

**M INTERIM ACTIVITY REPORT
OF THE BULGARIAN-AMERICAN CREDIT BANK AD ON A CONSOLIDATED BASIS
FOR THE SIX MONTHS OF 2018**

SOFIA, 26 JULY 2018

GENERAL INFORMATION

In the first six months of 2018, the Bulgarian-American Credit Bank AD (BACB, the Bank) continued to offer innovative and flexible solutions for the business and individuals manage risks and be a "green" and socially responsible bank. The Bank strives to become a key partner for the development of resource-efficient, competitive, green economy in Bulgaria, while achieving synergy between the customers' needs, the responsible attitude towards the environment and the business goals set forth.

For the period BACB continued pursuing its main strategic goals related to its development as a universal bank offering a full range of banking services, including financing of small and medium-sized enterprises, and expanding services in retail banking by offering a variety of products in the consumer lending and transaction banking. The Bank is committed to meet its customers' needs by providing a comprehensive range of services through contemporary banking technologies and as a result expanding its customer base.

In its credit activity as at 30.06.2018, the Bank registered a net increase in the book value of its loan portfolio for the segment "Natural Persons" by + 15.93% or BGN +8.676 million compared to 31.12.2017. As regards the SME and Corporate Clients segments, the Bank also reported a growth of + 4.85% or BGN +40.406 million, taking into account the decrease of BGN -10.139 million in the portfolio of the Restructuring Sector (loans, provided before 2011), at whose reduction the Bank works actively.

As at 30.06.2018, the total growth in the Bank's loan portfolio was + 5.53%, a net increase of BGN +49.082 million compared to the previous 2017.

The Bank continues its successful development and promotion on the market of its innovative product for individuals - fast consumer credit "BACB Express" and in the second quarter completed a new project providing the customers of fast credits new and convenient options for repayment of obligations via www.ePay.bg , at ATM via the B-pay system, at Easy Pay cash desks, and via e-banking.

In terms of lending, BACB is actively working to continue the diversification of the loan portfolio by increasing the share of loans to Individuals and SMEs and increasing cross-selling between both the customer segments and the BACB's non-credit products and services to the borrowers of the Bank.

BACB considers with priority the financing of projects with approved financial support under the EU Operational Programs. The Bank operates a specialized department aimed at working with European programs and financial institutions, in order to provide a full range of services to the BACB's customers at all stages of project process realization under European programs.

In June 2018, BACB joined the Program for Financing Innovative Start-ups at Sofia Municipality. This is a special guarantee scheme of the Municipal Guarantee Fund for Small and Medium-Sized Enterprises (MGFSME). The program aims to stimulate the development of start-ups and to facilitate their access to financial resources necessary for the implementation of their business projects. Priority areas of the program are innovations in the field of information and communication technologies, as well as new technologies in the creative and reactive industries. The program gives priority to female entrepreneurs with a Bachelor's degree in the field of the project, businesses with social and environmental impact, as well as projects that create new jobs for unemployed. The program provides guarantees up to 50%, where the maximum guarantee amount of MGFSME is BGN 30 000. The guarantee commitment is up to 60 months.

BACB has a standard contract with the Ministry of Education and Science under the Undergraduate and Graduate Student Loans Act. The agreed state guarantee for granting loans to undergraduate and graduate students amounts to BGN 3 000 000. The MES's credit scheme will allow BACB AD to expand and deepen its cooperation with the state institutions in the country, as well as to attract new individual customers - undergraduate and graduate students in line with the Bank's strategy for development in the period 2018-2020. The program benefits from a state guarantee amounting to 100% of the loan amount. A credit product "Excellent 6" is developed for the purpose of this contract.

During the period the Bank participated in a competition program of Bulgarian Development Bank AD for indirect financing of small and medium enterprises with a guarantee facility and counter-guarantees under the COSME Program of the European Investment Fund, with the support of the European Fund for Strategic Investments - COSME Program+" in the amount of EUR 10 000 000.

BACB AD continues to develop its portfolio of products offered via office and online platforms. In the last quarter, 4/12 deposit was integrated for information via Virtual Bank. A new consulting service - video chat with customers - was developed and put into operation. The platform is an additional channel for connecting with users, providing the opportunity to obtain information related to Loans for Individuals, Online Deposit and Online Banking (Virtual Bank). Audio and video calls, screen sharing, and chat with an employee of the Bank are supported. In this connection, at BACB's Call Center a visual studio was set up.

In the second quarter, planned updates of the Bank's ICT infrastructure were carried out. New contracts with suppliers were concluded. Firewalls were updated to protect public resources; a pair of Fort iGATE devices were deployed. Following the implementation of the changes, several partial tests were carried out to guarantee continuity of services offered by the bank.

