ANNUAL REPORT 2018

Central Cooperative Bank
Our clients feel important

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 2018. Central Cooperative Bank Plc is a universal commercial bank with a pronounced focus on retail banking. As at 31.12.2018 the Bank assets are BGN 5,6 billion, shareholders' equity amounts to BGN 527 million and the net profit is BGN 33,7 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 2019 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,

Gerogi Kostov
Executive Director

George Konstantinov
Executive Director

Sava Stoynov
Executive Director

Tihomir Atanassov
Procurator

FINANCIAL HIGHLIGHTS AS AT 31.12.2018

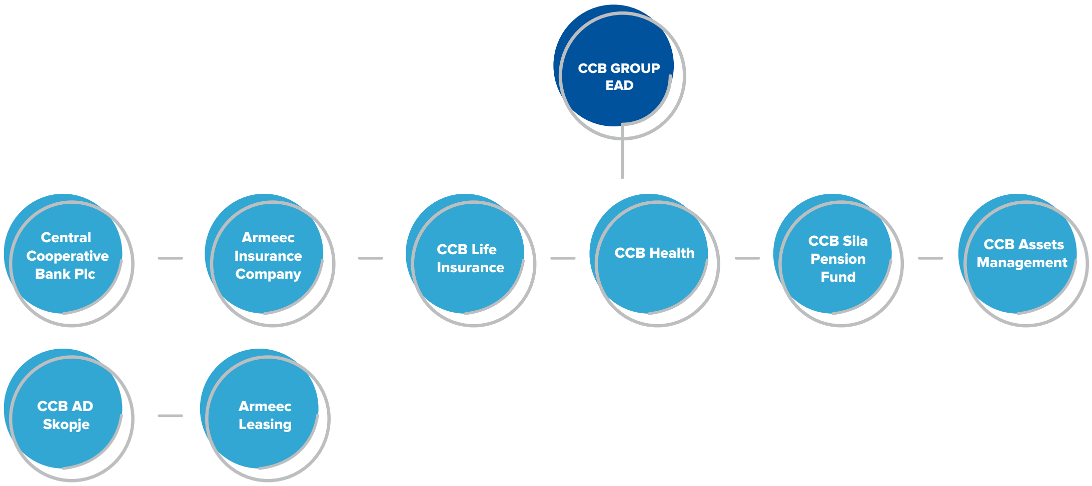
Main indicators from the Balance Sheet and the Income Statement	As at 31.12.2018 Thousand BGN	As at 31.12.2017 Thousand BGN
Total assets	5,617,692	5,411,847
Share capital	113,154	113,154
Shareholders' equity	527,308	461,615
Total deposits	5,054,179	4,867,507
Deposits from non-financial institutions	5,013,739	4,859,073
Advanced loans and advances to customers, net	2,258,072	2,214,894
Net interest income	114,439	118,848
Non-interest income	54,136	70,330
Total income	168,575	189,178
Operating expenses	125,286	119,930
Net profit	33,770	36,814

Financial highlights	As at 31.12.2018	As at 31.12.2017
ROaE %	7.20%	8.18%
ROaA %	0.61%	0.70%
Shareholders' equity / total assets %	9.39%	8.53%
Operating expenses / total assets %	2.23%	2.22%
Operating expenses / total income %	74.32%	63.40%
Loans to customers / total assets %	40.20%	40.93%
Total deposits / total assets %	89.97%	89.94%
Deposits from non-financial institutions / total assets %	89.25%	89.79%
Total capital adequacy	17.56%	16.83%

Recourses	As at 31.12.2018 Number	As at 31.12.2017 Number
Number of customers	1,785,326	1,732,916
Foreign correspondents	282	283
Nostro accounts	19	19
Locations, including branches	309	311
Personnel	2149	2152

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 282 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 309 branches and offices all over the country and abroad.

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.

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

In 2018 the Bank offered new products and services in the field of retail banking, as well as more advantageous conditions for consumer and mortgage loans.

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.

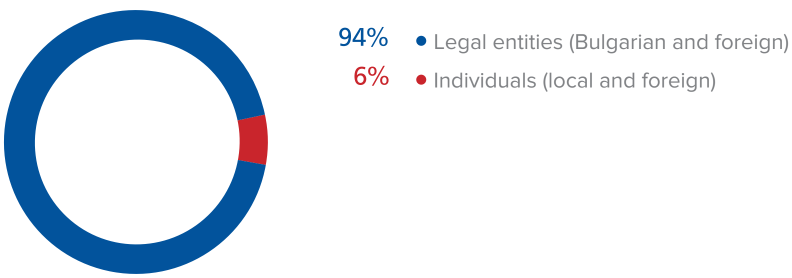
As at 31 December 2018 the shareholders' equity amounts to BGN 527,308 thousand. The capital adequacy is 17.56 %, which is above the requirements according to Ordinance No. 8 of BNB on the capital adequacy of Banks

Shareholders of CCB Plc as at 31 December 2018	Share (%)
CCB Group EAD, Sofia	68,56
Chimimport JSC	6,61
Other minority participation	24,83
Total	**100,00**

As at December 31, 2018 the shareholders of CCB Plc are 5,220 individuals and 1,136 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



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.

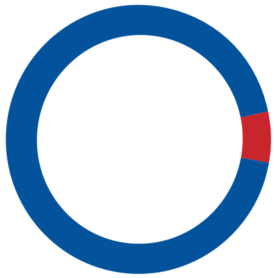
The Bank is one of the leaders on the market in rendering services to the agricultural sector and the related production activities. In 2018 CCB Plc continued to offer the array of credit products and services in the field of consumer lending, as well as lending to SMEs. Following the set goals, the 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

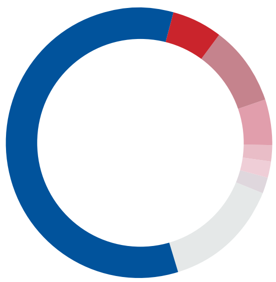
A considerable contribution for the success and established market positions of the Bank belongs to its clients. For this reason CCB Plc attracted more clients, especially individuals, households, SMEs. The Bank’s portfolio is entirely subordinated to the needs and desires of clients. The efforts are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

Sector	31.12.2018	31.12.2017
Individuals	1,678,842	1,630,502
Commerce	61,398	60,469
Transport and communications	5,581	5,843
Industry and construction	10,035	10,441
Agriculture and forestry, hunting and fishing	5,145	5,079
Finance, loans and insurance	2,123	2,085
Education	2,285	2,159
Healthcare, sports and tourism	2,194	5,390
Other	17,723	10,948
Total:	**1,785,326**	**1,732,916**

The clients of the Bank again increased and reached 1,785,326 at the end of 2018. Compared to the previous year the increase is in the amount of 3 %, whereas the results take into consideration mainly the increase in individuals. Their share increased by 48,356 or by 2.9 % compared to 2017. 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 31.12.2018



RETAIL BANKING

Card products

In 2018 CCB Plc preserves its positions as 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 and Visa Platinum credit card. The portfolio of debit cards, which the Bank offers, consists of international debit cards of high class World Debit Mastercard, Debit Mastercard and Visa Debit debit cards, Debit Mastercard cobranded cards with A1 Bulgaria EAD and the local BCard debit card. The Bank also offers EMOTION debit and credit cards, where the client can select the vision of his card from the proposed gallery with over 50 designs.

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

From July 2015 the Bank offers a credit card of exceptionally high class - World Mastercard. The card is 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 brings a number of additional perks and privileges to its holders:

• Free membership in the Priority Pass program – ensures access to over 700 business lounges at airports in over 100 countries all over the world;

• Special rebates from Bulgaria Air;

• Free access to 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 coverages with a maximum amount of the coverage in the amount of USD 50 000;

• Additional insurance, which provides protection upon theft of the card together with personal belongings and documents, protection upon incident or theft of goods, purchased with the card, as well as the best price upon shopping;

• Rebates in the CCB Club program;

• Rebates upon shopping at selected traders in Bulgaria, included in the CCB World Offers catalogue;

• Additional attractive rebates abroad at hotels, famous shops and rent-a-car companies, provided by Mastercard;

• 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 in advance 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 2018 the holders of Visa Platinum cards of CCB could use free of charge Vitosha business lounge at the Sofia airport, regardless with which air company they travel. The holders of World Debit Mastercard, Visa Platinum, Visa Gold and Mastercard Gold cards can use free of charge Vitosha business lounge at the Sofia airport for the international flights, as well as in the cases, when the fly along the internal lines.

New card products

In 2018 the Bank continued streamlining the already implemented products and implemented new ones, with which it developed the portfolio of products and services.

1. **DCC (Dynamic Currency Conversion) with VISA cards at CCB ATMs.** The service started at the beginning of July 2018, with which the cardholders were given the choice, the amount received upon withdrawal to be converted in the card currency.

2. **ABU (Automatic Billing Updater)** – ABU is a global platform, which maintains the correctness of data with respect to the cards, with the aim to decrease the unsuccessful transactions, due to expiry of the card term or upon changes in the card numbers due to reissuance. In this way the customer satisfaction is increased upon payments with Mastercard bank cards, because it is not necessary to manually change the saved data of their cards with the merchants that participate in ABU.

3. **At the end of July 2018 the Bank finalized the migration from static to dynamic password upon payment on the Internet** – at the end of July there was a change in the functioning of the service for secure payments on the Internet E-Secure – upon every payment at a trader that maintains Verified by Visa/Mastercard SecureCode clients receive on their mobile one-off password for confirmation of the payment on the Internet.

4. **BCard** – At the end of April 2018 the Bank together with the National Card operator – BORICA AD realised the issuance of BCard cards, which offer protection with the last generation CHIP and PIN technology – the magnetic strip does not contain payment information, which eliminates the possibility of copying the data, written on the card. The cards for the BORICA employees have preferential conditions, and for the remaining clients the card is offered under standard conditions. As at 31.12.2018 a total of **503** cobranded cards were issued.

Market positions and statistics

In 2018 CCB Plc affirmed its market positions in the issuance of bank cards, whereas the total number of the cards issued by the Bank as at 31.12.2018 amounts to 606 524. The issued international credit cards at the end of December 2018 are 34 321, of which 18 556 Mastercard cards and 15 765 Visa cards.
CCB Plc managed to keep good market shares with respect to the development of its network of ATMs and POS terminals: the number of virtual POS terminals at the end of 2018 reached 514, and the total number of CCB ATMs is 571. The total number of the Bank POS terminals is 4 483, including the POS terminals in the bank rooms. The POS terminals that provide a possibility for contactless payments are 3 633.

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

ATMs, POS terminals, credit and debit cards	31.12.2017	31.03.2018	30.06.2018	30.09.2018	31.12.2017
ATMs					
ATMs	569	569	565	567	571
POS terminals					
POS terminals at the trade shops	4 309	4 343	4 410	4 463	4 483
POS terminals at the bank branches	344	344	344	344	344
Virtual POS terminals	455	459	484	538	514
Total POS	4 767	4 388	4 533	4 578	5 341
Credit cards					
Mastercard Standard	16 976	19 386	19 137	18 726	18 021
Mastercard Gold	348	354	360	357	346
Mastercard New World	99	107	113	116	121
Mastercard Business	77	75	73	70	68
Visa Classic	15 055	14 610	14 240	13 957	13 590
Visa Gold	1 780	1 740	1 717	1 691	1 630
Visa Platinum	439	453	157	455	452
Visa Business	94	91	92	93	93
Total credit cards	34 868	36 816	38 189	35 465	34 321
Debit cards					
Debit MasterCard	304 492	312 760	324 249	329 664	336 219
Debit MasterCard Commercial	943	1 070	1 267	1 407	1 532
Gold Debit MasterCard	828	996	1 121	1 264	1 366
World Debit MasterCard	7 966	8 407	8 810	9 246	9 901
Maestro	66 734	46 780	33 138	22 146	12 638
MasterCard Prepaid	1 815	3 330	3 037	2 732	2 723
VISA Debit	161 496	163 467	163 427	165 498	162 648
Visa Debit Commercial	1 239	1 532	1 781	2 005	2 216
Visa Electron	48 841	42 803	40 697	38 319	35 809
VISA Prepaid	8 875	13 634	16 256	13 370	6 648
BCard	5	5	38	412	503
Total debit cards	**603 234**	**594 289**	**593 821**	**586 063**	**572 203**

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

In 2018 the Bank again organised various marketing initiatives to stimulate the payments, and also to increase the number of debit and credit cards.

Intended campaigns for the promotion of card payments

- In the period **28.05.2018 – 01.07.2018** there was campaign to stimulate the contactless payments with CCB **MasterCard** cards with awards for clients. Every week, during the campaign, 1 holiday voucher, 2 Samsung smartphones and 3 fitness bracelets were distributed.

- In the period **01.10.2018 – 31.12.2018** together with BORIKA AD there was a campaign to promote payment with Bcard debit cards, issued by CCB with awards for clients. The clients participated for 30 vouchers of BGN 50, 15 vouchers of BGN 100, 5 vouchers of BGN 150 and 3 big awards: SPA weekend for two people.

- In the period **26.11.2018 – 13.01.2019** together with **MasterCard** there was a campaign to stimulate the payments with MasterCard debit and credit cards with awards for clients. Every week during the campaign the Bank distributes 2 couple tickets for the concert of Lenny Kravitz at Arena Armeec and 3 vouchers for fuel at Lukoil petrol stations of BGN 50. At the end of the campaign one award will be distributed to a person among all, who performed and registered at least one contactless payment – a voucher for two people for accommodation at Astor Garden hotel, All Inclusive. At the end of the campaign there will be an additional lottery for all registered payments with award – a voucher from Posoka.com of BGN 2 000.

Campaigns for the promotion of the card issuance

- In the period **02.10.2017 - 31.01.2018** there was a campaign for the sale of contactless **Mastercard** credit cards with bonuses for the employees. For each issued and activated credit card for the period, the employee receives a bonus of BGN 13 gross.

- In the period **30.10.2017 – 31.01.2018** there was a campaign for the sale of **Visa debit and credit company cards** with bonuses for the employees. For each issued and activated debit card during the campaign the employee receives BGN 6 gross, and for each credit card – BGN 20 gross.

- In the period **02.04.2018 - 31.05.2018** there was a campaign for the sale of contactless **Mastercard credit cards and Debit Mastercard CCB-Mtel debit cards** with bonuses for the employees.

- In the period **02.10.2018 – 30.11.2018** there was a campaign for the sale of **Debit Mastercard "CCB Mtel" contactless cards** with a bonus of BGN 3 gross for each issued card.

- In the period **19.11.2018 - 28.02.2019** there was a campaign for the issuance of contactless **Mastercard credit cards** with a bonus of BGN 13 gross for each issued card.

- In the period **21.12.2018 - 28.02.2019** there was a campaign for the promotion of credit cards, which includes commercials at BTV Media Group and Nova Media Group, Bulgaria On Air, banner advertisement at popular Internet sites, print advertising, external advertising and radio commercial..

The holders of debit and credit cards of CCB had the opportunity to participate in other campaigns with awards, organized by the Visa and Mastercard card organisations.

CCB Bonus program

CCB Plc continued developing the CCB Bonus program. Its main objective is to direct the cardholders of the Bank to the trade shops of selected partners, where they can take advantage of special rebates. The CCB Bonus program is an important advantage for clients upon selecting a bank, not only for credit, but also for debit cards. It is oriented to stimulating the card payments and creating relationships of permanent partnership, with clients and 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 about trade shops, where they can take advantage of the rebate. In 2018 the Bank issued the 17th edition of the CCB Bonus catalogue with included 220 traders with over 650 trade shops across the country.

CCB Club loyalty program

In 2018 CCB Club preserved its stable development. 16 partners participate in this program and offer the following rebates:

- Bulgaria Air provides to clients the attractive rebate of 5 % on the price of the airplane tickets, to which is added the rebate upon payment with the cobranded CCB–Bulgaria Air credit card. Clients benefit from the preference in the form of free transportation of additional luggage with every flight of Bulgaria Air;

- Armeec provides a possibility for the calculation of bonus points in the program along with using 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 gold 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 % is preserved;

- HomeMax hypermarket chain – 5 % rebate;

- The Etap-Address and Group Plus bus companies offer a rebate of 10 %, exceptionally attractive to the program clients;

- Happy Bar&Grill restaurant chain – 5 % rebate;

- COOP commercial chain – 3 % rebate;

- BM Market food chain – 3 % rebate;

- Sport Depot sports shops – 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 the CCB Club program;

• CEZ Electro Bulgaria - 25 Kwh daily electricity upon payment of the bills to the company via “Subscription for utility bills” service of CCB Plc.

At the end of 2018 the number of the clients that participate in the CCB Club loyalty program reached 559 299, and the bonus amount of the sales is over BGN 48 million.

Consumer and mortgage lending

In 2018 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 8th place in absolute growth of the portfolio. The year was especially good for the mortgage loan, which have a growth of more than 50 % compared to the previous year. The Bank continued focusing on clients with a good risk profile and high 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.

In 2018 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 **344,9 million**, of which:

• BGN **188,5** million mortgage loans;

• BGN **156,4** million consumer loans (including overdraft of electronic debit cards, credit cards and goods on credit);

- As a result of the sales activity, the net increase in the retail portfolio (the increase after deducting the repayments) compared to 2017 is BGN **139,8** million.

In 2018 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.

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.

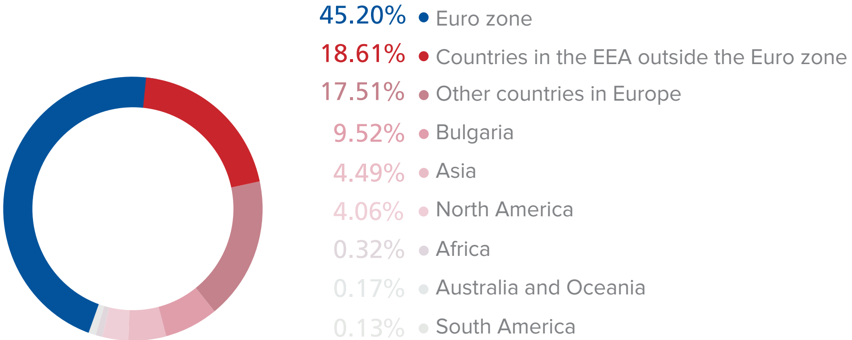
International payments

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 2018 the Bank maintains 19 correspondent Nostro accounts in 16 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, Landesbank Baden-Wuerttemberg, Stuttgart, 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, 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 dollars, Hungarian Forints, Chinese renminbi, Indian rupee, Indonesian rupee, South African Rand, Israeli shekel, Korean Republic Won, Malaysian ringgit, Philippine peso, etc.

OUTGOING CUSTOMER WIRE TRANSFERS (NUMBER OF TRANSACTIONS) ACCORDING TO GEOGRAPHIC REGIONS



Since November 2008 CCB is an indirect member of the Trans-European payment system 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.

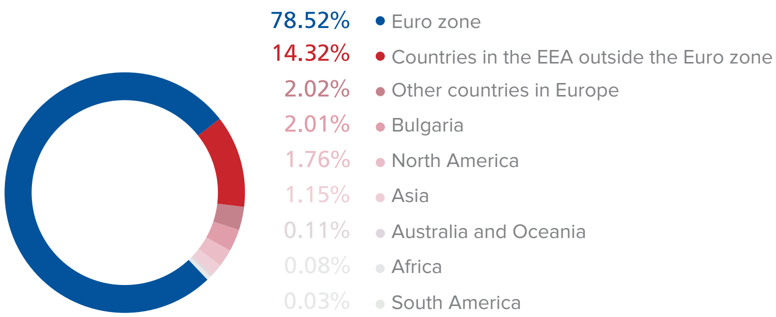
Regarding the volume of the outgoing customer transfers in foreign exchange in 2018 the most important countries were Germany, Great Britain, Italy, Turkey, Netherlands, Spain, Greece, Austria, USA, France, Poland, Belgium, Romania, Russia and China. During the year transfers were ordered to 110 countries.

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

The incoming wire transfers in 2018 as usual considerably exceeded in terms of volume the outgoing transfers. The main countries during the year were Germany, Netherlands, Great Britain, France, Spain, Belgium, Austria, Italy, Cyprus, Greece, Ireland, Switzerland, USA, Sweden, Norway, Czech Republic and Russia. In 2018 CCB received customer transfers from 123 countries.

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

INCOMING CUSTOMER WIRE TRANSFERS (NUMBER OF TRANSACTIONS) ACCORDING TO GEOGRAPHIC REGIONS



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

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 2018 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 2018 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 and Raiffeisen Bank International AG, Vienna.

Financial markets

In 2018 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 2018 CCB Plc continued to use the full capacity of its trading lines, provided by leading financial institutions such as KBC Bank, Brussels, 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, 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.

Securities

In 2018 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 2018 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.

• Development of the electronic channels for banking.

