

EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE THIRD QUARTER OF 2016 OF CENTRAL COOPERATIVE BANK AD

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

1. Selected positions from the financial statements

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

<i>Derivatives, held for trading</i>	1 000
<i>Equity instruments</i>	97 226
<i>Debt instruments</i>	41 266

Compared to the previous year the Group has decreased its investments in the Bulgarian government securities, whereas for the period from the beginning of 2016 the decrease is to the amount of BGN 38 613 thousand. Compared to the previous year the Group decreased its investments in government securities of EU countries to the amount of BGN 51 000 .

The financial assets available for sale are those financial assets, which are not held by the Group for trading, to maturity and are not loans and receivables, which initially occurred at the Group. The financial assets available for sale are acquired interest-bearing government and corporate securities, as well as acquired capital investments in financial and non-financial companies. The structure of these assets at the end of the quarter in BGN thousand is as follows:

<i>Equity instruments</i>	79 580
<i>Debt instruments</i>	123 425

Compared to the previous year the Group increased its investments in Bulgarian government securities to the amount of BGN 22 295 thousand. There are no significant changes in the investments of the Group in Bulgarian government securities and government securities from EU countries.

During the third quarter of 2016 the financial assets, held for trading and for sale are evaluated at fair value, whenever for them there is a quotation on an active market, and when this quotation was not present, they are evaluated at acquisition price.

The financial assets, held to maturity, are with a fixed payment and fixed maturity, which the Group has the intention and possibility to keep to their maturity, regardless of any possibility to be traded in the future upon any favorable conditions. These assets are acquired interest-bearing government and corporate securities.

Compared to the previous year the Group does not have considerable changes in its investments in Bulgarian government securities. During the period the Group decreased its investments in government securities from EU countries within BGN 181 664 thousand.

The debt instruments include bonds, issued by the government of the Republic of Macedonia, held by the Group to the amount of BGN 24 311 of the Republic of Macedonia, as well as bonds issued by the National Bank of the Republic of Macedonia to the amount of BGN 14 516 thousand.

During the third quarter of 2016 the financial assets, held to maturity are reported at amortized value according to the effective interest rate method and are not devaluated, due to the lack of indicators of the potential devaluation of these assets.

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

During the third quarter of 2016 the loans with a fixed maturity, which initially originated at the Group, are recorded at amortized value according to the effective interest rate method and are devaluated under conditions, which prove the decrease in the loans value.

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

The receivables under securities repurchase agreements are recorded at acquisition price, which is equal to the fair value of the funds placed by the Group, secured by the value of the securities. The securities, received as collateral under securities repurchase agreements, are not recorded in the financial statements of the Bank in the cases, when the risks and the profits from their ownership have not been transferred. The reflected receivables under securities repurchase agreements at the end of the third quarter have been secured by a pledge of Bulgarian government securities and corporate securities.

Fixed tangible and intangible assets

The fixed tangible and intangible assets are acquired and held by the Group discernible non-financial resource, which is used for the production and/or sale of services, for letting, for administrative or for other purposes. They are recorded at acquisition cost, decreased by the accrued depreciation and the accumulated losses of devaluation.

The depreciation of fixed tangible and intangible assets is calculated according to the linear method, so that the amortization corresponds to the term of use, intended for these assets. The annual depreciation rates are as follows:

Buildings	4%	(25 years)
Inventory	15%	(7 years)
Transport vehicles	15%	(7 years)
Other assets	15%	(7 years)
Specific equipment, cable networks and security systems	4%	(25 years)
Equipment, including hardware and software products	20%	(5 years)

Depreciation does not accrue for land, assets for resale, assets in the process of acquisition, assets in the process of liquidation and the fully amortized assets up to their residual value.

During the third quarter of 2016 a devaluation of inventories, a devaluation of the fixed tangible and intangible assets was not performed, due to the lack of indicators for a potential devaluation of these assets.

Noncurrent assets held for sale

Real estates and movables, acquired by the Group as a mortgagee associated with granted and non-performing loans are classified as non-current assets, held for sale and are recorded initially at acquisition price. After their initial recognition, these assets are recorded at the lower of their current book value or their fair value, decreased by the realization expenses. No depreciation accrues for these assets.

