,240** | **21** | **8,975** |
| LIABILITIES | | | | |
| Derivative financial instruments | 209 | - | 209 | - |
| **TOTAL LIABILITIES** | **209** | **-** | **209** | **-** |

# 36. RELATED PARTY TRANSACTIONS

The Bank has conducted a number of transactions with related parties as it has granted loans, issued guarantees, attracted cash, realized repo deals and others. All deals are completed at common trade conditions, in the course of activity of the Bank and do not differ from the market conditions, as loans are granted and guarantees are issued only in the presence of sufficient collateral.

As of December 31, 2017 and 2016 the Bank has receivables from, payables and contingent commitments to related parties as follows:



| Related parties and balances | Balance as of 31.12.2017 | Balance as of 31.12.2016 |
|---|---|---|
| Parent company | | |
| Deposits received | 109 | 10 |
| Companies under common control | | |
| Loans granted | 76,051 | 81,611 |
| Guarantees issued | 6,520 | 7,413 |
| Receivable under repurchase agreements | 11,176 | 11,272 |
| Other receivables | 3,035 | 3,365 |
| Deposits received | 53,478 | 51,831 |
| Issued bonds | 45,136 | 50,779 |
| Subsidiaries | | |
| Deposits received | 2,556 | 5,086 |
| Deposits granted | 6,823 | 26,568 |
| Key management personnel of the Bank or its main shareholder | | |
| Loans granted | 1,718 | 2,078 |
| Other receivables | 8 | 8 |
| Deposits received | 3,366 | 2,987 |

Income and expenses realized by the Bank in 2017 and 2016 from transactions with related parties are as follows:

| Related parties and transactions | Turnover in 2017 | Turnover in 2016 |
|---|---|---|
| Parent company | | |
| Interest income | - | - |
| Income from fees and commissions | 2 | 15 |
| Companies under common control | | |
| Interest income | 4,858 | 5,652 |
| Income from fees and commissions | 1,295 | 1,257 |
| Income from services | 205 | 210 |
| Interest expense | (1,818) | (2,420) |
| Expenses for services | (6,629) | (6,541) |
| Subsidiaries | | |
| Interest expense | (22) | (24) |
| Interest income | 253 | 184 |

| | | |
|---|---|---|
| Income from fees and commissions | 18 | 18 |
| Expenses for fees and commissions | (1) | - |
| Dividends | 923 | 770 |
| Income from services | 191 | 132 |
| Expenses for services | - | (59) |
| Key management personnel of the Bank or its main shareholder | | |
| Interest income | 11 | 89 |
| Income from fees and commissions | 10 | 7 |
| Interest expense | (2) | (8) |
| Expenses for services | (108) | (109) |

The remunerations of the members of the Supervisory Board paid in 2017 are in the total amount of BGN 240 thousand (2016: BGN 240 thousand). The remunerations of the members of the Management Board paid in 2017 are in the total amount of BGN 297 thousand (2016: BGN 305 thousand).

## 37. OTHER REGULATORY DISCLOSURES

In accordance with the requirements of art. 70 para 6 of Law on Credit Institutions, banks are required to make certain quantitative and qualitative disclosures related to major financial and other indicators separately from the business originating from Republic of Bulgaria, countries part of the European Union and third countries in which the bank has active subsidiaries and/or branches.

As disclosed in note 1, Central Cooperative Bank AD carries out its activities based on banking license issued by BNB, pursuant to which it may accept deposits in local and foreign currency, extend loans in local and foreign currency, open and maintain nostro accounts in foreign currency abroad, deal with securities and foreign currency and perform all other banking activities and transactions, permitted by the Law on Credit Institutions.

The Bank has obtained bank license, issued by the Central Bank of Cyprus, under which the Bank is authorized to perform bank activity as a legally licensed bank branch on the territory of the Republic of Cyprus, in compliance with the requirements of the Cyprus Law on Banks.

The summarized quantitative indicators in connection with the obligatory disclosers required by the Law on Credit Institutions are as follows:



| | Republic of Bulgaria | | Republic of Cyprus | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Operating income | 188,853 | 183,427 | 325 | 702 |
| Financial result before tax | 38,777 | 30,422 | (256) | 199 |
| Tax expense | (1,707) | (4,023) | - | - |
| Return on assets (%) | 0.68 | 0.54 | (0.49) | 1.93 |
| FTE as of December 31 | 1,958 | 2,105 | 5 | 4 |
| Received government grants | - | - | - | - |

## 38. EVENTS AFTER THE REPORTING PERIOD

No adjusting events or material non-adjusting events have occurred between the date of the financial statements and the date of their approval for issuance.

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# ANNUAL FINANCE REPORT 2017