• 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 process-es 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. Mainly young experts with the necessary educational background and linguistic qualification work at the Bank.

As at 31.12.2018 the Bank branches of CCB Plc are 48, including a foreign branch in Cyprus. The Bank representative offices and outlets are 261, compared to 263 as at 31.12.2017.

The total staff number of CCB Plc as at 31.12.2018 is 2149 people, including 206 security guards. In 2017 the total staff number is 2152 people, including 264 security guards.

In 2018 the staff of the head-office of the Bank is 632 employees, including 206 security guards.

In 2018 the staff at the bank branches is 1311 people, compared to 1465 people in 2017.

As at 31.12.2018 the total number of the employees /without the security guards, cleaners, drivers and kitchen workers/ at the head-office and the branches is 1908 people.

Within the Bank in 2018 the employees /without the security guards, cleaners, drivers and kitchen workers/ at the age up to 40 years old are 626 people or 32.8 % of the total number /without the security guards, cleaners, drivers and kitchen workers/. 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 total number of Bank's employees aged between 40 and 50 years old in 2018 is 547 or 28.7 %. The Bank's employees above 50 years old are 457 or 24 %.

The employees /without the security guards, cleaners, drivers and kitchen workers/ with bank work experience up to 5 years are 427 people or 22.4 %. These are mainly employees, servicing clients and cashiers.

As at 31.12.2018 the employees with work experience 5-15 years in the bank system are 986 people / without security guards, cleaners, drivers and kitchen workers/ or 51.7 % of all employees, compared to 973 in 2017. 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 2018 the employees with work experience above 15 years in the bank system are 494 employees or 25,8 % of the total bank staff.

CCB Plc pays special attention to the education of employees. The share of the employees /without security guards, cleaners, drivers and kitchen workers/ with university education in all its degrees is especially big – 1434 people or 73.2 %. 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 2018, 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 2018 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 2018 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	31.12.2018	31.12.2017	31.12.2016
Bank locations	309	311	306

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 2018

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 2018 in terms of total assets CCB Plc occupies the 8th place among all banks, operating on the territory of Bulgaria.

As at 31.12.2018 the total assets of the banking system in Bulgaria are BGN 105,5 billion, whereas the total assets of CCB Plc are BGN 5,617,692 thousand respectively.

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

Ratio	CCB Plc
Return On Average Equity /ROaE/	**7.20 %**
Return On Average Assets /ROaA/	**0.61 %**
Liquidity ratio	**45.07 %**
Total capital adequacy ratio	**17.56 %**
Tier I capital adequacy ratio	**15.23 %**

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.

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.

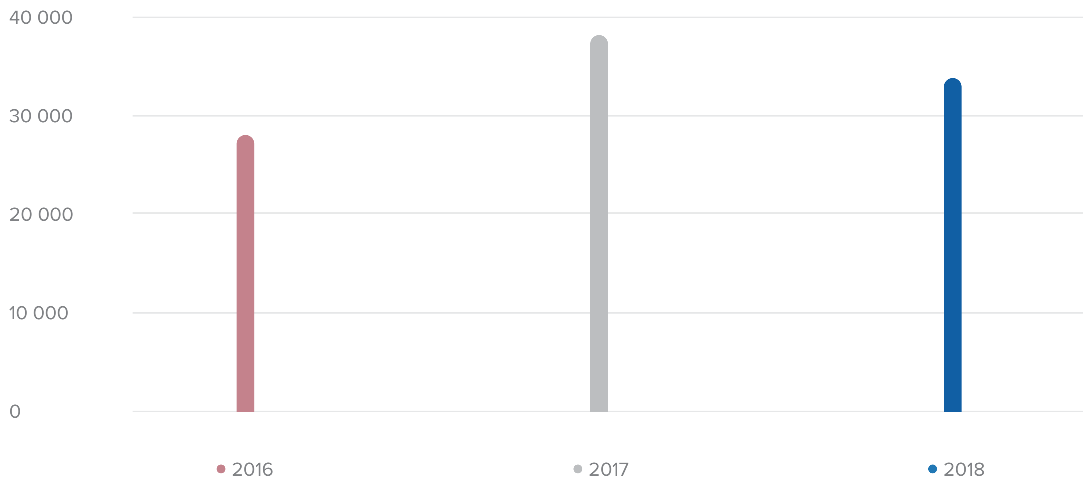
Market risk – the probability of the occurrence of a loss for the Bank as a result of the unfavorable change of the exchange rates, market prices and interest rates.

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 2018 the net profit of Central Cooperative Bank Plc amounts to BGN 33,770 thousand. In 2017 an audited net profit to the amount of BGN 36,814 thousand was realized.

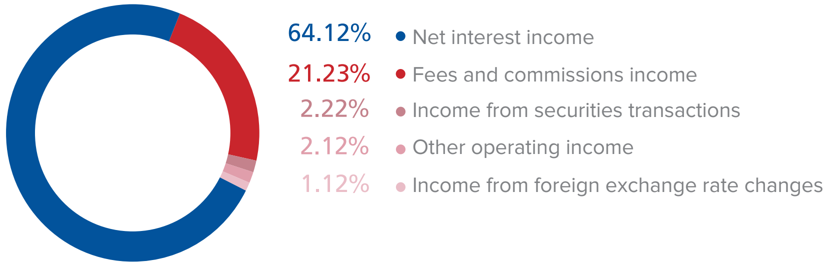
NET PROFIT



The financial indicators for return on average equity and the return on average assets are 7.20 % and 0.61 % respectively. The total capital adequacy of the Bank is 17.56 %.

In 2018 the net interest income of CCB Plc remains the main source of income and it amounts to BGN 114,439 thousand. The share of the net interest income in total income is 64.12 %. The fees and commissions income has a share of 21.23 % in total income, followed by income from securities transactions with a share of 2.22 %. The other operating income to the amount of 2.12 % includes income from dividend, cession contracts, the sale of fixed tangible assets, etc.

INCOME BREAKDOWN



The interest expenses in 2018 are to the amount of BGN 19,243 thousand, compared to their amount of BGN 25,976 thousand in 2017. The decrease of these expenses amounts to -26 %. The net fees and commissions income increase compared to 2017 and reach BGN 44,387 thousand.

At the end of 2018 there is a decrease in the realized net profit from transactions in securities, which is to the amount of BGN 3,968.

The operating expenses of CCB Plc in 2018 increase by 4.47 % compared to their level at the end of 2017 and reach the absolute value of BGN 125,286 thousand.
The ratio operating expenses / total income increases to 74.32 % compared to 63.40 % in 2017.

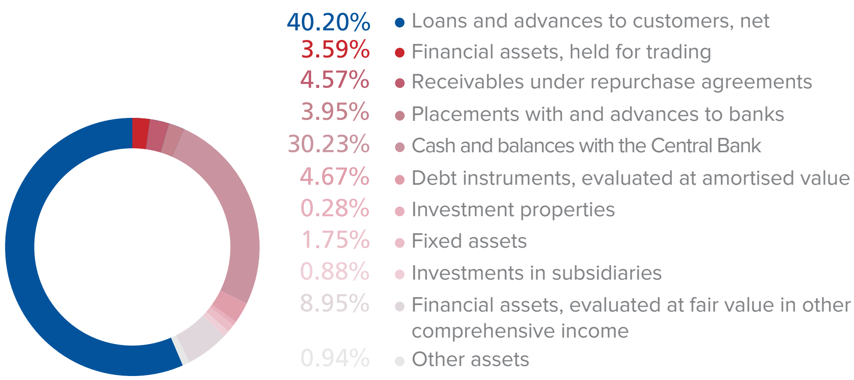
AN ANALYSIS OF THE ASSETS AND LIABILITIES

Assets

As at 31 December 2018 the book value of the assets of CCB Plc is BGN 5,617,692 thousand, whereas a year earlier they amount to BGN 5,411,847 thousand. Compared to 31 December 2018 the assets increase by BGN 205,845 thousand or 3.8 %.

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

ASSETS BREAKDOWN

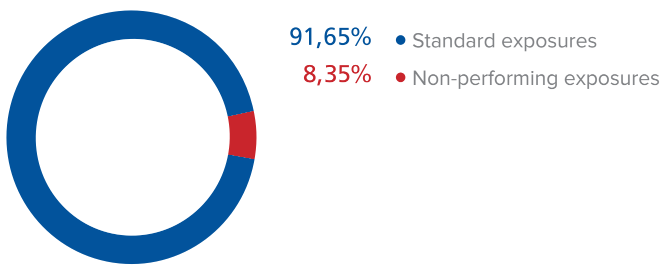


The cash and balances with BNB amount to BGN 1,698,071 thousand and are 30.23 % of total assets, compared to 33.21 % in 2017. The funds with first-class banks, correspondent accounts and short-term deposits have a weight of 3.95 % of the Bank assets, compared to 5.19 % a year earlier.

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 4.57 % of total assets, compared to 12.39 % in 2017. 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 31.12.2018 the loan portfolio of the Bank amounts to BGN 2,258,072 thousand, compared to BGN 2,214,894 thousand one year earlier. In 2018 total loans have 40.19 % of the assets, whereas a year earlier they amount to 40.93 % of total assets. The Bank constantly aims at improving its market positions in retail banking, as well as financing SMEs.

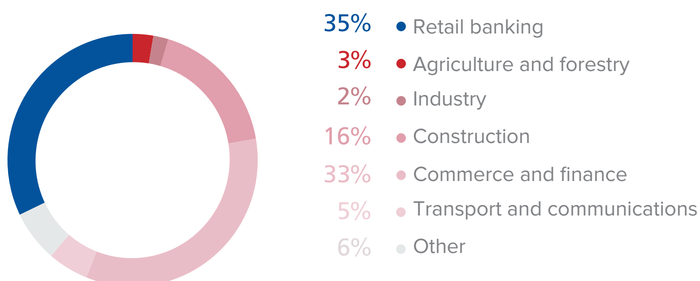
BREAKDOWN OF THE LOAN PORTFOLIO ACCORDING TO THE CLASSIFICATION OF CREDIT RISK



The quality of the loan portfolio is very good, the regular exposures are 91.65 %, and the non-performing exposures have a share of 8.35 %.

As at 31.12.2018 the breakdown of the granted loans and advances to clients at amortised value has been reflected in the table below, as follows:

GRANTED LOANS AND ADVANCES TO CLIENTS



Liabilities

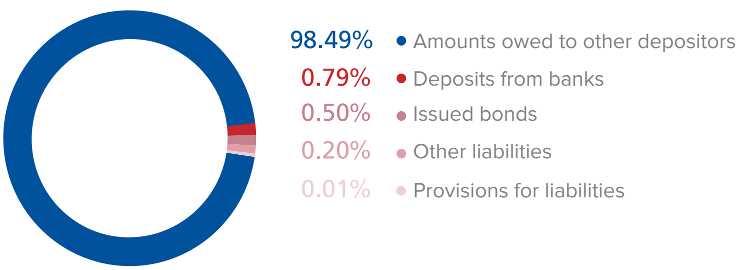
CCB Plc maintains a stable structure of the attracted funds, which allows it not to be dependent on external financing.

As at 31.12.2018 the total liabilities of CCB Plc are BGN 5,090,384 thousand. They have 90.61 % of the total liabilities, whereas their increase compared to the previous year is by 2.83 %.

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 5,013,739 thousand, which is 98 % of the total liabilities. In 2017 they were BGN 4,859,073 thousand.

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

LIABILITIES BREAKDOWN

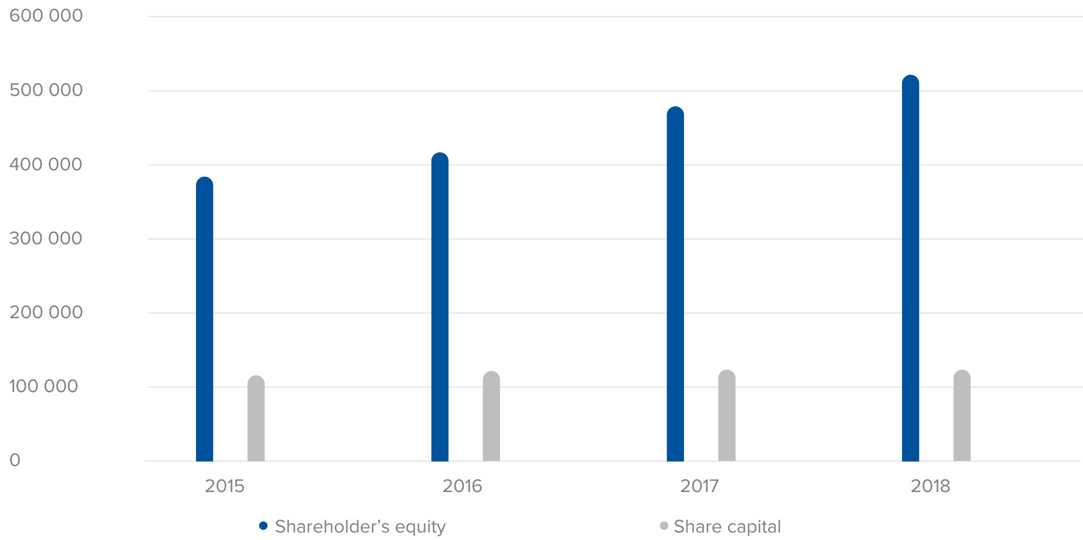


The considerable share of the funds attracted from the population is an important and stable source for the Bank. This is due to the strategy chosen by the Bank to concentrate on retail banking.

Shareholders' equity

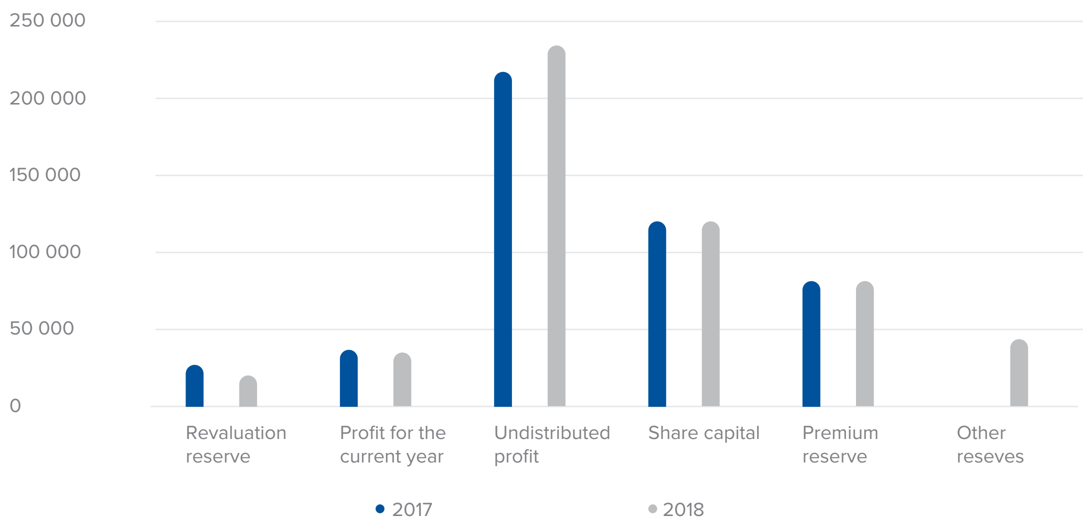
At the end of 2018 shareholders' equity of CCB Plc amounts to BGN 527,308 thousand. The increase in shareholders' equity compared to the previous year is 14.23 % and is mostly the result of the capitalized profit and the increased reserves. As at 31 December 2018 the issued, called and paid in share 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 2018 is to the amount of BGN 33,770 thousand, whereas at the end of 2017 it was BGN 36,814 thousand.

INCREASE IN SHAREHOLDERS' EQUITY AND SHARE CAPITAL



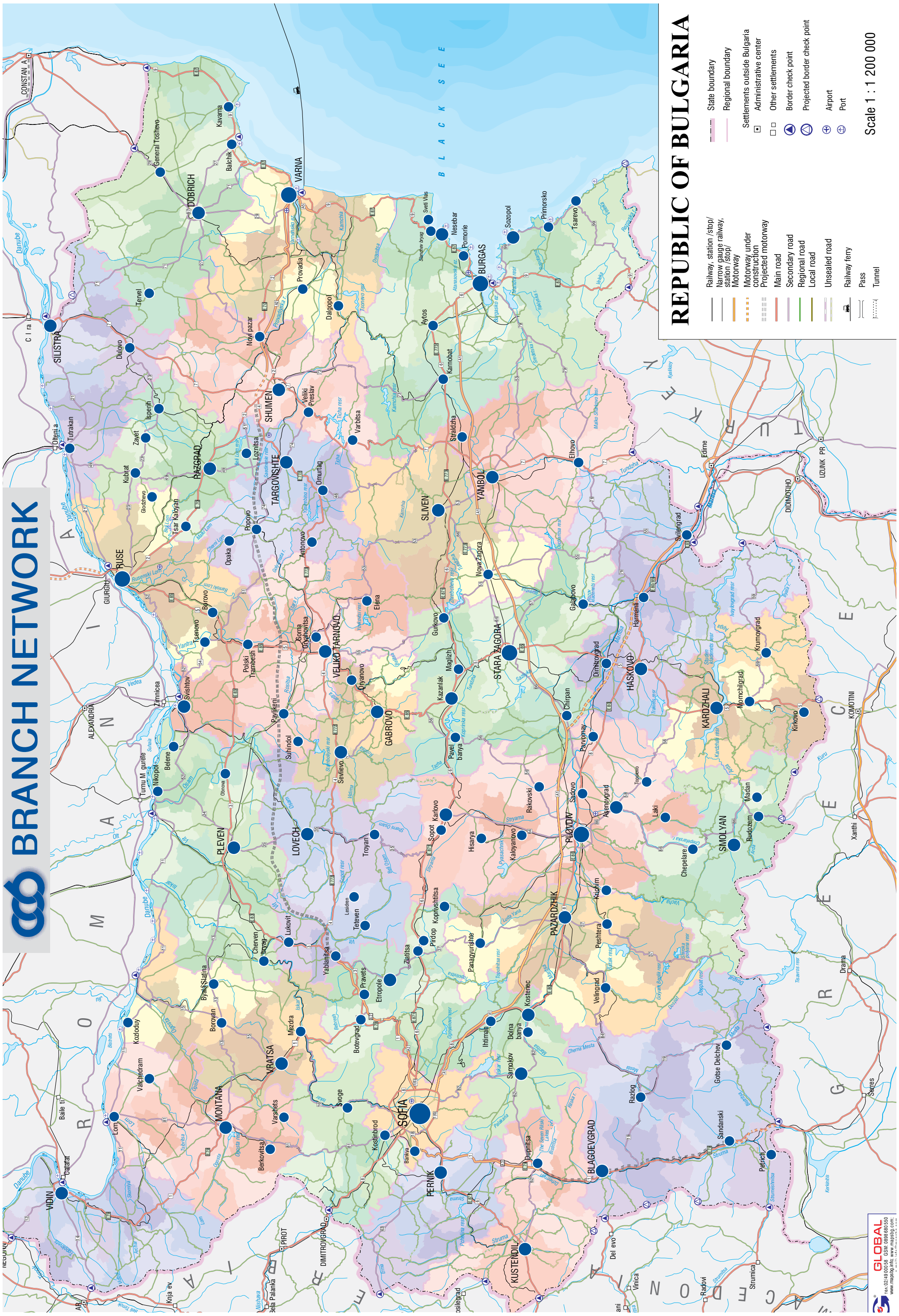
During this year the Bank continues its present policy via capitalization of the profits to assist the capital increase and its assets.