Investment properties

The investment properties are acquired and held by the Group real estates, which the Group will not use in its activity and which the Group holds with the aim of receiving rent income and/or for increasing the value of the capital. As its accounting policy with regard to the investment properties reporting, the Group has adopted the model of the acquisition cost in compliance with the requirements of IAS 16. In this regard they are recorded at acquisition cost, decreased by the accrued depreciation and the accrued losses of devaluation. Depreciation accrues for the buildings, acquired as investment properties, whereas their annual depreciation rate is 4%(25 years). No depreciation accrues for the land, acquired as investment properties.

2. Transactions with related parties

The Group performed a number of transactions with related parties, whereas it granted loans, issued guarantees, attracted funds, made repo transactions, etc. All transactions have been concluded under ordinary commercial conditions in the course of the activity of the Group and do not defer from the market conditions, when the loans were granted, and the guarantees were issued only against sufficient collateral.

At the end of the third quarter the receivables of the Group from the companies under common control are to the amount of BGN 104 320 thousand, which stem from granted loans predominantly. At the end of the third quarter the liabilities of the Group to companies under common control are to the amount of BGN 96 760 thousand, of which BGN 44 257 stem mainly from received deposits. The remaining part of the liabilities concerns convertible bonds issued by the mother bank to the amount of EUR 36 000 thousand

At the end of the third quarter of 2016 the Group does not have receivables from the mother company. At the end of the third quarter of 2016 the Group has liabilities to the mother company to the amount of BGN 10 thousand, which stem from received deposits.

3. Accounting policy

During the third quarter of 2016 the Group applied the same accounting policy and the same methods of evaluation, as in the preparation of the annual consolidated financial statements for 2015.

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

During the third quarter of 2016 no interim operations were performed, stemming from the specific seasonality or cycles. All interim operations during this period stem from the ordinary activity of the Group.

5. Information about usual in amount and character assets, liabilities, shareholders' equity, income and expenses.

During the third quarter of 2016 there are no extraordinary positions with respect to the assets, liabilities, shareholders' equity, the income and expenses.

The total amount of the assets in the financial statements of the Group as at 30.09.2016 increased compared to the total amount of the assets in the financial statements of the Group as at 31.12.2015 by 4.5% and reached BGN 5 057 607 thousand. The increase in the assets of the Group is related to the increase in the funds, attracted from other depositors.

During the third quarter of 2016 there is no change in the shareholder participation of the mother bank in the subsidiary Central Cooperative Bank AD Skopje, the Republic of Macedonia, as a result of which as at 30 September 2016 Central Cooperative Bank Plc Sofia has 483,121 ordinary shares in the capital of Central Cooperative Bank AD Skopje, the Republic of Macedonia, which is 87,35 % of the capital of the subsidiary.

During the third quarter of 2016 there is no change in the shareholder participation of the mother bank in the subsidiary "CCB Assets Management" EAD assets management company, as a result of which as at 30 June 2016 Central Cooperative Bank Plc Sofia has 500 000 ordinary shares in the capital of "CCB Assets Management" EAD assets management company, which is 100 % of the capital of the subsidiary.

During the third quarter of 2016 there is no change in the shareholder participation of the mother bank in the subsidiary ZAO "IC Bank", Kazan, the Republic of Tatarstan, Russian Federation, as a result of which as at 30 September 2016 Central Cooperative Bank Plc Sofia has 25 338 394 ordinary shares in the capital of ZAO "IC Bank", Kazan, the Republic of Tatarstan, Russian Federation, which is 86.273 % of the capital of the subsidiary.

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

During the third quarter of 2016 the Group does not have issued, repurchased or repaid debt securities, as well as issued and repurchased equity securities.

7. Information about accrued /paid/ dividend.

During the third quarter of 2016 CCB Assets Management EAD (subsidiary) paid the distributed in favour of the mother bank dividend to the amount of BGN 770 thousand.

8. Events after the date of the financial statements

After the end of the third quarter of 2016 no events occurred, which have a significant influence on the future development of the Group.

9. Information about changes in the conditional assets and liabilities

During the third quarter of 2016 compared to 31.12.2015 there are changes in the amount in the direction of an increase in the conditional assets of the Group concerning the assets, provided by clients as loan collateral. With respect to the conditional liabilities during the period there are changes in the direction of a decrease in their amount compared to 31.12.2015, whereas the decrease concerns guarantees, issued by the Group.

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