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

Yambol Branch
7, Osvobozhdenie Sq.
8600 Yambol
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**
PostFinance AG, Berne, Switzerland	**POFICHBE**	**CHF**	**91-160-3**
The Bank of New York Mellon (International) Limited, London, UK	**IRVTGB2X**	**GBP**	**3506738260**
Danske Bank Aktieselskab, Copenhagen	**DABADKKK**	**DKK**	**3996024253**
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**	**RO26RZBR8000000202309461**
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, 2018, 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, 2018, 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 matter

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 to customers The measurement of impairment allowances for loans and advances to customers requires Bank management to exercise a significant level of judgment, especially in regard identifying impaired receivables and assessing the amount of loan impairment. To assess the amount of allowances for expected credit losses, the Bank applies statistical models with input parameters obtained from internal and external sources. In accordance with the requirements of IFRS 9 Financial Instruments, the Bank distinguishes three stages of impairment, where the criteria for classification to individual stages are based on an assessment of the objective characteristics of loans and the relevant debtors and judgments of the Bank. The classification of financial instruments to impairment stages is a result of combination of quantitative and qualitative factors. The expected credit losses are calculated using available historical data and expected future development determined using macroeconomic indicators. The statistical models used are based on the probability of default and the estimated amount of the loss given default. Input data for the model and the calculation logic and its comprehensiveness depend on judgment of Bank management. As described in note 9 to the separate financial statements, the Bank has recorded as at December 31, 2018 impairment allowances on loans and advances to customers amounting to BGN 113,309 thousand. Because of the significance of the valuation of loans and advances to customers for the separate financial statements, and due to the fact that the assumptions in determining the impairment allowances include significant estimates and application of professional judgment, we identified impairment of loans and advances to customers as a key audit matter.	During our audit we have obtained understanding of the processes of calculation of impairment of loans, applied by the Bank. We have assessed the adequacy of the policies, procedures and implemented controls in the process, in order to design our procedures in such way as to be able to address the risks of material misstatement in this area. We have assessed the adequacy of the methodology used by the Bank to identify loan impairment and calculate impairment allowances for the significant loan portfolios. We have involved auditors' experts in the areas, which required specific expertise. We have also reviewed the quality of the historical data used in the computation of the risk parameters and recomputed the impairment on a sample of exposures based on the risk parameters resulted from the models. On a sample of exposures we have assessed the appropriateness of impairment methodology and its application. We formed an independent expectation on the levels of impairment allowances required by examining available external and internal information. We have developed independent expectation regarding impairment of loans and advances to customers as at December 31, 2018 and comparison of this expectation to actual impairment accounted by the management and reported in the financial statements. We have assessed the appropriateness of staging classification for a sample of loans, taking into consideration whether there are factors indicating a significant increase in credit risk. We have performed detailed substantive procedures on a sample of loans in order to verify the classification of loans and to identify any indications for impairment and whether additional allowances for impairment should be recorded. We applied our professional judgment to assess the inputs used in the calculation of impairment losses and compared our assessment to the estimates applied by the Bank. We have analyzed the financial condition of the borrowers and inquired about any breaches of contracts and/or changes from the original terms and conditions of the contract. For the respective exposures in our sample we performed analysis of the key assumptions and judgments of the Bank's management including assessment of the applied scenarios, as well as expected cash flow recoveries. We have considered the impact of the current and forecasted economic conditions, the valuation of collaterals, and other factors that may affect the recoverability of loans. We have assessed the completeness, appropriateness and adequacy of the disclosures in the Bank's separate financial statements with regard to the measurement of loans and advances to customers.

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 applicable legal requirements.

- 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 and Art. 11 of Ordinance 58/2018 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 organization related to the keeping of clients' assets complies with the requirements of art. 28-31 of Ordinance 38/2007 of FSC and art. 3-10 of Ordinance 58/2018 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 obtained knowledge and understanding of the Bank and the environment in which it operates, 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 37 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, 2018, 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, 2018, 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 connec-

tion 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, 2018 by the general meeting of shareholders held on June 27, 2018 for a period of one year.

- The audit of the separate financial statements of the Bank for the year ended December 31, 2018 represents twenty-first consecutive statutory audit engagement for the Bank carried out by Deloitte Audit OOD and second 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

Emil Badov,
Proxy of the
Statutory Manager Desislava Dinkova
Registered Auditor, responsible for the audit

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

On behalf of Grant Thornton OOD

Zornitza Djambazka,
Registered Auditor,
responsible
for the audit

Mariy Apostolov,
Statutory Manager

26, Cherni Vrah Blvd.
1421 Sofia, Bulgaria

July 1, 2019

CENTRAL COOPERATIVE BANK AD

SEPARATE ANNUAL ACTIVITY REPORT, INDEPENDENT AUDITORS' REPORT, AND ANNUAL SEPARATE FINANCIAL STATEMENTS

December 31, 2018

Unofficial translation from Bulgarian

ASSETS	Note	As of 31.12.2018	As of 31.12.2017
Cash and balances with the Central Bank	5	1,698,071	1,797,053
Placements with and advances to banks	6	222,106	281,016
Receivables under repurchase agreements	7	256,598	196,910
Financial assets at fair value through profit or loss	8	201,425	81,775
Loans and advances to customers	9	2,258,072	2,214,894
Other assets	10	52,912	59,009
Financial assets available for sale	11	-	589,318
Financial assets at fair value through other comprehensive income	12	502,607	-
Debt instruments at amortized cost	13	262,567	-
Investments in subsidiaries	14	49,416	84,333
Non-current assets	15	98,102	91,020
Investment property	17	15,816	16,519
TOTAL ASSETS		5,617,692	5,411,847
LIABILITIES AND SHAREHOLDERS' EQUITY	**Note**	**As of 31.12.2018**	**As of 31.12.2017**
LIABILITIES			
Deposits from banks	18	40,440	8,434
Amounts owed to other depositors	19	5,013,739	4,859,073
Issued bonds	20	25,343	70,235
Provisions	21	690	-
Other liabilities	22	10,172	12,490
TOTAL LIABILITIES		5,090,384	4,950,232
SHAREHOLDERS' EQUITY			
Issued capital	23.1	113,154	113,154
Premium reserve		79,444	79,444
Reserves, including retained earnings	23.2	236,771	205,059
Revaluation reserve	23.3	19,167	27,144
Other reserves	23.4	45,002	-
Current year profit		33,770	36,814
TOTAL SHAREHOLDERS' EQUITY		527,308	461,615
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		5,617,692	5,411,847

These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on April 25, 2019 by:

Georgi Kostov
Executive
Director

Sava Stoynov
Executive
Director

Tihomir Atanassov
Procurator

Yordan Hristov
Chief Accountant

Signed according to Auditors' Report dated July 1, 2019:

Deloitte Audit OOD, audit company

Emil Badov,
Proxy of the
Statutory Manager Desislava Dinkova
Registered Auditor, responsible for the audit

Grant Thornton OOD, audit company

Zornitza Djambazka,
Registered Auditor,
responsible for
the audit

Mariy Apostolov,
Statutory Manager

	Note	Year ended 31.12.2018	Year ended 31.12.2017
Interest income	24	133,682	144,824
Interest expense	24	(19,243)	(25,976)
Net interest income		114,439	118,848
Fees and commissions income	25	54,296	52,377
Fees and commissions expense	25	(9,909)	(8,319)
Net fees and commissions income		44,387	44,058
Gains from transactions with securities, net	26	3,968	20,628
Foreign exchange rate gains, net	27	2,005	495
Other operating income, net	28	3,776	5,149
Operating expenses	29	(125,286)	(119,930)
Expenses for provisions for liabilities	-	(167)	-
Impairment expense, net	30	(5,835)	(30,727)
Profit for the period before taxes		37,287	38,521
Taxes	31	(3,517)	(1,707)
PROFIT FOR THE PERIOD		33,770	36,814
Other comprehensive (loss)/income			
Items reclassified to profit or loss:			
Financial assets available for sale, net of taxes		-	6,245
Debt instruments at fair value through other comprehensive income, net of taxes		(5,487)	-
Items not reclassified in the profit or loss:			
Equity instruments at fair value through other comprehensive income, net of taxes		2,009	-
Revaluation of payables under defined benefit plans		(120)	-
Total other comprehensive income, net of taxes		(3,598)	6,245
TOTAL COMPREHENSIVE INCOME FOR THE YEAR AFTER TAXES		30,172	43,059
Earnings per share (in BGN)	32	0.30	0.34
Diluted earnings per share (in BGN)	32	0.27	0.29

These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on April 25, 2019 by:

Georgi Kostov
Executive
Director

Sava Stoynov
Executive
Director

Tihomir Atanasov
Procurator

Yordan Hristov
Chief Accountant

Signed according to Auditors' Report dated July 1, 2019:

Deloitte Audit OOD, audit company

Emil Badov,
Proxy of the
Statutory Manager Desislava Dinkova
Registered Auditor, responsible for the audit

Grant Thorton OOD, audit company

Zornitza Djambazka,
Registered Auditor,
responsible
for the audit

Mariy Apostolov,
Statutory Manager

	Year ended 31.12.2018	Year ended 31.12.2017
Cash flows from operating activities:		
Profit before taxes	37,287	38,521
Change in operating assets		
(Increase)/decrease in placements with and advances to banks with maturity over 90 days	(15,000)	2,151
(Increase)/decrease in receivables on repurchase agreements	(59,896)	2,348
Decrease in reclassification of financial assets held for trading	(75,014)	41,999
Increase in financial assets at fair value through profit or loss	589,318	81,809
Sale and reclassification of available-for-sale financial assets, net	(508,201)	-
Acquisition and reclassification of financial assets at fair value in other comprehensive income, net	(59,476)	(85,538)
Increase in loans and advances to customers	6,096	2,793
Decrease in other assets	-	6,817
	(122,173)	52,379
Change in operating liabilities::		
Increase/(decrease) in deposits from banks	32,006	(4,017)
Increase in amounts owed to other depositors	154,666	401,558
Decrease in other attracted funds	-	(39)
Increase/(decrease) in liabilities for provisions	523	(1,034)
(Decrease)/increase in other liabilities	(2,440)	5,585
	184,755	402,053
Other non-cash transactions, included in the profit before taxation:		
Net gain from investing activities	(4,309)	(8,727)
Increase of adjustment for impairment of loans and advances to banks	54	-
Increase of adjustment for impairment of repurchase transactions	185	-
Increase of adjustment for impairment of loans and advances to clients	6,362	30,727
Increase of adjustment for impairment of financial assets at amortized cost	389	-
Increase of adjustment for impairment of financial assets at fair value through other comprehensive income	(1,155)	-
Increase in provision of liabilities	167	-
Depreciation and amortization	9,698	9,187
Carrying amount of assets written-off	593	112
Effects from amortization of financial liability	110	109
	12,094	31,408
Change in deferred taxes	(180)	37
Income tax paid	(2,514)	(6,181)
NET CASH FLOW FROM OPERATING ACTIVITIES	109,269	518,217
Cash flows from investing activities:		
Acquisition of financial assets at amortized cost, net	(262,956)	-
Payments for purchase of non-current assets	(17,387)	(3,570)

Proceeds from sale of non-current assets	**717**	**2,771**
NET CASH FLOWS FROM INVESTING ACTIVITIES	**(279,626)**	**(799)**
Cash flows from financing activities:		
Interest paid on issued bonds	**(2,535)**	**(2,535)**
NET CASH FLOWS FOR FINANCING ACTIVITIES	**(2,535)**	**(2,535)**
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS, NET	**(172,892)**	**514,883**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (Note 34)	**2,064,006**	**1,549,123**
CASH AND CASH EQUIVALENTS AT THE END OF YEAR (Note 34)	**1,891,114**	**2,064,006**

These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on April 25, 2019 by:

Georgi Kostov
Executive
Director

Sava Stoynov
Executive
Director

Tihomir Atanasov
Procurator

Yordan Hristov
Chief Accountant

Signed according to Auditors' Report dated July 1, 2019:

Deloitte Audit OOD, audit company

Emil Badov,
Proxy of the
Statutory Manager Desislava Dinkova
Registered Auditor, responsible for the audit

Grant Thornton OOD, audit company

Zornitza Djambazka,
Registered Auditor,
responsible for the audit

Mariy Apostolov
Statutory Manager

	Issued capital	Pre-mium reserve	Reserves, including retained earnings	Reva-luation reserves	Other reserves	Current year profit	Total
BALANCE AS OF JANUARY 1, 2017	**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 comprehen-sive income for the year ended Decem-ber 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**
IFRS 9 First time adoption effect on impairment of assets, note 4	**-**	**-**	**(10,532)**	**1,031**	**-**	**-**	**(9,501)**
FRS 9 First time adoption effect on reclassification of revaluation reserve, note 4	**-**	**-**	**5,410**	**(5,410)**	**-**	**-**	**-**
RESTATED BALANCE AS OF JANUARY 1, 2018	**113,154**	**79,444**	**199,937**	**22,765**	**-**	**36,814**	**452,114**
Convertible bonds	**-**	**-**	**-**	**-**	**45,002**	**-**	**45,002**
Net profit for the year ended December 31, 2018	**-**	**-**	**-**	**-**	**-**	**33,770**	**33,770**
Other comprehen-sive income for the year ended Decem-ber 31, 2018, net of taxes	**-**	**-**	**-**	**(3,598)**			**(3,598)**
Total comprehensive income for the year ended December 31, 2018, net of taxes	**-**	**-**	**-**	**(3,598)**	**-**	**33,770**	**30,172**

Net profit for the year ended December 31, 2017, transferred to retained earnings	-	-	**36,814**	-	-	**(36,814)**	-
Other movements	-	-	**20**	-	-	-	**20**
BALANCE AS OF DECEMBER 31, 2018	113,154	79,444	236,771	19,167	45,002	33,770	527,308

These separate financial statements have been approved by the Management Board and signed on behalf of Central Cooperative Bank AD on April 25, 2019 by:

Georgi Kostov
Executive
Director

Sava Stoynov
Executive
Director

Tihomir Atanasov
Procurator

Yordan Hristov
Chief Accountant

Signed according to Auditors' Report dated July 1, 2019:

Deloitte Audit OOD, audit company

Emil Badov,
Proxy of the
Statutory Manager Desislava Dinkova
Registered Auditor, responsible for the audit

Grant Thornton OOD, audit company

Zornitza Djambazka,
Registered Auditor,
responsible for the audit

Mariy Apostolov
Statutory Manager

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.

The Bank's operations are conducted through a head-office located in Sofia, Bulgaria, 47 branches and 261 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, 2018. 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.

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

These financial statements are separate financial statements. The Bank also prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), developed and published by the International Accounting Standards Board (IASB) and approved by the EU, which will be published after the date of issuance of these separate financial statements.

The separate financial statements are prepared under the historical cost, modified with the fair value of financial assets and liabilities at fair value in profit or loss, and at fair value in other comprehensive income. All other financial assets and liabilities are measured 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 and new interpretation issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for the current reporting period:

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

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

- Amendments to IFRS 2 Share-based Payment – Classification and Measurement of Share-based Payment Transactions – adopted by the EU on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018);

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

- Amendments to IFRS 15 Revenue from Contracts with Customers – Clarifications to IFRS 15 Revenue

from Contracts with Customers – adopted by the EU on 31 October 2017 (effective for annual periods beginning on or after 1 January 2018);
- Amendments to IAS 40 Investment Property – Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018);

- Amendments to IFRS 1 and IAS 28 due to 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 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018);

- IFRIC 22 Foreign Currency Transactions and Advance Consideration – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

The adoption of these amendments to the existing standards has not led to any material changes in the separate financial statements of the Bank, with the exception of the effects of IFRS 9 Financial Instruments.

As of January 1, 2018, the Bank has adopted the new accounting standard IFRS 9 Financial Instruments. The Bank performed activities in relation to the application of the standard:

- Classification and measurement of financial instruments in accordance with the criteria of the new standard IFRS 9;

- Determining impairment losses on the basis of prepared models and methodologies in accordance with the requirement of IFRS 9.

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

Classification and measurement of portfolios, consisting of financial assets of initial application of IFRS 9

	IAS 39 - classification	IAS 39 – measurement	IFRS 9 – Business model	IFRS 9 – Test of cash flows of the instrument	IFRS 9 - measurement
Portfolios of financial assets	**31.12.2017**	**31.12.2017**	**01.01.2018**	**01.01.2018**	**01.01.2018**
Cash and cash equivalents at Central Bank	**Loans and receivables**	**Amortized cost**	**Collecting contractual cash flows**	**Contractual payments meet the definitions of principal and interest**	**Amortized cost**
Loans and advances to banks	**Loans and receivables**	**Amortized cost**	**Collecting contractual cash flows**	**Contractual payments meet the definitions of principal and interest**	**Amortized cost**

Repurchase agreements	**Loans and receivables**	**Amortized cost**	**Collecting contractual cash flows**	**Contractual payments meet the definitions of principal and interest**	**Amortized cost**
Loans and advances to customers	**Loans and receivables**	**Amortized cost**	**Collecting contractual cash flows**	**Contractual payments meet the definitions of principal and interest**	**Amortized cost**
Debt securities					
1. Investment portfolio	**Financial assets available for sale**	**Fair value through other comprehensive income**	**Collecting contractual cash flows and sale**	**Contractual payments meet the definitions of principal and interest**	**Fair value through other comprehensive income**
2. Trade portfolio	**Fair value through profit or loss**	**Fair value through profit or loss**	**Collecting contractual cash flows and sale**	**Contractual payments meet the definitions of principal and interest**	**Fair value through other comprehensive income**
			Financial assets held for trading	**Contractual payments meet the definitions of principal and interest**	**Fair value through other comprehensive income**
Equity securities					
1. Investment portfolio, incl.	**Financial assets available for sale**	**Fair value through other comprehensive income**	**Other business model**	**Not applicable**	**Fair value through profit or loss**
	Financial assets available for sale	**Acquisition cost**	**Other business model**	**Not applicable**	**Fair value through other comprehensive income**
2. Trade portfolio, incl.	**Fair value through profit or loss**	**Fair value through profit or loss**	**Other business model**	**Not applicable**	**Fair value through profit or loss**
	Fair value through profit or loss	**Acquisition cost**	**Other business model**	**Not applicable**	**Fair value through profit or loss**
Derivatives	**Fair value through profit or loss**	**Fair value through profit or loss**	**Financial assets held for trading**	**Not applicable**	**Fair value through profit or loss**

In accordance with the Financial Instruments Reporting Policy, the Bank has summarized all its current portfolios, consisting of financial asset measurement of business model and Cash flow test performing.

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

The classification of the portfolios of the financial assets of the Bank has been performed on the basis of the portfolios of the Bank as of December 31, 2017 and they consist of:

Cash and balances with the Central Bank

TThis portfolio includes cash and cash balances at accounts in the Central Bank (BNB). In accordance with IAS 39, the Bank classifies cash and cash balances with the Central Bank in the category loans and receivables reported at amortized cost.

Due to the short-term nature of these instruments, the Bank recognizes cash and cash balances with the Central Bank at their contractual amount. Similarly, to trade receivables, cash and cash balances with the Central Bank include a single cash flow, which is repayment of principal.

In this relation and in view of the future strategy of the Bank, the business model of cash and cash balances at Central Bank under IFRS 9 is “business model held for the objective of collecting contractual cash flows”. The Bank classifies in accordance with IFRS 9 cash and cash balances at Central Bank which are subsequently measured at amortized cost.

Loans and advances to banks

This portfolio includes all current accounts in other banks, and placements, loans and advances to other banks in the form of interbank placements. Under IAS 39, the Bank classifies Loans and advances to banks in the category loans and receivables at amortized cost.

The Bank holds Loans and advances to banks, to collect contractual cash flows. In this relation and taking into consideration the future strategy of the Bank, the business model of loans and advances to banks in accordance with IFRS 9 is “a business model whose objective is to hold assets in order to collect contractual cash flows”. Loans and advances to banks include cash flows that are solely payments of principal and interest. Subsequent to the initial recognition, the Bank classifies under IFRS 9 loans and advances to banks at amortized cost.

Repurchase agreements

The Bank places cash through agreements for repurchase of securities that are secured by the value of the securities. Under IAS 39, the Bank classifies Repurchase agreements in the category loans and receivables reported at amortized cost. The Bank holds the financing to collect contractual cash flows. In this relation and taking into consideration the future strategy of the Bank, the business model Repurchase agreements under IFRS 9 is “a business model whose objective is to hold assets in order to collect contractual cash flows”. The repurchase agreements include cash flows that are solely payments of principal and interest. Subsequent to the initial recognition, the Bank classifies under IFRS 9 the Repurchase agreements at amortized cost.

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

Loans and advances to customers

As of December 31, 2017 under the requirements of IAS 39, the Bank classifies all non-derivative financial assets with fixed or determinable payments in category "Loans and receivables" and reports them at amortized cost with the exception of:

- Financial assets which the Bank classifies at fair value through profit or loss;
- Financial assets which the Bank classifies as available for sale;
- Financial assets which the Bank classifies as held to maturity.

The objective of the Bank is to extend loans and to realize cash flows by collecting payments over the lifetime of the instruments. According to the strategy of the Bank, the model of loans and advances to customers under IFRS 9 is "a business model whose objective is to hold assets in order to collect contractual cash flows". Loans and advances include cash flows that are solely payments of principal and interest. Subsequently, the Bank classifies loans and advances under IFRS 9 at amortized cost.

DEBT SECURITIES

1. Investment portfolio

1.1. Strategy as of December 31, 2017 under IAS 39

As of December 31, 2017, the Bank holds a portfolio of debt instruments consisting of government and corporate securities. The portfolio is classified under IAS 39 as Financial assets available for sale and is measured at fair value through other comprehensive income. The main objective of the Bank for this portfolio is to hold it in a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

1.2. Strategy after January 1, 2018 under IFRS 9 for the available portfolio as of December 31, 2017

The future strategy of the Bank is to continue to manage the portfolio similarly to the previous strategy. Regarding this portfolio the Bank has adopted to apply a business model, whose objective is achieved by both collecting contractual cash flows and selling financial assets. Government and corporate securities in this portfolio include cash flows that are solely payments of principal and interest. Subsequently, the Bank classifies these financial instruments under IFRS 9 as at fair value through other comprehensive income.

1.2.1. New portfolio under IFRS 9 after January 1, 2018

The Bank has developed a strategy for the formation of a new portfolio of debt instruments. The main objective of the Bank for this portfolio is to solely collect contractual cash flows. Considering the future strategy of the Bank, under IFRS 9 this portfolio of financial instruments will be included in "A business model whose objective is to hold assets in order to collect contractual cash flows". This portfolio of instruments includes cash flows, which are solely payments of principal and interest. Subsequently, the Bank classifies under IFRS 9 this portfolio as at amortized cost.

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

2. Trade portfolio

2.1. Strategy as of December 31, 2017 under IAS 39

As of December 31, 2017, the Bank holds a portfolio consisting of government and corporate securities. Under IAS 39, the portfolio is classified as held for trading and is reported at fair value through profit or loss. The financial assets held for trading have been acquired for the objective of gaining profit, as a result of short-term fluctuations in the prices or dealer's margin, for which there is a probability of realizing profit in the short term..

2.2. Strategy after January 1, 2018 under IFRS 9 for the available portfolio as of December 31, 2017

In the future the Bank will continue to manage actively this portfolio of securities by making purchase s and sales. Regarding this portfolio, the Bank will apply a business model for measurement at fair value through profit or loss and the Bank will manage the financial assets with the objective of realizing cash flows through sale of assets. The Bank has taken a decision on the basis of the fair values of the assets and will manage the assets to realize these fair values. Subsequently, the Bank classifies under IFRS 9 this portfolio at fair value through profit or loss.

EQUITY SECURITIES

Strategy as of December 31, 2017 under IAS 39

1. Investment portfolio

As of December 31, 2017, the Bank holds portfolio of securities, which according to IAS 39 are classified as Financial assets available for sale. This portfolio is measured at fair value with the exception of the securities in it, which are not quoted on active market/or no reliable measurement models can be applied, which are measured at cost. The changes in the fair values of this portfolio are reported in other comprehensive income.

2. Current portfolio

As of December 31, 2017, the Bank holds portfolio of securities, which according to IAS 39 are classified as held for trading and are measured at fair value through profit or loss. The financial assets held for trading are acquired for the objective of gaining profit as a result of short-term fluctuations in the prices and dealer's margin, for which there is a probability of realizing profit in the short term.
The changes in the fair values of this portfolio are reported in profit or loss.

Strategy after January 1, 2018

The investments in equity instruments do not meet the criteria for "solely payments of principal and interest" ("test of the characteristics of the cash flows") and accordingly they cannot be classified in portfolios measured at amortized cost. They should be measured at fair value in profit or loss. As a result, there is no requirement for measurement of the business model.

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

2. Current portfolio (continued)

At initial recognition, however, the Bank may elect irrevocably to present subsequent changes in fair value in other comprehensive income for specific investments in equity instruments, that are not held for trading, which otherwise would be measured at fair value through profit or loss. This classification is performed separately for each asset (instrument by instrument).

The Bank classifies its financial assets – equity investments in the following portfolios:

1. Equity investments held for trading at fair value through profit or loss

Equity investments held for trading are acquired for the objective of gaining profit as a result of short-term fluctuations in the prices or dealer's margin, for which there is a probability of realizing profit in the short term. Changes in fair values of this portfolio are reported in profit or loss. The Bank manages this portfolio for the objective of realizing cash flows through active sale of assets. The Bank takes decisions on the basis of the fair values of the assets and manages assets to realize these fair values.

2. Equity investments, mandatorily measured at fair value through profit or loss

The Bank manages this portfolio for the objective of realizing cash flows through sale of assets. Equity investments in this portfolio are not intended for active sale, which is why sales are expected to be less than the “held for trading” portfolio. The Bank takes decisions on the basis of the fair values of the assets and manages the assets in order to realize these fair values. Changes in the fair value of this portfolio are reported in profit or loss.

3. Equity investments at fair value through other comprehensive income

The Bank makes an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.
The purpose of this portfolio is for the Bank to analyse the changes in the fair value and through sale to realize these changes and to collect the respective cash flows. Equity investments in this portfolio are acquired for investment purposes and the Bank has the intention to retain the assets for a relatively long period of time. In this period, the Bank analyses the changes of the fair values and realizes these changes through sales. The sales from this portfolio are expected to be less than the portfolio “held for trading” and portfolio “mandatorily measured at fair value”. The changes in the fair value of this portfolio are reported in other comprehensive income.

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

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:

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

- Amendments to IFRS 9 Financial Instruments – Prepayment Features with Negative Compensation – adopted by the EU on 22 March 2018 (effective for annual periods beginning on or after 1 January 2019);
- IFRIC 23 Uncertainty over Income Tax Treatments – adopted by the EU on 23 October 2018 (effective for annual periods beginning on or after 1 January 2019);

- Amendments to IAS 19 “Employee Benefits” – Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019) – adopted by the EU on 13 March 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 1 January 2019) – adopted by the EU on 8 February 2019;

- Amendments to various standards “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 1 January 2019 – adopted by the EU on 14 March 2019.

The Bank has elected not to adopt these new standards and amendments to existing standards in advance of their effective dates. The Bank anticipates that the adoption of these standards and amendments to existing standards will have no material impact on the financial statements of the Bank in the period of initial application, with the exception of the effects of IFRS 16 “Leases”.

As of January 1, 2019 IFRS 16 “Leases” becomes effective, which changes the mechanism and rules for reporting of operating lease for lessees.

IFRS 16 envisages a new definition of lease. The Bank will take advantage of the practical expedient in the transition to IFRS 16 not to reassess whether a contract is a lease or contains a lease. Accordingly, the determination of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied for those lease contracts introduced or changed before 1 January 2019.

The Bank has elected the modified retrospective application (cumulative catch up approach) of IFRS 16 in accordance with IFRS 16:B5(b). Therefore, the Bank will not restate its comparative data, but it will recognize the cumulative effect of the adoption of IFRS 16 as an adjustment to equity (retained earnings) as of the date of initial application.

In general, IFRS 16 introduces a new definition for lease, which is defined as a contract that conveys to the customer (‘lessee’) the right to use an asset for a period of time in exchange for consideration. With regard to the lessee, the new accounting standard requires that accounting treatment be based on the recognition of all asset types of assets representing the “right of use” of the asset in question, while recognizing a liability reflecting future payments under the lease. Upon initial recognition, the asset is accounted for at cost, including: the amount of the initial estimate of the liability representing the present value of future lease payments; lease payments made on or before the start date minus the incentives received on the lease; the initial direct costs incurred by the lessee and an estimate of the costs that the lessee will make for the dismantling and relocation of the underlying asset. On the date of commencement, the lessee estimates the lease liability at the present value of the lease payments that were not paid at that date. Lease payments are discounted at the interest rate included in the lease if that percentage can be directly determined. If this percentage cannot be directly determined, the lessee uses the lessee’s differential interest rate.

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

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

Subsequent measurement of the asset is based on the requirements of IFRS 16. Subsequent measurement of the formed liability is based on the amortization of the lease liability based on the effective interest rate and the decrease of the lease liabilities with the payments due. The assets formed are treated similarly to other non-financial assets and are amortized, unless they are classified as investment properties at fair value.

In relation to the application of this new accounting model for the accounting of the leasing contracts to the applied accounting model in accordance with IAS 17, the Bank carried out an analysis of the existing contractual relationships as of January 1, 2019 to identify those relationships that fall within the scope of the new definition of “lease”. As a result of this analysis, the Bank determined the lease contracts for which the Bank should take actions to adopt procedures to estimate the impact of the application of the new standard. In this process, the Bank took a decision to take advantage of the opportunities offered by the new exemption from the application of the requirements of the new standard to short-term leases of less than 12 months and leases relating to low value assets. On the basis of the procedures performed by the Bank, the estimated approximate effects as of January 1, 2019 of the application of the new standard can be presented in the following way: increase of assets: assets with right of use approximately BGN 25 278 thousand and increase of liabilities with formed lease liabilities approximately BGN 25 278 thousand. In 2019, the expenses for depreciation and interest expense will increase, whereas the administrative and marketing expenses will decrease and the net effect on the item Operating costs is not expected to be significant.

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 interpretation, which were not endorsed for use in EU as at the date of publication of financial statements (the effective dates stated below are for IFRS in full):

- 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 1 January 2021);

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

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

- Amendments to IFRS 3 Business Combinations – Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period);

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material (effective for annual periods beginning on or after 1 January 2020);
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

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. SIGNIFICANT ACCOUNTING POLICIES

3.2.1. Interest income and expenses

The interest income and interest expenses are recognized by taking into account the effective income/effective interest rate of the respective financial asset or liability in all its material aspects. Interest income and interest expense include amortization of discount, premium and other differences between the initial book value and the value at maturity of interest-bearing instruments calculated by the effective interest rate. The effective interest rate is the rate that exactly discounts the estimated future cash flows of the financial instrument over its expected life, or if applicable, for a shorter period, to the net book value of the financial asset or financial liability. The future cash flows are estimated by taking into account the contractual terms of the instrument. The calculation of the effective interest rate includes all fees and consideration paid to or received between the parties to the contract that are directly related to the specific agreement, transaction costs and all other premiums or rebates.

The interest income and interest expenses presented in the statement of profit or loss and other comprehensive income, include:

- interest from financial assets and liabilities at amortized cost calculated on the basis of the effective interest rate;
- interest from financial assets at fair value through other comprehensive income (FVTOCI), calculated on the basis of the effective interest rate;
- interest from financial assets at fair value through profit or loss.

The Bank ceases to accrue interest in the statement of financial position and does not report interest income on receivables at the moment when the respective receivable has become "court receivable". The receivables of the Bank on interest receivables, arising after the date on which the receivable has become "court receivable" are reported in the statement of financial position and are recognized as interest income when they are repaid.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.2. Fees and commissions (continued)

All fees and commissions that are not an integral part of the effective interest rate of the financial instrument are accounted for in accordance with IFRS 15.
The following five-step model is used to determine whether and how revenue should be recognized in accordance with IFRS 15 Revenue from contracts with customers:

1 Identify the contract with a customer;
2 Identify all the individual performance obligations within the contract;
3 Determine the transaction price;
4 Allocate the price to the performance obligations;
5 Recognize revenue as the performance obligations are fulfilled.

Revenue is recognized over time when or until the Bank fulfils its obligations when it transfers the promised services to its customers.
The Bank recognizes as contract liabilities consideration received for unfulfilled performance obligations and presents them as other liabilities in the statement for financial position. Similarly, if the Bank fulfils a performance obligation before it receives the consideration it recognizes in the statement of financial position either a contract asset or receivable depending on whether or not something other than a certain time to obtain the consideration is required.

In connection with the adoption of IFRS 15 Revenue from contracts with customers as of 1 January 2018, the Bank carried out an analysis of the types of existing contracts with customers and as a result of the analysis, it did not establish significant effects of the application of IFRS 15 in the financial statements of the Bank.

Fees and commissions consist mainly of fees for bank transfers in Bulgaria and abroad, fees for servicing accounts, fees related to loan exposures, servicing off- balance sheet commitments and revenue as disclosed in note 25.

Commissions arising from foreign currency transactions are reported in the statement of profit or loss and other 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 applying the effective interest method.

3.2.3. 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 profit or loss and other 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 profit or loss for the period, in which they arise.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.3. Foreign currency transactions (continued)

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, 2018 and 2017 are as follows:

December 31, 2018	December 31, 2017
USD 1 = BGN 1.7081	USD 1 = BNG 1.63081

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

3.2.4. Dividend income

Dividend is recognized by the Bank in profit or loss only when:

a) the right of the Bank to receive payment of a dividend is established;
b) there is probability that the Bank will receive economic benefit related to the dividend;
c) the amount of the dividend may be reliably measured.

3.2.5. Financial assets and liabilities

Reporting before December 31, 2017

Financial assets at fair value through profit or loss 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/.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.5. Financial assets and liabilities (continued)

Initial measurement

At initial recognition of financial assets classified at fair value through profit or loss, they are measured at fair value. All expenses related directly to the acquisition of the financial asset are reported as current.

Initially financial assets, other than financial assets at fair value through profit or loss, are measured 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

Subsequent measurement

Subsequent to the initial recognition, financial assets at fair value through profit or loss, are measured at fair value. Fair value is determined on the basis of quoted prices on an active market. The changes in their fair value are reported as current financial income or current financial expense in the period when they arise.

Subsequent to initial recognition, financial assets available for sale 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 changes in their fair value is recognized as other comprehensive income/loss and is accumulated as an increase or decrease of revaluation reserve in equity. 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.

After initial recognition, financial assets, held to 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 principal, 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.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.5. Financial assets and liabilities (continued)

Derecognition

The Bank derecognizes a financial asset when the contractual rights for the cash flows for this financial asset have expired; or the Bank transfers the financial asset and the transfer meets the derecognition requirements.

The Bank derecognizes a financial liability (or part of the financial liability) from its statement of financial position when it has been settled - i.e. when the obligation, indicated in the contract has been fulfilled, cancelled or has expired.

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;
- 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 profit or loss 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.

3. ACCOUNTING POLICY (CONTINUED)

3.2. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

3.2.5. Impairment for uncollectibility (continued)

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 profit or loss 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.

The Bank has adopted a methodology for the calculation of allowances for impairment of loans based on IFRS. 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. For 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.

Reporting after January 1, 2018

Initial recognition of financial instruments

Initially financial assets and financial liabilities are recognized in the statement of financial position of the Bank, when and only when the Bank becomes a party to the contractual terms of the instrument. Initial accounting is based on the settlement date.

3. ACCOUNTING POLICY (CONTINUED)

3.2. FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

3.2.5. Impairment for uncollectibility (continued)

Classification of financial instruments

Financial assets

The Bank classifies the financial assets – debt instruments at amortized cost, at fair value through other comprehensive income or fair value through profit or loss on the basis of two conditions:

a) business model for managing the financial assets; and
b) contractual cash flow characteristics of the financial assets.

Defining the business model for the management of the financial assets

The business model refers to the way in which the Bank manages its financial assets for generating cash flows, i.e. the business model of the Bank determines whether the cash flows will be generated for collecting contractual cash flows, sale of financial assets or for both.

The business models applied by the Bank are as follows:

- business model whose objective is to collect the contractual cash flows;
- business model whose objective is both to collect contractual cash flows and to sell financial assets;
- other business model of fair value measurement through profit or loss, through which the Bank manages the financial assets for the objective of realizing cash flows through sale of assets.

Characteristics of the contractual cash flows of the financial asset

Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding

The Bank classifies a financial asset based on the characteristics of its contractual cash flows.

The contractual cash flows that represent solely payments of principal and interest on the principal amount outstanding, correspond to the basic lending agreement. In the basic lending agreement, the main elements that determine the interest are the time value of money and the credit risk. Interest may also include consideration for assuming other basic risks – liquidity risk, price of borrowings and amounts for covering administrative expenses for the loan, related to holding the financial asset for a certain period of time and profit margin.

Financial liabilities

The Bank classifies all financial liabilities as subsequently measured at amortised cost, with the exception of the derivative liabilities, which are measured at fair value in profit or loss.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.5. Financial assets and liabilities (continued)

Initial recognition of financial instruments

Except for trade receivables, upon initial recognition, the Bank measures a financial asset or financial liability at its fair value, plus or minus, in the case of a financial asset or financial liability not measured at fair value through profit or loss, transaction costs that are directly related to the acquisition or issue of the financial asset or financial liability.

The transaction costs included in the acquisition cost are fees, commissions and other fees paid to agents, brokers, consultants, dealers and others directly involved in the transaction, taxes, fees, permits and other paid at exchanges and regulatory authorities. All other costs are reported as current for the period in which they arise. The cost of acquisition does not include interest in the financial asset that was not paid at the acquisition date. They are reported as receivable.

Subsequent designation of financial instruments

Financial assets

After initial recognition, classification and measurement the Bank measures a financial asset at: a) amortized cost; b) fair value through other comprehensive income; or c) fair value through profit or loss.

The Bank applies the requirements for impairment of IFRS 9 regarding debt financial assets that are measured at amortized cost and for debt financial assets at fair value through other comprehensive income.

Financial assets at amortized cost

The Bank measures a financial asset – debt instrument at amortized cost, if the following two conditions are met: a) a financial asset is held within a business model whose objective is to collect the contractual cash flows; and b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortized cost is the asset‘s original carrying amount minus principal repayments plus or minus the accumulated amortization of the difference between that initial value and the maturity value calculated using the effective interest method and adjusted for each loss allowance.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating and recognizing interest expense and interest income in profit or loss over the relevant period.

For the purpose of determining the expected credit losses, the Bank groups the financial assets at the debtor level in one of the following stages:

- Stage 1 – which comprises newly originated financial assets as well as assets whose credit risk has not significantly increased since initial recognition;
- Stage 2 – which comprises financial assets whose credit risk has significantly increased since initial recognition

• Stage 3 – which comprises financial assets at default.

3. ACCOUNTING POLICY (CONTINUED

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.5. Financial assets and liabilities (continued)

Credit risk on a financial asset can be defined as low on the basis of an external credit rating and the bank's ability to meet its obligations in the short term, and any adverse changes to economic and business conditions in the long run could, but are not necessarily reduce the debtor's ability to perform his duties. Exposures with no significant deterioration in credit quality after their initial recognition include exposures where the delay of agreed payments are up to 30 days and no significant credit risk increases are identified.

The estimate for determining exposures with significant increase of credit risk is based on a combination of automatic and other internally determined indicators. The Bank has assumed that there is a significant increase in credit risk on a financial asset when the delay of the agreed payments are between 31 and 90 days and when concessions are granted to a debtor due to financial difficulties and these rebates do not lead to a significant reduction of the financial obligation or the debtor is in a period of testing after the bank has granted rebates /exposures with restructuring measures/. The estimate for determining exposures with significant increase of credit risk includes other indicators such as, for example, any changes in the debtor's financial position that are expected to lead to a significant change in his ability to perform his duties; established unfavorable data and market information related to a debtor that significantly increase credit risk; change in the Bank's approach to exposure management, etc.

For defaulted exposures, the Bank uses the guidelines of Regulation (EU) No 575/2013. The Bank has assumed that a default has occurred in respect of a particular debtor where the overdue payment is over 90 days and / or it is considered that the debtor is unlikely to fully repay its credit obligations without taking enforcement action of the collateral. All financial assets classified as non-performing exposures under regulatory requirements are considered to be non-performing financial assets.

The review of the indicators and the assessment of the exposures is performed on a monthly basis, under the control of the Risk Management Directorates of the Bank's Central Unit, and the respective decisions are taken by the Bank's management.

For financial assets in Stage 1 the 12-month expected credit loss is applied, while for financial assets in Stage 2 – the full lifetime expected credit loss of the financial asset is applied. Financial assets in Stage 3 are assets that are impaired as of the reporting date.

For the purpose of determining the impairment of financial assets, the Bank applies models of calculating the expected credit losses on collective or individual basis. The impairment models for individual measurement of financial assets are applied for debt financial instruments such as debt securities, bank balances and deposits, as well as for exposures, representing "Project financing" or exposures with unique characteristics, regardless of their amount. Impairment models for individually measured exposures, are based on discounted cash flows and reflect the different scenarios of expected cash flows, including available reasonable and supportable information without undue cost or effort, which concerns future events /including macroeconomic forecasts/. For the purpose of determining the impairment of the exposure at default /Stage 3/ or credit – impaired financial assets, the Bank applies a model for individual impairment of assets above a certain amount.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.5. Financial assets and liabilities (continued)

The impairment model for collectively measured financial assets is based on determining amounts for the probability of default /PD/ and for the loss given default for each collectively measured asset, by applying amortization through the effective interest rate /EIR/ when calculating the exposure at default /EAD/. The impairment models of the financial assets collectively measured are applied for debt securities, bank balances and deposits, repurchase agreements and exposures as a result of the Banks's loan activity – loans and off-balance exposures of individuals and legal entities. The models include available reasonable and supportable information, accessible without undue costs or efforts, for external credit rating of the counterparties, as well as 3–year scenarios for the macroeconomic development of the state, prepared by external sources /MF, BNB, NSI, WB, IMF/. The macroeconomic indicators used by the Bank are: growth of the gross domestic product /GDP/, harmonized consumer price index /HCPI/, Level of unemployment and index of prices of apartments. The Bank updates the values of the forecast indicators used in its model once per year, when the 3-year forecast data is published and disclosed by the respective institutions.

The Bank recognizes in profit or loss – the gain or loss from impairment, the amount of the expected credit losses (or reversal), arising in the period, measured by the difference between the credit loss adjustment as of the date of the review or prior review date. The loss allowance for expected credit losses is presented as a decrease of the carrying amount of the financial asset in the statement of financial position.

Financial assets at fair value through other comprehensive income

Debt instruments

The Bank designates a debt financial asset at fair value through other comprehensive income, if the following conditions are met:

a) the financial asset is held within a business model whose objective is to collect the contractual cash flows and for selling financial assets, and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Gain or loss on a debt financial asset at fair value through other comprehensive income is recognized by the Bank in other comprehensive income, with the exception of gains and losses on impairment, gains and losses on foreign currency operations, interest income until the moment of derecognition or reclassification of a financial asset.
The Bank complies with the requirements for impairment of financial assets that are designated at fair value through other comprehensive income.

The Bank recognizes in profit or loss – the gain or loss from impairment, the amount of the expected credit losses (or reversal), by providing a loss allowance, which is recognized in other comprehensive income and does not decrease the carrying amount of the financial asset in the statement of financial position.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.5. Financial assets and liabilities (continued)

Equity instruments

The Bank may make an irrevocable election at initial recognition for particular investments that are not held for trading, in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income. This measurement is performed for each asset (for each instrument). Equity instruments are not subject to review for impairment.

Financial assets at fair value through profit or loss

The Bank measures the financial assets at fair value through profit or loss, if they are not held within a business model, whose objective is to collect the contractual cash flows or within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments. This category is also applied to instruments that do not meet the definition of principal and interest. Gains and losses on financial assets at fair value through profit or loss are recognized by the Bank in profit or loss.

Reclassification of financial instruments

The Bank reclassifies all affected financial assets only when it changes its business model for financial asset management. The Bank does not reclassify financial liabilities. The Bank reclassifies financial assets prospectively. The Bank does not restate any gains or losses recognized previously (including gain and loss on impairment losses) or interest.

Modification of contractual cash flows of a financial asset

Modification of a contractual cash flow of a financial asset occurs when the contractual cash flows of a financial asset are renegotiated or otherwise altered and those amendments have not been contracted at the initial recognition of the financial asset. When determining the existence of a modification of a financial asset, the factors for its occurrence are analyzed, as well as the accounting reflection of the effect of modification. When the contractual cash flows of a financial asset are renegotiated or modified and the renegotiation or modification does not result in the write-off of that financial asset in accordance with the policy of the Bank, the entity recalculates the gross carrying amount of the financial asset and recognizes profit or loss from modifying the gain or loss.

Derecognition of financial instruments

The Bank derecognizes a financial asset when the contractual rights for the cash flows for this financial asset have expired; or the Bank transfers the financial asset and the transfer meets the derecognition requirements.

The Bank derecognizes a financial liability (or part of the financial liability) from its statement of financial position when it has been settled – i.e. when the obligation, indicated in the contract has been fulfilled, cancelled or has expired.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.6. 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 according to IFRS 9.

3.2.7. Receivables and liabilities under repurchase agreements

Receivables and liabilities under repurchase agreements are recognized as financial assets and liabilities at amount, 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.

3.2.8. 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.

3.2.9. 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.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.9. Fair value of financial assets and liabilities

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 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.

3.2.10. Set-off

The financial assets and liabilities are set-off, 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.

3.2.11. Retirement and short-term employee benefits

The Bank recognizes short-term payables on compensated leaves arising from unused paid annual leave in cases where they are expected to be used within 12 months of the date of the reporting period in which the employees worked for these leaves. Short-term payables to employees include wages and social security contributions.

According to the requirements of the Labour Code upon termination of the employment, after the employee has acquired the right to a retirement pension, the Bank is obliged to pay him compensation up to six gross salaries. The Bank has accrued a legal obligation to pay benefits to employees upon retirement in accordance with the requirements of IAS 19 Employee Benefits, assessed once a year at the date of preparation of the financial statements with the help of a licensed actuary in order to assess future payables for pensions due. The Bank has decided to report in the financial statements the calculated effect for a 10-year period.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.11. Retirement and short-term employee benefits (continued)

The period after the 10-th year is very remote in time, therefore there is considerable uncertainty about the realization of assumptions about future events and circumstances, which gives rise to insufficient reliability of the effect determined for this period. The financial assumptions used by the Bank are applied in forecasting the development of cash flows over time and affect the amount of the future liability and the determination of its present value by setting interest rates for discounting and increasing benefits. The evaluation also uses demographic assumptions about probability of withdrawal and mortality.

Actuarial gains or losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss.

Net interest expense related to pension liabilities is included in the statement of comprehensive income under “Interest expense”. Expenses for work length are included in “Employee benefits”. Short-term employee benefits, including payable leaves, are included in current liabilities under “Other payables” at an undiscounted value that the Bank expects to pay.

3.2.12. Provisions for liabilities

The amount of provisions for 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 profit or loss for the respective period.

3.2.13. 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 profit or loss for the period. The Bank does not apply hedge accounting under IFRS 9.

3.2.14. 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 amortization 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:

3. ACCOUNTING POLICY (CONTINUED)

3.2.SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.14. Property, plant and equipment and intangible assets (continued)

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.

3.2.15. Accounting of operating lease agreements

Bank as a lessee

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.

Bank as a lessor

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/amortised in accordance with the depreciation policy adopted by the Bank with regards to such assets. The income from operating lease agreements is recognized by the Bank directly as income in profit or loss for the respective reporting period.

3.2.16. 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. The acquisition cost of assets acquired from collateral is the amount of all direct costs of acquiring the assets and other costs incurred in bringing them to their present location and condition. 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/amortization is accrued for these assets.

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.17. Investment property

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.

3.2.18. Income tax

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.
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 profit or loss and other comprehensive income, is also recognized in the statement of profit or loss and other 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).

3. ACCOUNTING POLICY (CONTINUED)

3.2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.2.19. Operating segments

The Bank does not disclose information by operating segments, because it does not prepare such information. 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".

3.3. 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;

• Credit losses from impairment of financial instruments;

• Useful life of the depreciable assets.

When the fair value of financial assets in the statement of financial position cannot be determined on the basis of an active market, it is determined using different valuation methods (pricing models) that include mathematical models. Information on the fair values of the financial statements is presented in the note 36.

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 35.

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 2019 and 2018, 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. EFFECT OF CHANGE IN THE ACCOUNTING POLICY

As disclosed in note 2, IFRS 9 has been applied without restating comparative data. Restatements and adjustments resulting from these changes in the accounting policy of the Bank are not reflected in the statement of financial position as of December 31, 2017 but are recognized in the statement of financial position as of January 1, 2018.

The following table presents the recognized adjustments for each item. Items that have not been affected by the changes are excluded.

Statement of financial position

	IAS 39					IFRS 9
	Category	Amount	Reclassification	Expected credit losses	Amount	Category
Financial assets						
Cash and balances with the Central Bank	Loans and receivables	1,797,053	-	-	1,797,053	Amortized cost
Placements with and advances to banks	Loans and receivables	281,016	-	(105)	280,911	Amortized cost
Receivables under repurchase agreements, net	Loans and receivables	196,910	-	(23)	196,887	Amortized cost
Financial assets at fair value through profit or loss	Fair value through profit or loss					
- debt		13,057	(13,056)	-	1	Fair value through profit or loss
- equity		67,693	70,829	-	138,522	Fair value through profit or loss
- derivatives		1,025	-	-	1,025	Fair value through profit or loss
Loans and advances to customers	Loans and receivables	2,214,894	-	(10,021)	2,204,873	Amortized cost
Financial assets available for sale	Financial assets available for sale					
- debt		509,468	(509,468)	-	-	
- equity		79,850	(79,850)	-	-	
Financial assets at fair value through other comprehensive income	Fair value	-	531,545	-	531,545	Fair value through other comprehensive income
Total financial assets		5,160,966	-	(10,149)	5,150,817	
Other assets		59,009	-	1,171	60,180	
Financial liabilities						
Deposits from banks	Amortized cost	8,434	-	-	8,434	Amortized cost
Amounts owed to other depositors	Amortized cost	4,859,073	-	-	4,859,073	Amortized cost
Issued bonds	Amortized cost	70,235	-	-	70,235	Amortized cost

Provisions	**-**	**-**	**523**	**523**
Total financial liabilities	**4,937,742**	**-**	**523**	**4,938,265**
Equity				
Reserves, including retained earnings	**205,059**	**5,410**	**(10,532)**	**199,937**
Revaluation reserve	**27,144**	**(5,410)**	**1,031**	**22,765**

4. EFFECT OF CHANGE IN THE ACCOUNTING POLICY (CONTINUED)

The following table presents the effect of transition to IFRS on the reserves item, including retained earnings:

Reserves, including retained earnings

Balance as of December 31, 2017	**205,059**
Restatement of the expected credit losses related to the application of IFRS 9:	
Effect of change in the model for determination of expected credit losses for placements with and advances to banks under IFRS 9	**(105)**
Effect of change in the model for determination of expected credit losses for receivables under repurchase agreements under IFRS 9	**(23)**
Effect of change in the model for determination of expected credit losses for loans and advances to customers under IFRS 9	**(10,021)**
Effect of change in the model for determination of expected credit losses for financial assets at fair value through other comprehensive income under IFRS 9	**(1.031)**
Provisions for credit commitments and financial guarantees	**(523)**
Total effect of application of the model of expected credit losses related to the application of IFRS 9	**(11,703)**
Reclassification of revaluation reserve of financial assets available for sale to retained earnings as of January 1, 2018	**5,410**
Tax effect	**1,171**
Opening balance as of January 1, 2018	**199,937**

5. CASH AND BALANCES WITH THE CENTRAL BANK

	As of 31.12.2018	As of 31.12.2017
Cash in hand:		
In BGN	**204,439**	**157,655**
In foreign currency	**79,572**	**71,428**
Cash in transit:		
In BGN	**-**	**1,862**
In foreign currency	**73**	**220**
Cash in Central Bank:		
Current account in BGN	**1,413,633**	**1,564,600**
Current account in foreign currency	**15**	**77**
Reserve guarantee fund RINGS	**339**	**1,211**
TOTAL CASH AND BALANCES WITH THE CENTRAL BANK	1,698,071	1,797,053

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.

6. PLACEMENTS WITH, AND ADVANCES TO BANKS

	As of 31.12.2018	As of 31.12.2017
Term deposits with local banks		
In BGN	**23,000**	**8,000**
In foreign currency	**29,046**	**27,727**
Term deposits with foreign banks in foreign currency	**124,705**	**192,351**

Nostro accounts with local banks		
In BGN	**144**	**152**
In foreign currency	**8**	**5**
Nostro accounts with foreign banks in foreign currency	**49,251**	**56,494**
Impairment loss	**(4,048)**	**(3,713)**
TOTAL PLACEMENTS WITH, AND ADVANCES TO BANKS	**222,106**	**281,016**

7. RECEIVABLES UNDER REPURCHASE AGREEMENTS

As of December 31, 2018, the Bank has signed repurchase agreements at the total amount of BGN 256,806 thousand, including interest receivables. For part of them at the amount of BGN 74,248 thousand thereof the Bank has pledged Bulgarian government securities at approximately the equal value as collateral to secure the receivable. For the remaining amount of BGN 182,558 thousand the Bank has pledged corporate securities at higher value than the value of the granted funds. As of December 31, 2018, an impairment loss of BGN 208 thousand was formed under the repurchase agreement agreements. The maturity of these agreements is between January and June 2019.

As of December 31, 2017, the agreements with repurchase clause amount to BGN 196,910 thousand in total, including interest receivables. As of December 31, 2017, an impairment loss was not formed under the signed repurchase agreements.

8. FINANCIAL ASSETS AT FAIR VALUE IN PROFIT OR LOSS

Financial assets at fair value in profit or loss are as follows:

	As of 31.12.2018	**As of 31.12.2017**
Bulgarian corporate securities	**165,766**	**79,808**
Foreign corporate securities	**35,602**	**-**
Derivatives, held for trading	**56**	**1,025**
Long-term Bulgarian government bonds	**1**	**2**
Foreign government bonds	**-**	**940**
TOTAL FINANCIAL ASSETS AT FAIR VALUE IN PROFIT OR LOSS	**201,425**	**81,775**

Bulgarian corporate securities

As of December 31, 2018, other financial assets measured at fair value in profit or loss consist of corporate securities of non-financial and financial institutions. Bulgarian corporate securities consist of shares in the capital of companies amounting to BGN 60,737 thousand and units in contractual funds amounting to BGN 105,029 thousand.

8. FINANCIAL ASSETS AT FAIR VALUE IN PROFIT OR LOSS (CONTINUED)

Foreign corporate securities consist of shares in the capital of credit institutions amounting to BGN 34,896 thousand and shares in the capital of a non-financial corporation amounting to BGN 706 thousand.

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:

- shares in Bulgarian public commercial companies at the amount of BGN 56,031 thousand, which are part of the equity of Bulgarian public companies traded on the Bulgarian Stock Exchange and presented in the financial statement at fair value;
- owns shares in mutual funds at the amount of BGN 11,661 thousand;
- bonds of two commercial entities at the amount of BGN 12,116 thousand.

Derivatives held for trading
As of December 31, 2018 and 2017 derivatives, held for trading, at the amount of BGN 56 thousand and BGN 1,025 thousand respectively, are carried at fair value and include sale-purchase transactions of foreign currency, forward agreements and currency swaps on the open market.

Long-term Bulgarian government bonds
As of December 31, 2018 and 2017 the long-term bonds amounting to BGN 1 thousand and BGN 2 thousand, respectively, are stated at fair value and include securities in BGN, issued by the Bulgarian government.

Bulgarian securities pledged as a collateral
As of December 31, 2018 and 2017, no government bonds issued by the Bulgarian government are pledged as collateral for servicing budget accounts.

9. LOANS AND ADVANCES TO CUSTOMERS

(a) Analysis by type of clients

	As of 31.12.2018	As of 31.12.2017
Individuals:		
In BGN	776,458	656,450
In foreign currency	59,748	46,944
Enterprises:		
In BGN	763,486	815,324
In foreign currency	771,689	814,397
	2,371,381	2,333,115
Allowance for impairment and uncollectibility	(113,309)	(118,221)
TOTAL LOANS AND ADVANCES TO CUSTOMERS	2,258,072	2,214,894

Loans and advances to customers as of December 31, 2018 include deposits with international financial institutions on margin transactions with derivatives amounting to BGN 9,920 thousand (2017: BGN 15,514 thousand), including result of transactions.

(b) 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 interest index for loans in foreign currency – EURIBOR, LIBOR, plus a margin. The interest rate margin on performing (regular) loans varies from 2% to 5% 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.

10. OTHER ASSETS

	As of 31.12.2018	As of 31.12.2017
Deferred tax assets	389	314
Current tax assets	459	13
Deferred expenses	2,526	2,169
Rights for use of buildings	25,339	33,026
Foreclosed assets	16,992	16,289
Other assets	7,207	7,198
TOTAL OTHER ASSETS	52,912	59,009

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

The rights established in favour of the Bank of use of buildings have arisen in the period 2008-2017, with rights set up for different periods within the range of 115 to 180 months. The carrying amount of the established rights in also includes the expenses incurred for taxes and fees in connection with their establishment. The carrying amount of each right of use is amortized in equal parts for the respective period of use of the buildings. No future minimum payments related to the established real rights for use of buildings.

11. FINANCIAL ASSETS AVAILABLE FOR SALE

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 31.12.2018	As of 31.12.2017
Medium-term Bulgarian government bonds	-	11,816
Long-term Bulgarian government bonds	-	289,688
Foreign government bonds	-	165,111
Equity investments in financial institutions	-	9
Equity investments in non-financial institutions	-	79,841
Bulgarian corporate securities	-	36,258
Foreign corporate securities	-	8,425
Allowance for impairment and uncollectibility	-	(1,830)
TOTAL FINANCIAL ASSETS AVAILABLE FOR SALE	**-**	**589,318**

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.

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

11. FINANCIAL ASSETS AVAILABLE FOR SALE (CONTINUED)

Bulgarian corporate securities
As at December 31, 2017, the Bulgarian corporate securities available for sale represent bonds. None of these investments is 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.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value in other comprehensive income consist of equity and debt securities, including the amount of accrued interest and the discount / premium, based on their original maturity, as follows:

	As of 31.12.2018	As of 31.12.2017
Medium-term Bulgarian government bonds	18,053	-
Long-term Bulgarian government bonds	270,181	-
Foreign government bonds	127,328	-
Equity investments in financial institutions	9	-
Equity investments in non-financial institutions	11,171	-
Bulgarian corporate securities	60,395	-
Foreign corporate securities	15,470	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE IN OTHER COMPREHENSIVE INCOME	502,607	-

As of December 31, 2018, the financial assets at fair value in other comprehensive income formed an impairment loss amounting to BGN 1,706 thousand, which is recognized in equity and has not decreased the carrying amount of assets.

Bulgarian securities pledged as collateral
As of December 31, 2018 government bonds issued by the Bulgarian government amounting to BGN 91,328 thousand are pledged as collateral for servicing budget accounts.
Equity investments in financial institutions
As of December 31, 2018, equity investments in financial institutions are shares in a commercial bank.

Equity investments in non-financial institutions
As of December 31, 2018, equity investments in non-financial institutions are shares in commercial companies.

Bulgarian corporate securities
As of December 31, 2018 Bulgarian corporate securities are bonds. None of these investments is in a subsidiary or associate.

Foreign government bonds
As of December 31, 2018 most of the government bonds are of countries of the European Union.

Foreign corporate securities
As of December 31, 2018, foreign corporate securities represent bonds in foreign commercial companies.

13. DEBT INSTTRUMENTS AT AMORTISED COST

Financial assets at amortized cost consist of Bulgarian government bonds, government bonds of EU countries, Bulgarian corporate bonds and foreign corporate bonds, including the amount of accrued interest and discount / premium on the basis of their original maturity, as follows:

	As of 31.12.2018	As of 31.12.2017
Long-term Bulgarian government bonds	130,776	-
Foreign government bonds	114,406	-
Bulgarian corporate securities	7,964	-
Foreign corporate securities	9,811	-
Allowance for impairment and uncollectibility	(390)	-
TOTAL FINANCIAL ASSETS AT AMORTISED COST	262,567	-

Bulgarian securities pledged as a collateral
As of December 31, 2018 government bonds issued by the Bulgarian government amounting to BGN 130,776 thousand are pledged as collateral for servicing of budget accounts.

14. INVESTMENTS IN SUBSIDIARIES

14.1. 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 Co-operative Bank AD Skopje withdrew 208 of its own privileged shares.

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, Ku-manovo, 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 the agree-ment, a decision has been taken for issuance of a new emission of ordinary shares of Central Coop-erative Bank AD Skopje. The volume of this emission is 233,944 233,944 new ordinary shares with nominal value of EUR 41,2069 or MKD 593,795,205 each.

14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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 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 Decem-ber 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 2012-2018, 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, 2018 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, 2018 and 2017 the Bank's investment in its subsidiary amounts to BGN 46,216 thousand.

14.2. 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 2012-2018 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, 2018 and 2017 the Bank's investment in its subsidiary amounts to BGN 3,200 thousand.

Subsidiary	Incorporated in	Principal activities	31.12.2018 BGN'000	Share holding %	31.12.2017 BGN'000	Share holding %
Central Cooperative Bank AD, Skopje	Republic of Macedonia	Banking activity	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%
AO IC Bank	Russian Federation	Banking activity	-	-	34,917	86.27%
			49,416		84,333	

14. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

14.3. RECLASSIFICATION OF AN INVESTMENT IN A SUBSIDIARY

As of December 31, 2018, the Bank lost control over AO "IC Bank". The control is transferred to a related person. In connection with the loss of control as of 31.12.2018 AO "IC Bank", Russian Federation, is reclassified from a subsidiary of the Bank and is presented in the statement of financial position.
As a result of the reclassification, no effect in profit or loss for the period has been recognised.

15. NON-CURRENT ASSETS

	Land and buil-dings	Equip-ment	Motor vehicles	Fixtures and fittings	Fixed assets in process of acquisi-tion	Other fixed assets	Total
1 January 2017	**74,309**	**39,205**	**7,745**	**26,596**	**4,030**	**26,495**	**178,380**
Acquisitions	**-**	**428**	**-**	**360**	**4,125**	**137**	**5,050**
Transfers	**187**	**1,287**	**458**	**355**	**(2,620)**	**333**	**-**
Disposals	**-**	**(22)**	**(331)**	**(68)**	**(1,479)**	**-**	**(1,900)**
31 December 2017	**74,496**	**40,898**	**7,872**	**27,243**	**4,056**	**26,965**	**181,530**
Acquisitions	**-**	**349**	**2,166**	**512**	**13,354**	**241**	**16,622**
Transfers	**8,368**	**2,508**	**1,542**	**217**	**(13,085)**	**450**	**-**
Disposals	**-**	**(4,181)**	**(440)**	**(416)**	**(413)**	**(20)**	**(5,470)**
31 December 2018	**82,864**	**39,574**	**11,140**	**27,556**	**3,912**	**27,636**	**192,682**
Depreciation	**-**						
1 January 2017	**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 charge for period	**2,670**	**3,206**	**1,076**	**1,337**	**-**	**706**	**8,995**
Depreciation on disposals	**-**	**(4,176)**	**(313)**	**(416)**	**-**	**(20)**	**(4,925)**
31 December 2018	**10,127**	**30,532**	**5,443**	**22,862**	**-**	**25,616**	**94,580**

Net book value

31 December 2017	**67,039**	**9,396**	**3,192**	**5,302**	**4,056**	**2,035**	**91,020**
31 December 2018	**72,737**	**9,042**	**5,697**	**4,694**	**3,912**	**2,020**	**98,102**

The Fixed assets in process of acquisition include construction 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.

16. LEASES

16.1. 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, 2018	**9,610**	**19,857**	**4,323**	**33,790**
As of December 31, 2017	**11,785**	**23,922**	**5,679**	**41,386**

16. LEASES (CONTINUED)

16.1. OPERATING LEASE AS LESSEE (CONTINUED)

Lease payments, recognized as expense for the period amount to BGN 13,070 thousand (2017: BGN 13,609 thousand).

Sublease payments or contingent rent payments were not made or received during the period. Income from subleasing is not expected to be realized since all assets acquired under operating leases are used only by the Bank.

The Bank has a number of lease contract as a lessee under fixed assets lease agreements. The Bank does not have individually significant lease commitments.

16.2. 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, 2018	**1,095**	**2,296**	**1,107**	**4,498**
As of December 31, 2017	**1,173**	**2,909**	**1,385**	**5,467**

Lease payments, recognized as income for the period amount to BGN 1,326 thousand (2017: BGN 1,401 thousand). The Bank does not have individually significant lease commitments.

17. INVESTMENT PROPERTY

	Land	Buildings	Total
January 1, 2017	**159**	**17,578**	**17,737**
December 31, 2017	**159**	**17,578**	**17,737**
December 31, 2018	**159**	**17,578**	**17,737**
Depreciation			
January 1, 2017	**-**	**515**	**515**
Charged for the period, net	**-**	**703**	**703**
December 31, 2017	**-**	**1,218**	**1,218**
Charged for the period, net	**-**	**703**	**703**
December 31, 2018	**-**	**1,921**	**1,921**
Net book value			
December 31, 2017	**159**	**16,360**	**16,519**
December 31, 2018	**159**	**15,657**	**15,816**

The investment property of the Bank as of December 31, 2018 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, 2018 and 2017 amount of BGN 176 thousand and 176 thousand, respectively. During the reporting periods, the Bank did not incur any direct expenses arising from investment property. All direct expenses arising from investment property are covered by the lessees.

17. INVESTMENT PROPERTY (CONTINUED)

Fair value of investment property

Fair value of investment property as of December 31, 2018 amounts to BGN 18,803 thousand (2017:

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.

18. DEPOSITS FROM BANKS

	As of 31.12.2018	As of 31.12.2017
On-demand deposits – local banks:		
- in BGN	6,163	756
- in foreign currency	5,827	3,847
On-demand deposits – foreign banks in foreign currency	25,512	896
Term deposits – foreign banks in foreign currency	490	489
Term deposits – local banks in foreign currency	2,448	2,446
TOTAL DEPOSITS FROM BANKS	**40,440**	**8,434**

19. AMOUNTS OWED TO OTHER DEPOSITORS

(A) ANALYSIS BY TERM AND CURRENCY

	As of 31.12.2018	As of 31.12.2017
On-demand deposits		
In BGN	1,152,938	1,108,577
In foreign currency	156,678	167,403
	1,309,616	1,275,980
Term deposits		
In BGN	1,205,461	1,261,923
In foreign currency	874,276	859,327
	2,079,737	2,121,250
Savings accounts		
In BGN	1,113,181	990,327
In foreign currency	499,220	448,486
	1,612,401	1,438,813
Other deposits		

In BGN	**8,643**	**19,750**
In foreign currency	**3,342**	**3,280**
	11,985	**23,030**
TOTAL AMOUNTS OWED TO OTHER DEPOSITORS	**5,013,739**	**4,859,073**

(B) ANALYSIS BY CUSTOMER AND CURRENCY TYPE

	As of 31.12.2018	As of 31.12.2017
Deposits of individuals		
In BGN	**2,524,708**	**2,312,471**
In foreign currency	**1,360,367**	**1,278,324**
	3,885,075	**3,590,795**
Deposits of enterprises		
In BGN	**946,872**	**1,046,906**
In foreign currency	**169,807**	**198,342**
	1,116,679	**1,245,248**
Deposits of other institutions		
In BGN	**8,643**	**19,750**
In foreign currency	**3,342**	**3,280**
	11,985	**23,030**
TOTAL AMOUNTS OWED TO OTHER DEPOSITORS	**5,013,739**	**4,859,073**

20. 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.

In December 2018 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.

As of December 31, 2018, some of the bondholders have exercised their right to convert bonds held by them in shares by submitting conversion notices. Under the terms of the Prospectus for public offering and admission to trading of the issued convertible bonds of the Bank, the conversion took place on the date of its registration by the Central Depository AD (date of conversion), which took place before 31.12.2018.

20. ISSUED BONDS (CONTINUED)

The process of recording the capital increase in the Commercial Register was not completed by 31.12.2018, which is why the Bank has written off the value of the obligation for the part of the converted bonds amounting to BGN 45 002 thousand and recorded the same value as an increase in equity in "other reserves" disclosed in note 23.4.

The increase of Bank's equity by issuing new shares, issued as a result of converting bonds, was recorded in the Commercial Register of the Issuer's account in February 2019, as disclosed in Note 39.

The value of the liability on bonds as of December 31, 2018 is at the amount of BGN 25,343 thousand, including interest payables and reflected costs associated with the issuance.

21. PROVISIONS

Provisions for court proceedings are recognized when based on expert legal estimate it is established that it is probable that the Bank has to meet these obligations in the near future. As of December 31, 2018 the Bank has performed an analysis of the legal proceedings against the bank and accrued provision at the amount of BGN 316 thousand.

The provision for expected credit losses in accordance with IFRS 9 for the stated as off-balance sheet positions guarantees, letters of credit and credit commitments was determined by the Bank as of December 31, 2018, amounting to BGN 374 thousand.

	As of 31.12.2018	As of 31.12.2017
Provisions for court proceedings	316	-
Provisions for expected credit losses on guarantees, letters of credit and credit commitments	374	-
TOTAL PROVISIONS FOR LIABILITIES	**690**	

22. OTHER LIABILITIES

	As of 31.12.2018	As of 31.12.2017
Liabilities for unused paid leave	2,760	2,410
Derivatives, held for trading	1,272	3,396
Other liabilities	4,295	4,905
Liabilities for retirement benefits	1,025	848
Deferred income	550	554
Deferred tax liabilities	270	377
TOTAL OTHER LIABILITIES	**10,172**	**12,490**

Liabilities for retirement benefits

As of December 31, 2018 and 2017 the Bank calculates the effect of future liabilities for retirement benefits and allocates and recognizes the relevant provision for the effect determined for a 10-year period of time. The periods after the 10th year are 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 3.91% discount rate and 0.50% 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. OTHER LIABILITIES (CONTINUED)

Changes in provisions for retirement benefits under the Labor Code during the year are presented as follows:

	As of 31.12.2018	As of 31.12.2017
Amount of the payable at the beginning of the period January 1	848	-
Interest expense	33	-
Expenses for current length of labor	76	64
Paid benefits	(52)	-
Actuarial gains and losses	120	784
AMOUNT OF THE PAYABLE AT THE END OF THE PERIOD DECEMBER 31	**1,025**	**848**

Derivatives held for trading

As of December 31, 2018 and 2017 derivatives held for trading at the amount of BGN 1,272 thousand and BGN 3,396 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.

23. EQUITY

23.1 ISSUED CAPITAL

As of December 31, 2018 and 2017 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		2018		2017
	Share capital	Percentage	Share capital	Percentage
CCB Group EAD	77,584	68.56	77,584	68.56
Chimimport AD	7,475	6.61	7,475	6.61
ZAD Armeec AD	3,851	3.40	3,851	3.40
Universal Pension Fund Suglasie	5,542	4.90	4,854	4.29
Other	18,702	16.53	19,390	17.14
	113,154	**100**	**113,154**	**100**

23.2 RESERVES, INCLUDING RETAINED EARNINGS

As of December 31, 2018 reserves, including retained earnings, include undistributable portion of BGN 7,059 thousand (2017: BGN 7,059 thousand) and distributable portion of BGN 229,712 thousand (2017: BGN 198,000 thousand).

23.3 REVALUATION RESERVE

The revaluation reserve as of December 31, 2018 is formed by revaluation of financial assets at fair value through other comprehensive income at the amount of BGN 19,287 thousand (2017: BGN 27,144 thousand) and negative revaluation of retirement benefit plans at the amount of BGN (120) thousand.

23. EQUITY (CONTINUED)

23.4 OTHER RESERVES

As of December 31, 2018 other reserves amounting to BGN 45,002 thousand resulted from the conversion of part of the Bank's bond issue into shares, as disclosed in note 20.

24. INTEREST INCOME/ INTEREST EXPENSE

	Year ended 31.12.2018	Year ended 31.12.2017
Interest income by source:		
Loans	**117,985**	**128,559**
Securities	**11,294**	**13,435**
Deposits in banks	**4,403**	**2,830**
TOTAL INTEREST INCOME	**133,682**	**144,824**

	Year ended 31.12.2018	Year ended 31.12.2017
Interest income by classification groups		
Financial assets at fair value through profit or loss	**6**	**-**
Financial assets at fair value in other comprehensive income	**8,954**	**-**
Financial assets at amortised cost	**124,722**	
TOTAL INTEREST INCOME	**133,682**	**-**

	Year ended 31.12.2018	Year ended 31.12.2017
Interest expense by recipients		
Deposits to customers	**9,791**	**18,556**
Deposits to banks	**358**	**307**
Negative interest on excess reserves at BNB	**6,526**	**4,311**
Issued bonds	**2,535**	**2,535**
Other	**33**	**267**
TOTAL INTEREST EXPENSES	**19,243**	**25,976**

25. INCOME FROM/EXPENSES FOR FEES AND COMMISSIONS

The Bank presents revenue under contracts with customers in accordance with IFRS 15 from the provision of services recognized over time for the following principal types of fees and commissions:

	Year ended 31.12.2018	Year ended 31.12.2017
Bank transfers – domestic and international	**25,518**	**23,725**
Servicing of accounts	**14,831**	**13,486**
Granting and repayment of loans	**2,976**	**2,774**
Servicing of off-balance sheet commitments	**837**	**868**
Other income	**10,134**	**11,524**
TOTAL FEES AND COMMISSIONS INCOME	**54,296**	**52,377**

	Year ended 31.12.2018	Year ended 31.12.2017
Bank transfers - domestic and international	**7,664**	**6,835**
Servicing of accounts	**971**	**503**
Clearing valuable consignments	**712**	**459**
Securities transactions	**65**	**150**
Other expenses	**497**	**372**
TOTAL EXPENSES FOR FEES AND COMMISSIONS	**9,909**	**8,319**

26. GAINS FROM DEALING WITH SECURITIES, NET

	Year ended 31.12.2018	Year ended 31.12.2017
Gain from dealing with securities available for sale, net	-	14,598
Loss from dealing with securities reported at fair value in other comprehensive income, net	(395)	-
Loss from dealing with securities held for trading, net	(77)	(2,696)
(Loss)/Gain from revaluation of securities held for trad-ing, net	(582)	8,726
Gain from dealing with securities reported at fair value in profit or loss, net	131	-
Gain from revaluation with securities reported at fair value in profit or loss, net	4,891	-
TOTAL GAIN FROM DEALING WOTH SECIRITIES, NET	**3,968**	**20,628**

27. FOREIGN EXCHANGE GAINS, NET

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

	Year ended 31.12.2018	Year ended 31.12.2017
Loss from foreign currency transactions, net	(629)	(591)
Revaluation from foreign currency revaluation, net	2,634	1,086
TOTAL FOREIGN EXCHANGE GAINS, NET	**2,005**	**495**

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.

28. OTHER OPERATING INCOME, NET

	Year ended 31.12.2018	Year ended 31.12.2017
Income from dividends	1,253	2,186
Income from cession contracts	316	184
Income from sale of property, plant and equipment	49	24
Income from sale of non-current assets held for sale	60	233
Other operating income	2,098	2,522
TOTAL OTHER OPERATING INCOME, NET	**3,776**	**5,149**

The income from cession contracts in 2018 originates from cash receivables from contracts transferred by the Bank through cession. In 2017 income from cession contracts amounted to BGN 184 thousand.

29. OPERATING EXPENSES

	Year ended 31.12.2018	Year ended 31.12.2017
Salaries and other personnel expenses	39,664	38,807
Administrative and marketing expenses	48,916	46,563
Other expenses	24,120	22,864
Depreciation/amortization	9,698	9,187
Materials and repair works	2,888	2,509
TOTAL OPERATING EXPENSES	**125,286**	**119,930**

The operating expenses include the amounts for performance of independent financial audit for 2018 and 2017 by registered auditors in the amount of BGN 852 thousand for 2018, including BGN 732 thousand for independent financial audit and BGN 120 thousand for other services, and BGN 826 thousand for 2017, including BGN 666 thousand for independent financial audit and BGN 160 thousand for other services.

30. IMPAIRMENT FOR UNCOLLECTIBILITY

Impairment costs for 2018 as per IFRS 9 are as follows:

2018	Phase 1	Phase 2	Phase 3	Total
Resources and advances to banks,	(54)	-	-	(54)
Receivables under repurchase agreements of securities, net	(185)	-	-	(185)
Granted loans and advances to customers	(1,740)	825	(5,445)	(6,360)
Financial assets reported at fair value in other comprehensive	(676)	-	1,830	1,154
Debt instruments reported at amortized cost	(390)	-	-	(390)
TOTAL NET IMPAIRMENT COSTS FOR UNCOLLECTIBIL-ITY	**(3,045)**	**825**	**(3,615)**	**(5,835)**

Impairment costs for 2017 as per IAS 39 are as follows:

	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 DECEMDBER 31, 2016	-	4,224	90,937	95,161
Accrued during the period	1,830	-	40,240	42,070
Reversed during the period	-	(511)	(10,832)	(11,343)
Written-off	-	-	(2,124)	(2,124)
BALANCE AS OF DECEMDBER 31, 2017	**1,830**	**3,713**	**118,221**	**123,764**

31. TAXES

Tax expenses are presented as follows:

	Year ended 31.12.2018	Year ended 31.12.2017
Current tax expenses	2,067	2,437
Deferred taxes expenses, related to the origination or reversal of temporary differences	(182)	(37)
Tax effect from reclassification in other comprehensive income from debt instruments	572	(556)

Tax effect from reclassification in other comprehensive income from capital instruments	**(110)**	**(137)**
Tax effect from reclassification in retained earnings	**1,170)**	**-**
TOTAL INCOME TAX EXPENSES	**3,517**	**1,707**
Tax benefit/(expense) recognized directly in other comprehensive income	**462**	**(693)**
Tax benefit recognized directly in retained earnings	**1,170**	**-**

31. TAXES (CONTINUED)

Current tax expenses represent the amount of the tax due according to Bulgarian legislation and the applicable tax rates of 10% for 2018 and 2017. 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, 2018 and 2017 are calculated based on the tax rate of 10%, effective for 2019 and 2018.

Deferred tax assets are as follows:

	As of 31.12.2018	As of 31.12.2017
Deferred tax assets:		
Other liabilities (unused annual paid leaves)	**262**	**227**
Liabilities for retirement benefits	**91**	**85**
Provisions for liabilities	**31**	**-**
Property, plant and equipment and intangible assets	**5**	**2**
DEFERRED TAX ASSET	**389**	**314**

Deferred tax liabilities are as follows:

	As of 31.12.2018	As of 31.12.2017
Deferred tax liabilities:		
Merge of entities during 2010	**209**	**209**
Merger of a company in 2016	**61**	**168**
DEFERRED TAX LIABILITY	**270**	**377**

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

	Year ended 31.12.2018	Year ended 31.12.2017
Profit before taxes	37,287	38,521
Taxes at applicable tax rates: 10% for 2017 and 10% for 2016	3,729	3,852
Tax effect on non-taxable income/non-taxable deductible expenses from transactions with shares on a regulated local exchange, dividends and other, net	(212)	(2,145)
TAX EXPENSES	3,517	1,707
EFFECTIVE TAX RATE	9.43%	4.43%

32. EARNINGS PER SHARE (IN BGN)

	Year ended 31.12.2018	Year ended 31.12.2017
Net profit after taxation in thousand BGN	33,770	36,814
Weighted average number of shares	113,154,291	113,154,291
EARNINGS PER SHARE (IN BGN)	0.30	0.33

32. EARNINGS PER SHARE (IN BGN (CONTINUED)

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, 2018 and 2017. The weighted average number of shares is calculated as the sum of the number of regular shares in circulation at the beginning of the period, adjusted by the number of redeemed or newly issued regular shares during the period multiplied by the average time factor. The average time factor is equal to the number of days the specific shares were in circulation to the total number of days during the period.

	Year ended 31.12.2018	Year ended 31.12.2017
Adjusted net profit after taxation (thousand BGN)	36,305	39,096
Weighted average number of shares	135,020,713	135,020,713
DILUTED EARNINGS PER SHARE (IN BGN)	0.27	0.29

	Year ended 31.12.2018	Year ended 31.12.2017
Weighted average number of shares used for earnings per share	**113,154,291**	**113,154,291**
Potential number of shares from issued convertible bonds	**21,866,422**	**21,866,422**
Weighted average number of shares used for diluted earnings per share (BGN)	**135,020,713**	**135,020,713**

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, disclosed in note 20.

	Year ended 31.12.2018	Year ended 31.12.2017
Net profit after taxation (thousand BGN)	**33,770**	**36,814**
Interest expenses on issued bond issue	**2,535**	**2,282**
Adjusted net profit after taxation (BGN'000)	**36,305**	**39,096**

33. CONTINGENT LIABILITIES

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

	As of 31.12.2018	As of 31.12.2017
Bank guarantees		
In BGN	**32,456**	**38,096**
In foreign currency	**13,975**	**15,492**
Impairment loss	**(9)**	**-**
TOTAL BANK GUARANTEES, NET	**46,422**	**53,588**
Irrevocable commitments	**172,229**	**109,159**
Impairment loss	**(365)**	**-**
TOTAL IRREVOCABLE COMMITMENTS, NET	**171,864**	**109,159**
TOTAL CONTINGENT LIABILITIES	**218,660**	**162,159**
TOTAL IMPAIRMENT LOSS	**(374)**	**-**
TOTAL CONTINGENT LIABILITIES, NET	**218,286**	**162,747**

As of December 31, 2018 and 2017 the Bank has signed contracts for granting loans to customers at the total amount of BGN 172,229 thousand and BGN 109,159 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.

34. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

	Year ended 31.12.2018	Year ended 31.12.2017
Cash	**284,084**	**231,165**
Balances with the Central Bank	**1,413,987**	**1,565,888**
Placements with, and advances to banks with residual maturity up to 3 months	**193,043**	**266,953**
TOTAL CASH AND CASH EQUIVALENTS AS OF DECEMBER 31	**1,891,114**	**2,064,006**

35. 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 analyse 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.

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

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;

• 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 and constitute 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 maturity length 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
• Liquidity risk
• Market risk
  o Interest rate risk
  o Currency risk
  o Price risk

Credit risk

Credit risk is the likelihood of a loss arising from a counterparty's failure to perform their contractual obligations on financial assets held by the bank. The bank manages the credit risk inherent for both the banking and commercial portfolio. The bank has structured credit risk monitoring and management units for the individual business segments and applies individual credit policies. The credit risk of individual exposures is managed over the lifetime of the exposure – from the decision to create the exposure to its full repayment. In order to minimize credit risk in the lending process, detailed procedures are applied for the analysis of the economic feasibility of each project, the control over the use of the allocated funds and the administration related to this activity.

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.

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Cash and balances with the Central Bank at the amount of BGN 1,698,071 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 222,106 thousand comprise mostly deposits in 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 256,598 thousand bear credit risk for the Bank depending on the risk inherent in the provided collateral. Part of the receivables amounting to BGN 74,040 thousand is secured by government securities issued by the Republic of Bulgaria and bear respectively: BGN 22,626 thousand – 0% risk and BGN 51,414 thousand – 10% risk. The remaining receivables amounting to BGN 182,515 thousand are secured by corporate securities and bear respectively: BGN 168,881 thousand – 100% risk and BGN 13,634 thousand – 150% risk depending on the issuer of the securities provided as collateral.

Financial assets held for trading at the amount of BGN 2,985 thousand bear mainly market risk for the Bank, which is discussed in the market risk disclosures.

Other financial assets at FVTPL amounting to BGN 198,440 thousand are equity instruments – shares in financial and non-financial enterprises amounting to BGN 93,411 thousand and debt instruments – units in mutual funds amounting to BGN 105,029 thousand. These financial instruments are credit risk bearers with maximum exposure of 100% or BGN 198,440 thousand.

Equity securities at FVTOCI amounting to BGN 11,180 thousand represent shares in financial and non-financial enterprises bearing credit risk with a maximum exposure of 100% or BGN 11,180 thousand in absolute amount.

Debt securities at FVTOCI and issued by the Republic of Bulgaria amounting to BGN 288,234 thousand bear credit risk for the Bank respectively: BGN 85,509 thousand – 0% and BGN 202,725 thousand – 10%. Debt securities at FVTOCI and issued by other European countries amounting to BGN 127,328 thousand bear credit risk to the Bank depending on the credit risk of the issuing state.

Debt securities at FVTOCI and issued by local and foreign commercial companies amounting to BGN 75,865 thousand bear credit risk for the Bank with maximum exposure of 100% or BGN 75,865 thousand in absolute amount.

Debt securities at amortized cost and issued by the Republic of Bulgaria, have a carrying amount of BGN 130,583 thousand and bear credit risk for the Bank of 10%. Debt securities at amortized cost and issued by other European countries have a carrying amount of BGN 114,246 thousand and bear credit risk for the Bank, depending on the issuer's credit rating.

Debt securities at amortized cost and issued by local and foreign commercial companies with book value of BGN 17,738 thousand bear credit risk for the Bank, with maximum exposure of 100% or BGN 17,738 thousand in absolute amount.

Investments in the subsidiaries of the Bank – Central Cooperative Bank AD, Skopje, Republic of Macedonia and CCB Assets Management EAD, Sofia, Republic of Bulgaria – in the total amount of BGN 49,416 thousand bear credit risk with maximum exposure of 100 % or BGN 49,416 thousand in absolute amount.

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Loans and advances granted to customers with book value of BGN 2,258,072 thousand bear credit risk to the Bank. To determine the exposure of the Bank to this risk, an analysis of the individual risk for the Bank arising from each particular exposure is performed and the Bank applies the criteria for the assessment and classification of risk exposures set out in the banking legislation of the Republic of Bulgaria and IFRS. Pursuant to these criteria and the performed analysis, the Bank's maximum exposure to credit risk amounts to BGN 1,776,501 thousand.

As of December 31, 2018 the allocated ECL allowances for loans and advances are at the amount of BGN 113,309 thousand.

Quality of assets

Due to entry into force of IFRS 9 Financial Instruments from 01.01.2018, the Bank presents comparative information on credit risk in accordance with the classification categories and qualitative characteristics of loans and loans commitments that were in effect as of 31.12.2017 in compliance with IAS 39 Financial Instruments: Recognition and Measurement.

The tables below present the structure and change of allowance for ECL originating from initial application of the ECL mode at 01.01.2018 and change in the allowance by the end of the financial period.

Impairment loss – Loans and advances granted to banks at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Impairment loss at December 31, 2017	-	-	3,713	3,713
Effect of IFRS 9	105	-	-	105
Impairment loss at January 1, 2018	105	-	3,713	3,818
Change in impairment loss	54	-	-	54
Accumulated for the period	250	-	-	250
Derecognised for the period	(196)	-	-	(196)
Currency and other movements	-	-	176	176
Impairment loss at December 31, 2018	159	-	3,889	4,048
Impairment loss – Receivables under repurchase agreements of securities	**12-month ECL**	**Lifetime ECL**	**Lifetime ECL**	**Total**
Impairment loss at December 31, 2017	-	-	-	-
Effect of IFRS 9	23	-	-	23
Impairment loss at January 1, 2018	23	-	-	23
Change in impairment loss	185	-	-	185
Accumulated for the period	1,347	-	-	1,347
Derecognised for the period	(1,162)	-	-	(1,162)
Impairment loss at December 31, 2018	208	-	-	208

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Quality of assets (continued)

Impairment loss – Loans and advances granted to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Impairment loss at December 31, 2017	19,054	172	98,995	118,221
Effect of IFRS 9	(7,734)	1,645	16,110	10,021
Impairment loss at January 1, 2018	11,320	1,817	115,105	128,242
Change in impairment loss recognised in Profit and loss	2,828	245	3,287	6,360
– Transfer to Stage 1	466	(219)	(247)	-
– Transfer to Stage 2	(703)	875	(172)	-
– Transfer to Stage 3	(21)	(143)	164	-
– Increase due to change in credit risk	1	79	657	737
– Decrease due to change in credit risk	(376)	(276)	(143)	(795)
– Increase due to originated or purchased assets	3,163	18	141	3,322
– Change in risk parameters	298	(89)	2,887	3,096
– Decrease due to derecognition for uncollectibility	-	-	(2,591)	(2,591)
– Decrease due to derecognition for transfer	(1,345)	(558)	(20,800)	(22,703)
– Interest income adjustment	-	-	3,629	3,629
– Currency differences and other adjustments	-	-	372	372
Impairment loss at December 31, 2018	12,803	1,504	99,002	113,309

Impairment loss – Investments in debt securities at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Impairment loss at December 31, 2017	-	-	-	-
Effect of IFRS 9	-	-	-	-
Impairment loss at January 1, 2018	-	-	-	-
Change in impairment loss	390	-	-	390
Accumulated for the period	516	-	-	516
Derecognised for the period	(126)	-	-	(126)
Impairment loss at December 31, 2018	390	-	-	390

Impairment loss – Investments in debt securities at FVTOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Impairment loss at December 31, 2017	-	-	-	-
Effect of IFRS 9	**1,031**	-	-	**1,031**
Impairment loss at January 1, 2018	**1,031**	-	**1,830**	**2,861**
Change in impairment loss	**675**	-	**(1,830)**	**(1,155)**
Accumulated for the period	**1,888**	-	-	**1,888**
Derecognised for the period	**(1,213)**	-	**(1,830)**	**(3,043)**
Impairment loss at December 31, 2018	**1,706**	-	-	**1,706**

Impairment loss – Loan commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Impairment loss at December 31, 2017	-			-
Effect of IFRS 9	**452**	**2**	**69**	**523**
Impairment loss at January 1, 2018	**452**	**2**	**69**	**523**
Change in impairment loss	**(144)**	**(4)**	**(7)**	**(155)**
Accumulated for the period	**117**	**1**	**31**	**149**
Derecognised for the period	**(261)**	**(5)**	**(38)**	**(304)**
Currency and other movements	**13**	**4**	**(20)**	**(3)**
Impairment loss at December 31, 2018	**321**	**2**	**42**	**365**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Quality of assets (continued)

Impairment loss – Financial guarantee contracts	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Impairment loss at December 31, 2017	-	-	-	-
Effect of IFRS 9	**6**	-	-	**6**
Impairment loss at January 1, 2018	**6**	-	-	**6**
Change in impairment loss	**6**	-	-	**6**
Accumulated for the period	**49**	-	-	**49**
Derecognised for the period	**(43)**	-	-	**43**

Currency and other movements	**(3)**	**-**	**-**	**3**
Impairment loss at December 31, 2018	**9**	**-**	**-**	**9**

The tables below present the structure and change of gross amounts by categories of asset at 01.01.2018 and their change until the financial period end.

Carrying amount before impairment – Loans and advances granted to banks at amortised cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount at December 31, 2017	**281,016**	**-**	**3,713**	**284,729**
Effect of IFRS 9	**-**	**-**	**-**	**-**
Gross carrying amount at January 1, 2018	**281,016**	**-**	**3,713**	**284,729**
Change in the gross carrying amount	**(58,751)**	**-**	**176**	**(58,575)**
Increase for the period	**132,589**	**-**	**-**	**132,589**
Decrease for the period	**(191,340)**	**-**	**-**	**(191,340)**
Gross carrying amount at December 31, 2018	**-**	**-**	**176**	**176**
Impairment loss at December 31, 2018	**222,265**	**-**	**3,889**	**226,154**
Carrying amount at December 31, 2018	**(159)**		**(3,889)**	**(4,048)**
Increase for the period	**222,106**	**-**	**-**	**222,106**

Carrying amount before impairment – Receivables under repurchase agreements of securities	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
Gross carrying amount at December 31, 2017	**196,910**	**-**	**-**	**196,910**
Effect of IFRS 9	**-**	**-**	**-**	**-**
Gross carrying amount at January 1, 2018	**196,910**	**-**	**-**	**196,910**
Change in the gross carrying amount	**59,896**	**-**	**-**	**59,896**
Increase for the period	**256,806**	**-**	**-**	**256,806**
Decrease for the period	**(196,910)**	**-**	**-**	**(196,910)**
Gross carrying amount at December 31, 2018	**256,806**	**-**	**-**	**256,806**

Impairment loss at December 31, 2018	**(208)**	**-**	**-**	**(208)**
Carrying amount at December 31, 2018	**256,598**	**-**	**-**	**256,598**

Loans and advances granted to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at December 31, 2017	**2,085,218**	**21,834**	**226,063**	**2,333,115**
Effect of IFRS 9	**(151,071)**	**151,071**	**-**	**-**
Gross carrying amount at January 1, 2018	**1,934,147**	**172,905**	**226,063**	**2,333,115**
Change in the gross carrying amount	**119,253**	**(52,877)**	**(28,110)**	**38,266**
– Transfer to Stage 1	**23,778**	**(21,737)**	**(2,041)**	**-**
– Transfer to Stage 2	**(55,087)**	**55,983**	**(896)**	**-**
– Transfer to Stage 3	**(2,502)**	**(11,029)**	**13,531**	**-**
– Increase due to change in credit risk	**43**	**140**	**613**	**796**
– Decrease due to change in credit risk	**(7,555)**	**(7,286)**	**(433)**	**(15,274)**
– Increase due to originated or purchased assets	**576,932**	**852**	**246**	**578,030**
– Change in risk parameters	**(138,212)**	**(11,808)**	**(1,220)**	**(151,240)**
– Decrease due to write-off for uncollectibility	**-**	**-**	**(2,591)**	**(2,591)**
– Decrease due to write-off for transfer	**(278,144)**	**(57,992)**	**(39,405)**	**(375,541)**
– Interest income adjustment	**-**	**-**	**3,629**	**3,629**
– Currency differences and other adjustments	**-**	**-**	**457**	**457**
Gross carrying amount at December 31, 2018	**2,053,400**	**120,028**	**197,953**	**2,371,381**
Impairment loss at December 31, 2018	**(12,803)**	**(1,504)**	**(99,002)**	**(113,309)**
Carrying amount at December 31, 2018	**2,040,597**	**118,524**	**98,951**	**2,258,072**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Quality of assets (continued)

Loans and advances granted to customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at December 31, 2017	**2,085,218**	**21,834**	**226,063**	**2,333,115**
Effect of IFRS 9	**(151,071)**	**151,071**	**-**	**-**
Gross carrying amount at January 1, 2018	**1,934,147**	**172,905**	**226,063**	**2,333,115**
Change in the gross carrying amount	**119,253**	**(52,877)**	**(28,110)**	**38,266**
– Transfer to Stage 1	**23,778**	**(21,737)**	**(2,041)**	**-**
– Transfer to Stage 2	**(55,087)**	**55,983**	**(896)**	**-**
– Transfer to Stage 3	**(2,502)**	**(11,029)**	**13,531**	**-**
– Increase due to change in credit risk	**43**	**140**	**613**	**796**
– Decrease due to change in credit risk	**(7,555)**	**(7,286)**	**(433)**	**(15,274)**
– Increase due to originated or purchased assets	**576,932**	**852**	**246**	**578,030**
– Change in risk parameters	**(138,212)**	**(11,808)**	**(1,220)**	**(151,240)**
– Decrease due to write-off for uncollectibility	**-**	**-**	**(2,591)**	**(2,591)**
– Decrease due to write-off for transfer	**(278,144)**	**(57,992)**	**(39,405)**	**(375,541)**
– Interest income adjustment	**-**	**-**	**3,629**	**3,629**
– Currency differences and other adjustments	**-**	**-**	**457**	**457**
Gross carrying amount at December 31, 2018	**2,053,400**	**120,028**	**197,953**	**2,371,381**
Impairment loss at December 31, 2018	**(12,803)**	**(1,504)**	**(99,002)**	**(113,309)**
Carrying amount at December 31, 2018	**2,040,597**	**118,524**	**98,951**	**2,258,072**

Carrying amount before impairment – Investments in debt securities at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at December 31, 2017	-	-	-	-
Effect of IFRS 9	-	-	-	-

Gross carrying amount at January 1, 2018	-	t-	-	-
Change in the gross carrying amount	**262,957**	-	-	**262,957**
Increase for the period	**262,957**	-	-	**262,957**
Decrease for the period		-	-	-
Other movements	-	-	-	-
Gross carrying amount at December 31, 2018	**262,957**	-	-	**262,957**
Impairment loss at December 31, 2018	**(390)**	-	-	**(390)**
Carrying amount at December 31, 2018	**262,567**	-	-	**262,567**

Carrying amount before impairment – Investments in debt securities at FVTOCI	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Gross carrying amount at December 31, 2017	-	-	-	-
Effect of IFRS 9	-	-	-	-
Gross carrying amount at January 1, 2018	-	-	-	-
Change in the gross carrying amount	**502,607**	-	-	**502,607**
Increase for the period	**502,607**	-	-	**502,607**
Gross carrying amount at December 31, 2018	**502,607**	-	-	**502,607**
Impairment loss at December 31, 2018	**(1,706)**	-	-	**(1,706)**
Carrying amount at December 31, 2018	**500,901**	-	-	**500,901**

Loan commitments	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Total amount of loan commitments at December 31, 2017	**108,264**	**536**	**358**	**109,158**
Effect of IFRS 9	**211**	**(211)**	-	-
Total amount of loan commitments at January 1, 2018	**108,475**	**325**	**358**	**109,158**
Change in the amount of loan commitments	**62,930**	**76**	**65**	**63,071**
Increase for the period	**105,394**	**105**	**101**	**105,600**

Decrease for the period	(42,126)	(216)	(190)	(42,532)
Other movements	(338)	187	154	3
Total amount of loan commitments at December 31, 2018	171,405	401	423	172,229
ECL allowance at December 31, 2018	(321)	(2)	(42)	(365)

Financial guarantee contracts	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Tota
Total amount of guarantees at December 31, 2017	53,479	59	50	53,588
Effect of IFRS 9	59	(59)	-	-
Total amount of guarantees at January 1, 2018	53,538	-	50	53,588
Change in the gross carrying amount	(7,107)	-	(50)	(7,157)
Increase for the period	10,314	-	-	10,314
Decrease for the period	(17,471)	-	-	(17,471)
Other movements	50	-	(50)	-
Total amount of guarantees at December 31, 2018	46,431	-	-	46,431
ECL allowance at December 31, 2018	(9)	-	-	(9)

Impairment loss by asset type	2018	2017
Loans and advances granted to banks at amortised cost	(4,048)	(3,713)
Receivables under repurchase agreements of securities	(208)	-
Loans and advances granted to customers at amortised cost	(113,309)	(118,221)
Investments in debt securities at amortised cost	(390)	-
Investments in debt securities at FVTOCI	(1,706)	(1,830)
	(119,661)	(123,764)

Loans and advances granted to customers	2018 Gross carrying amount	Impairment loss	2017 Gross carrying amount	Impairment loss
0-29 days	2,144,447	(32,130)	2,146,096	(25,785)
30-59 days	28,082	(451)	13,939	(169)
60-89 days	1,801	(84)	3,833	(1,880)
90-180 days	1,823	(656)	3,356	(849)

Over 181 days	**195,228**	**(79,988)**	**165,891**	**(89,538)**
Total	2,371,381	(113,309)	2,333,115	(118,221)

	2018	**2017**
Loans and advances granted to customers at amortised cost	**2,371,381**	**2,333,115**
Less impairment for uncollectibility	**(113,309)**	**(118,221)**
Total loans and advances granted to customers	**2,258,072**	**2,214,894**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Quality of assets (continued)

		31.12.12018			**31.12.2017**	
	Gross carrying amount	**ECL impairment**	**Carrying amount**	**Gross carrying amount**	**ECL impairment**	**Carrying amount**
Retail banking						
Mortgages	**363,541**	**(591)**	**362,950**	**262,692**	**(648)**	**262,044**
Total retai banking	**836,206**	**(19,370)**	**816,836**	**703,394**	**(21,460)**	**681,934**
Credit cards	**21,804**	**(1,497)**	**20,307**	**22,036**	**(1,942)**	**20,094**
Corporate lending	**1,535,175**	**(93,939)**	**1,441,236**	**1,629,721**	**(96,761)**	**1,532,960**
Other	**9,074**	**(8,591)**	**483**	**12,257**	**(10,554)**	**1,703**
Total	2,371,381	(113,309)	2,258,072	2,333,115	(118,221)	2,214,894

	2018				**2017**
Placements with, and advances to, banks at amortised cost	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Total**
Category	**222,265**	**-**	**3,889**	**226,154**	**281,016**
Total gross carrying amount	**222,265**	**-**	**3,889**	**226,154**	**281,016**
Impairment loss	**(159)**	**-**	**(3,889)**	**(4,048)**	**-**
Carrying amount	**222,106**	**-**	**-**	**222,106**	**281,016**

Receivables under repurchase agreements of securities	2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Category	**256,806**	**-**	**-**	**256,806**	**196,910**
Total gross carrying amount	**256,806**	**-**	**-**	**256,806**	**196,910**
Impairment loss	**(208)**	**-**	**-**	**(208)**	**-**
Carrying amount	**256,598**	**-**	**-**	**256,598**	**196,910**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Quality of assets (continued)

Loans and advances at amortised cost granted to customers	2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Category	**2,053,400**	**120,028**	**197,953**	**2,371,381**	**2,333,115**
Total gross carrying amount	**2,053,400**	**120,028**	**197,953**	**2,371,381**	**2,333,115**
Impairment loss	**(12,803)**	**(1,504)**	**(99,002)**	**(113,309)**	**(118,221)**
Carrying amount	**2,040,597**	**118,524**	**98,951**	**2,258,072**	**2,214,894**

Investments in debt securities at amortised cost	2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Category	**262,957**	**-**	**-**	**262,957**	**-**
Total gross carrying amount	**262,957**	**-**	**-**	**262,957**	**-**
Impairment loss	**(390)**	**-**	**-**	**(390)**	**-**
Carrying amount	**262,567**	**-**	**-**	**262,567**	**-**

Investments in debt securities at FVTOCI	2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Category	491,303	-	1,830	493,133	511,298
Total gross carrying amount	491,303	-	1,830	493,133	511,298
Impairment loss	(1,706)	-	-	(1,706)	(1,830)
Carrying amount	489,597	-	1,830	491,427	509,468

Loan commitments	2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Category	171,405	401	423	172,229	109,158
Total gross carrying amount	171,405	401	423	172,229	109,158
Expected credit loss allowance	(321)	(2)	(42)	(365)	-
Net exposure	171,084	399	381	171,864	109,158

35 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Quality of assets (continued)

Financial guarantee contracts	2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	2017 Total
Category	46,381	-	50	46,431	53,588
Total gross carrying amount	46,381	-	50	46,431	53,588
Expected credit loss allowance	(9)	-	-	(9)	-
Net exposure	46,372	-	50	46,422	53,588

The tables below present the quality and characteristics of assets, as classified at December 31, 2017 under IAS 39.

Debt	By granted loans		Undrawn commitment Amount	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**	**-**

35 FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Quality of assets (continued)

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

Groups	31.12.2017	
	Loans, granted to non-financial customers	Loans, granted to banks and receivables under repurchase agreements
Neither past due nor impaired on individual basis	2,047,509	196,911
Past due, but not impaired on individual basis	95,197	-
Impaired on individual basis	190,409	-
Total	2,333,115	196,911
Allowances for impairment provided	(118,221)	-
Net loans	**2,214,894**	**196,911**

As of December 31, 2017 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.

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

	As of 31.12.2018
Individuals	19,865
Credit cards and overdrafts	364,386
Consumer loans	245,706
Mortgage loans	1,417,552
Corporate clients	2,047,509
Total	**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
Individuals	
Credit cards and overdrafts	10,767
Consumer loans	34,589
Mortgage loans	14,601
Corporate clients	35,240
Total	95,197

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk (continued)

Quality of assets (continued)

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.

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**

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

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

	Amount			Including overdue on				
Sector	**Group**	**Number of transactions**	**Liability**	**Principal**	**Interest**	**Court receivables**	**Allowances**	**Unutilized commitment**
Retail	Regular	82,686	663,646	547	176	-	2,401	48,895
	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
Corporate	Regular	613	1,430,315	249	116	-	16,824	37,327
	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
Budget	Regular	6	13,091	-	-	-	-	578
	Non-performing	-	-	-	-	-	-	-
Total		**6**	**13,091**	**-**	**-**	**-**	**-**	**578**
	Total portfolio	**88,176**	**2,333,115**	**31,466**	**9,439**	**77,436**	**118,221**	**87,158**

Credit risk concentration

Credit risk concentration refers to the loss probability due to poor diversification of exposure to customers, groups of related customers, customers from one and the same economic sector or geographical region.

The tables below present the concentration split of different asset categories of the Bank by region and by economic sector.

Placements with, and advances to, banks at amortised cost	2018	2017
Concentration by sector		
Central banks	926	3,512
Bulgarian commercial banks	52,292	35,986
Foreign commercial banks	172,936	241,518
Total	**226,154**	**281,016**
Concentration by region		
Europe	223,812	278,383
America	2,286	2,620
Asia	56	13
Total	**226,154**	**281,016**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk concentration (continued)

Receivables under repurchase agreements of securities	2018	2017
Corporate:	256,806	196,910
Construction	31,036	20,946
Commerce and finance	176,983	145,645
Transport and communications	13,104	15,246
Other	35,683	15,073
Total	**256,806**	**196,910**
Concentration by region		
Europe	256,806	196,910
Total	**256,806**	**196,910**

Investments in debt securities at amortised cost	2018	2017
Concentration by sector		
States	245,183	-
Bank	9,810	-
Corporate:		-
Commerce and finance	7,964	-
Total	**262,957**	**-**
Concentration by region		
Europe	262,957	-
Total	**262,957**	**-**

Investments in debt securities at FVTOCI	2018	2017
Concentration by sector		
States	415,562	466,615
Corporate:	75,865	44,683
Construction	9,635	13,057
Industry	19,351	10,255
Commerce and finance	43,570	18,939
Other	3,309	2,432
Total	**491,427**	**511,298**
Concentration by region	491,427	511,298
Europe	491,427	511,298
Total	**491,427**	**511,298**

Loans and advances at amortised cost granted to customers	2018	2017
Concentration by sector		
Retail banking:	836,206	703,394
Mortgage	363,541	262,692
Consumer	441,787	406,409
Credit cards	21,804	22,036
Other	9,074	12,257
Corporate:	1,535,175	1,629,721
Agriculture and forestry	72,761	59,114
Industry	44,314	81,919
Construction	387,568	249,558
Commerce and finance	783,865	1,010,851
Transport and communications	120,398	124,758
Other	126,269	103,521
Total	**2,371,381**	**2,333,115**
Concentration by region		
Europe	2,370,645	2,332,321
America	733	791
Middle East and Africa	3	3
Total	**2,371,381**	**2,333,115**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit risk concentration (continued

Credit commitments	2018	2017
Concentration by sector		
Retail banking:	48,101	49,146
Mortgage	792	223
Consumer	7,287	7,521

Credit cards	**40,022**	**41,402**
Corporate:	**124,128**	**60,012**
Agriculture and forestry	**3,275**	**3,785**
Industry	**713**	**1,027**
Construction	**42,022**	**10,040**
Commerce and finance	**72,409**	**41,067**
Transport and communications	**1,964**	**1,920**
Other	**3,745**	**2,173**
Total	**172,229**	**109,158**
Concentration by region		
Europe	**172,191**	**109,151**
America	**34**	**5**
Middle East and Africa	**4**	**2**
Total	**172,229**	**109,158**

Financial guarantee contracts	**2018**	**2017**
Concentration by sector		
Retail banking:	**103**	**20**
Other	**103**	**20**
Corporate:	**46,328**	**53,568**
Agriculture and forestry	**3,621**	**4,756**
Industry	**10,379**	**10,856**
Construction	**3,487**	**7,152**
Commerce and finance	**18,814**	**18,443**
Transport and communications	**4,022**	**7,105**
Other	**6,005**	**5,256**
Total	**46,431**	**53,588**
Concentration by region		
Europe	**46,431**	**53,588**
Total	**46,431**	**53,588**

Credit exposures with restructuring measures

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:

- Postponing or rescheduling the payment of principal, interest or, where applicable, fees, resulting in a reduction in the amount of the financial liability;
- Partial or total refinancing of a troubled debt contract that is only allowed when the debtor is in financial difficulties;
- Full or partial write-off of debt, leading to a reduction in the amount of the financial liability;
- An amendment involving repayments resulting from a collateral acquisition by the Bank is treated as a restructuring measure when the debtor is in financial difficulty;
- Granted rebates to a debtor who has been in default before granting the rebates;
- Decrease of the interest rate on the contract, except for change of the interest rate originated by changes in market interest rates.

35. INANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Credit exposures with restructuring measures (continued)

The information of loan exposures for restructuring is as follows:

2018	Corporate customers	Individuals
Amount before impairment	89,014	1,466
Impairment	(40,614)	(595)
Amount after impairment	48,400	871
2017	**Corporate customers**	**Individuals**
Amount before impairment	276,255	1,574
Impairment	(44,124)	(452)
Amount after impairment	232,131	1,122

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	2018	2017
Below 50%	**80,147**	**57,507**
From 50% to 75%	**146,880**	**105,019**
From 75% to 90%	**119,089**	**89,197**
From 90% to 100%	**11,972**	**7,431**
Above 100%	**5,453**	**3,534**
Total	**363,541**	**262,688**

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.

35. INANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Housing mortgage loans to individuals

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.

Equity risk

Equity risk measures the capital coverage of the bank's risky assets in order to meet regulatory requirements for the bank's operations, strategic development and planned growth.

The minimum capital ratios for the bank are set by BNB and Regulation No. 575/2013, with the bank historically maintaining higher capital ratios than the minimum threshold.

Capital risk management is concentrated in the Bank's Risk Committee and the Management Board's decisions insofar as all capital reports for internal and supervisory purposes are dealt with by the two bodies that take all decisions concerning the allocation of capital resources and the institution's risk appetite.

The Bank's capital management policies aim at maintaining a quantitatively and qualitatively sufficient capital to meet the bank's risk profile, regulatory and business needs. Capital ratios are continuously monitored against regulatory limits, with any deviation from adequacy levels reported at any time to the bank's Management to support strategic and day-to-day business decision-making.

The Bank's equity (Capital Base) consists of Tier 1 and Tier 2 capital. Tier 1 capital consists of Common Equity Tier 1 capital (CET1) – this is the most important capital for the banking institution. Its composition includes: share capital – ordinary shares, premium reserve, retained earnings, other reserves after adjustment for intangible assets and other regulatory adjustments relating to items that are included in the equity but are treated differently for the purpose of determining capital adequacy.

Tier 2 capital includes the issue of convertible bonds of the Bank.

Equity and capital requirements for regulatory purposes

Individual base	31.12.2018	31.12.2017
Capital base		
Common Equity Tier 1 capital (CET1)	455,640	413,388
Tier 1 capital	455,640	413,388
Tier 2 capital	69,600	70,410
Total capital base	**525,240**	**483,798**
Total risk-weighted assets	**2,991,865**	**2,878,429**
Common Equity Tier 1 capital ratio	15.23%	14.36%
Equity Tier 1 capital ratio	15.23%	14.36%
Total capital adequacy ratio	17.56%	16.81%
Minimum requirements for CET 1 – 4.5%	134,634	129,529
Minimum requirements for Equity Tier 1 capital – 6%	179,512	172,706
Minimum own funds requirements – 8%	239,349	230,274

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Equity risk (continued)

Equity and capital requirements for regulatory purposes (continued)

The reported data does not reflect the effect of the conversion of part of the convertible bonds into shares as at December 31, 2018. The increase of capital was entered in the Commercial Register in February 2019. In this respect, and bearing in mind that the entry of the capital increase through issue of shares resulting from the conversion of the bonds is a formal act of the result achieved through the conversion. The bank presents the following table for the comparative period of time, reflecting the effect of the conversion of bonds into shares as of December 31, 2018 after entry in the Commercial Register of the capital increase in February 2019.

Individual base	31.12.2018	31.12.2017
Capital base		
Common Equity Tier 1 capital (CET1)	500,642	413,388
Tier 1 capital	500,642	413,388
Tier 2 capital	25,116	70,410
Total capital base	**525,758**	**483,798**
Total risk-weighted assets	**2,991,865**	**2,878,429**
Common Equity Tier 1 capital ratio	16.73%	14.36%
Equity Tier 1 capital ratio	16.73%	14.36%
Total capital adequacy ratio	17.57%	16.81%
Minimum requirements for CET 1 - 4.5%	134,634	129,529
Minimum requirements for Equity Tier 1 capital - 6%	179,512	172,706
Minimum own funds requirements - 8%	239,349	230,274

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 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 in accordance with the regulations of BNB and EBA is the liquidity coverage ratio, LCR. This ratio represents the excess of the liquidity buffer (liquid assets) of the Bank over the net liquid outflows.

LCR of CCB AD as of December 31, 2018 amounts to 573.09% (31.12.2017: 656.74%) and exceeds the regulatory threshold of 100%.

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The allocation of the Bank's financial assets and liabilities as of December 31, 2018, 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 ASSETS						
Cash and balances with the Central bank	1,698,071	-	-	-	-	1,698,071
Placements with and advances to banks	193,043	-	-	29,063	-	222,106
Receivables under repurchase agreements	34,741	129,535	92,322	-	-	256,598
Financial assets at fair value in profit or loss	2,985	-	198,440	-	-	201,425
Loans and advances to customers, net	69,284	44,322	217,630	1,266,353	660,483	2,258,072

Financial assets at fair value through other comprehensive income	18,916	25,146	8,960	229,219	220,366	502,607
Financial assets at amortized cost	11,217	-	-	52,138	199,212	262,567
TOTAL FINANCIAL ASSETS	2,028,257	199,003	517,352	1,576,773	1,080,061	5,401,446
FINANCIAL LIABILITIES						
Deposits from banks	40,440	-	-	-	-	40,440
Amounts owed to other depositors	2,300,164	346,321	1,073,309	1,289,285	4,660	5,013,739
Issued bonds	-	-	-	25,343	-	25,343
Provisions	-	-	690	-	-	690
Other liabilities	9,147	-	109	455	461	10,172
TOTAL FINANCIAL LIABILITIES	**2,349,751**	**346,321**	**1,074,108**	**1,315,083**	**5,121**	**5,090,384**

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 assets and 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 ASSETS						
Cash and balances with the Central bank	1,797,053	-	-	-	-	1,797,053
Placements with and advances to banks	266,953	-	3,129	10,934	-	281,016
Receivables under repurchase agreements	66,376	45,364	85,170	-	-	196,910
Financial assets held for trading	68,718	-	-	13,057	-	81,775
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	21,296	292,986	256,985	589,318
TOTAL FINANCIAL ASSETS	2,290,797	122,362	420,361	1,506,788	820,658	5,160,966
FINANCIAL LIABILITIES						
Deposits from banks	8,434	-	-	-	-	8,434
Amounts owed to other depositors	2,408,779	356,499	1,063,874	1,028,474	1,447	4,859,073

Issued bonds	-	-	-	**70,235**	-	**70,235**
Other liabilities	**11,642**	-	**116**	**332**	**400**	**12,490**
TOTAL FINANCIAL LIABILITIES	**2,428,855**	**356,499**	**1,063,990**	**1,099,041**	**1,847**	**4,950,232**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

The tables above feature part of the attracted funds in current accounts without residual maturity amounting to BGN 1,282,673 thousand as of December 31, 2018 and BGN 1,014,579 thousand as of December 31, 2017, 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 2018 and 2017.

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 unfavourable 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 mismatch of the Bank between the interest-bearing assets and liabilities as of December 31, 2018 is negative and amounts to BGN 1,588,751 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 42.34%.

	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	**193,043**	**-**	**-**	**29,063**	**-**	222,106
Receivables under re-purchase agreements of securities	**34,741**	**129,535**	**92,322**	**-**	**-**	256,598
Financial assets held for trading	**1**	**-**	**-**	**-**	**-**	1
Loans and advances to customers	**69,284**	**44,322**	**217,630**	**1,266,353**	**660,483**	2,258,072
Financial assets at FVTOCI	**18,916**	**25,146**	**8,960**	**218,039**	**220,366**	491,427
Financial assets at amor-tised cost	**11,217**	**-**	**-**	**52,138**	**199,212**	262,567
TOTAL INTEREST-BEAR-ING ASSETS	**327,202**	**199,003**	**318,912**	**1,565,593**	**1,080,061**	3,490,771
INTEREST-BEARING LIA-BILITIES						
Deposits from banks	**40,440**	**-**	**-**	**-**	**-**	40,440
Liabilities to other depos-itors	**2,300,164**	**346,321**	**1,073,309**	**1,289,285**	**4,660**	5,013,739
Issued bonds	**-**	**-**	**-**	**25,343**	**-**	25,343
TOTAL FINANCIAL LIA-BILITIES	**2,428,855**	**356,499**	**1,063,990**	**1,099,041**	**1,847**	**4,950,232**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Liquidity risk (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, 2018 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 3,285 thousand (2017: BGN 2,470 thousand).

The mismatch 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 re-purchase 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	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)**

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 2,048 thousand.

The tables above feature part of the attracted funds in current accounts without remaining maturity amounting to BGN 1,282,673 thousand as of December 31, 2018 and BGN 1,014,579 thousand as of December 31, 2017 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 2018 and 2017.

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.

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Liquidity risk (continued)

Foreign currency risk (continued)

The risk-weighted net currency position as of December 31, 2018 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.

Due to the low amount of this position, the potential effect of exchange rate changes will not result in significant effects on equity and therefore the risk-weighted effect on equity will be below the materiality threshold for the Bank and the regulatory framework – Regulation (EU) 575/2013.

The currency structure of the financial assets and liabilities by carrying amount as of December 31, 2018 is as follows:

	BGN	EUR	USD	Other	Total
FINANCIAL ASSETS					
Placements with, and advances to, banks	**23,024**		**101,711**	**68,099**	**222,106**
Receivables under repurchase agreements of securities	**205,184**	**29,272**	**-**	**-**	**256,598**
Financial assets held for trading	**2,928**	**51,414**	**27**	**30**	**2,985**
Financial assets at FVTPL	**161,431**	**-**	**-**	**34,896**	**198,440**
Loans and advances to customers	**1,506,890**	**2,113**	**3,784**	**3,760**	**2,258,072**
Financial assets at FVTOCI	**108,433**	**743,638**	**4,925**	**-**	**502,607**
Financial assets at amortised cost	**-**	**389,249**	**-**	**-**	**262,567**
Investments in subsidiaries	**3,200**	**262,567**	**-**	**-**	**49,416**
TOTAL FINANCIAL ASSETS	**2,011,090**	**46,216**	**110,447**	**106,785**	**3,752,791**

FINANCIAL LIABILITIES		1,524,469			
Deposits from banks	6,162		2,437	945	40,440
Amounts owed to other depositors	3,480,223	30,896	200,431	91,406	5,013,739
Issued bonds	-	1,241,679	-	-	25,343
TOTAL FINANCIAL LIABILITIES	**3,486,385**	**25,343**	**202,868**	**92,351**	**5,079,522**
NET POSITION	**(1,475,295)**	**226,551**	**(92,421)**	**14,434**	**(1,326,731)**

35. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

Liquidity risk (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 agreements 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	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)**

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 instruments at FVTPL, 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 indices, 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 at FVTPL, at the total amount of BGN 201,368 thousand (2017: BGN 67,694 thousand).

36. 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.

36. INFORMATION REGARDING THE FAIR VALUE OF THE ASSETS AND LIABILITIES (CONTINUED)

The fair value of the financial assets and liabilities at fair value is distributed in accordance with the hierarchy of the fair values as of December 31, 2018 and 2017 is as follows:

2018	Carrying amount	Level 1 – quoted market price	Level 2 – Valuation techniques of observed market levels	Level 3 – Valuation techniques of non-observed market levels
ASSETS				
Financial assets at FVTPL	201,425	154,471	12,109	34,845
- derivatives	56	-	56	-
- debt securities	1	1	-	-
- equity securities	201,368	154,470	12,053	34,845
Financial assets at FVTOCI	502,607	439,590	13,909	49,108
- debt securities	491,427	438,144	13,909	39,374
- equity securities	11,180	1,446	-	9,734
TOTAL ASSETS	704,032	594,061	26,018	83,953
LIABILITIES				
Derivative financial instruments	1,272	-	1,272	-
TOTAL LIABILITIES	1,272	-	1,272	-

2017	Carrying amount	Level 1 – quoted market price	Level 2 – Valuation techniques of observed market levels	Level 3 – Valuation techniques of 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	-

37. RELATED PARTY TRANSACTIONS

The Bank has concluded a number of related party transactions. As connected, the Bank considers related parties those parties where one of the parties is able to control or exercise significant influence over the other in making financial and operational decisions, and in cases where both parties are under common control. The Bank has performed transactions with the following related parties: Parent company, entities under common control, Subsidiaries, key management personnel of the Bank or of the principal shareholder, which transactions are related to granting of loans, issuing of guarantees, attracting cash, realization of repo deals, etc. All transactions are concluded in the ordinary course of the Bank's business and do not differ from market conditions, as loans are granted and guarantees are issued only if proper collateral is available.

37. RELATED PARTY TRANSACTIONS (CONTINUED)

As of December 31, 2018, and 2017 the Bank has receivables from, payables and contingent commitments to related parties as follows:

Related parties and balances	Balance as of 31.12.2018	Balance as of 31.12.2017
Parent company		
Deposits received	**91**	**109**
Companies under common control		
Loans granted	**49,281**	**76,051**
Guarantees issued	**4,778**	**6,520**

Receivables under repurchase agreements	**11,316**	**11,176**
Other receivables	**599**	**3,035**
Other payables	**1**	**-**
Deposits received	**43,947**	**53,478**
Deposits granted	**3,725**	**-**
Issued bonds	**258**	**45,136**
Subsidiaries		
Deposits received	**1,237**	**2,556**
Deposits granted	**3,354**	**6,823**
Key management personnel of the Bank or its main shareholder		
Loans granted	**1,939**	**1,718**
Other receivables	**8**	**8**
Deposits received	**3,870**	**3,366**

Income and expenses realized by the Bank in 2018 and 2017 from transactions with related parties are as follows:

Related parties and transactions	**Turnover in 2018**	**Turnover in 2017**
Parent company		
Interest income	**-**	**-**
Income from fees and commissions	**1**	**2**
Companies under common control		
Interest income	**3,821**	**4,858**
Income from fees and commissions	**1,123**	**1,295**
Income from services	**287**	**205**
Interest expense	**(1,384)**	**(1,818)**
Expenses for services	**(4,609)**	**(6,629)**
Expenses for fees and commissions	**(1)**	**-**
Subsidiaries		
Interest expense	**(1)**	**(22)**
Interest income	**12**	**253**
Income from fees and commissions	**4**	**18**
Expenses for fees and commissions	**(1)**	**(1)**
Dividends	**1,101**	**923**
Income from services	**183**	**191**
Expenses for services		**-**

Key management personnel of the Bank or its main shareholder		
Interest income	**12**	**11**
Income from fees and commissions	**8**	**10**
Interest expense	**(2)**	**(2)**
Expenses for services	**(168)**	**(108)**

37. RELATED PARTY TRANSACTIONS (CONTINUED)

The remuneration of the members of the Supervisory Board which include short-term employee benefits paid in 2018 are at the total amount of BGN 530 thousand (2017: BGN 240 thousand). The remunerations of the members of the Management Board which include short-term employee benefits paid in 2018 are at the total amount of BGN 519 thousand (2017: BGN 297 thousand).

38. 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	
	2018	**2017**	**2018**	**2017**
Operating income	**168,323**	**188,853**	**252**	**325**
Financial result before tax	**37,448**	**38,777**	**(161)**	**(256)**
Tax expense	**(3,517)**	**(1,707)**	**-**	**-**
Return on assets (%)	**0.60**	**0.68**	**(6.80)**	**(2,45)**
Full Time Employees as of December 31	**1,965**	**1,958**	**5**	**5**
Received government grants	**-**	**-**		**-**

39. 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, except for the following non-adjusting event:

Share capital of the Bank has been increase through issue of new shares as a result of converting bonds. The increase was entered in the Commercial Register on February 25, 2019. The capital increase as a result of the conversion amounts to 13 975 679 ordinary voting shares with a nominal value of BGN 1 per share. After the increase the issued share capital of the Bank comprises 127 129 970 ordinary voting shares with a nominal value of BGN 1 per share. All shares are entitled to dividend and liquidation share and represent one vote at the General Meeting of Shareholders of the Bank.