An analysis was performed and changes were made in relation to GDPR, including administrative, organizational and technical measures. A project was launched for selection of provider and implementation of database protection system - Database Firewall.

The functionality of the SMS notification for account transactions has been expanded - now customers can choose an amount over which to receive notifications - thus, the Bank ensures an optimized process and reduces customer costs for SMS.

Regarding the card business, BACB continues its successful cooperation with the card organizations by participating in joint campaigns. The Bank increases the number of traders using BACB POS terminals, installs new ATMs in retail outlets, maintains and services card transactions at the lowest prices on the market. Thus, the Bank implemented the regulatory requirements of the new Directive on Payment Services for secure payments on the Internet and minimizes the risk of disputed card transactions and customer claims.

The Bank has signed a contract to develop new online card management functionality that would enhance customer satisfaction and meet their expectations and experience.

In the second quarter of 2018, continued additional upgrades and functionalities in the Bank's systems in order to increase the quality of customer data, increase the automation of payment processes, and introduce additional controls to further reduce operational risk. The measures taken will also ensure new processes and functionalities foreseen for the Internet and Mobile Banking Platform. The Bank also started a process of changing the design of the platform.

For the second quarter of 2018, the Bank recorded a growth in transfers and documentary operations compared to the first quarter. The number of transfers increased by 11% and their volume - by 32%. With letters of credit and guarantees abroad, the Bank accounted for an increase in their volume of 20% compared to the first quarter of 2018.

The increase in the business operations was also reflected in the fees and commissions collected on the payment transactions. In the second quarter of 2018, they reached BGN 1.3 million, which is an increase of 24% compared to the same period in 2017.

In the second quarter of 2018, the Bank continued to apply innovative approaches to attract new customers and funds, as well as to diversify the deposit base. New deposit products were developed to attract new resources, the application of deposit-taking schemes from abroad continued. A new long-term deposit product with insurance "Everything is Right" was offered on the deposit market.

In the second quarter of 2018, the Bank continued to apply a flexible approach to increasing and diversifying the borrowed funds from the domestic market, will continue to maintain and increase the share of foreign deposits, will focus on the development of remote banking channels, will continue to improve service quality by applying individual approach to service, simplification of documentation and improvement of customer service processes.

The spring macroeconomic forecast of the Ministry of Finance takes into account the more favorable expectations for the development of the global and European economy compared to the 2017 autumn forecast. Estimates of the dynamics of international prices of oil and non-energy raw materials were also increased, especially for 2018. At the same time, the Bulgarian economy reported a 3.6% real growth in 2017 compared to expected 4% in the forecast for September 2017. This was due to the stronger negative contribution of net exports, while domestic demand was better than expected. GDP growth is expected to accelerate to 3.9% in 2018, with domestic demand continuing to be ahead. Private consumption will accelerate slightly, backed by improved consumer confidence and a real increase in disposable income for households. At the same time, the investment activity will be mainly driven by the increase in public investments. GDP growth rates will remain relatively high throughout the forecast period. Economic activity will slow slightly to 3.8% in 2019 due to the downward dynamics of domestic demand and will reach 3.7% in the period 2020 and 2021. Domestic demand will remain the main driver of GDP growth in terms of both consumption and investments. While the investment activity is expected to moderately increase, lower employment growth and real incomes will result in a slowdown in private consumption growth. The negative effect on GDP in the line of net

exports is expected to shrink to about 0.8 pp. in 2020 and 2021. In 2017, employment growth was higher than expected, but this did not lead to a substantial revision of estimates of employees' dynamics over the medium term due to the significant impact of agriculture. In the medium term, labor supply constraints and negative demographic developments will affect the slowdown in employment growth until its end in 2021. Inflation expectations were higher over the entire forecast period considering the dynamics reported in 2017 and the first two months of 2018, as well as updated assumptions for the international food and crude oil prices.

Forecast of the Ministry of Finance

	2018	2019	2020	2021
GDP (billion BGN)	104.7	111.1	117.9	124.9
GDP (real growth %)	3.9	3.8	3.7	3.7
Contribution:				
- Consumption	5.0	4.9	3.9	3.8
- Gross capital formation	10.1	6.6	6.9	7.0
- Export	4.9	4.9	4.7	4.6
- Import	8.1	7.0	5.9	5.8
Unemployment (%)	5.9	5.7	5.5	5.4
Inflation (%)	1.8	2.0	2.1	2.1
Foreign direct investments (% of GDP)	2.7	2.7	2.8	2.8
Loans granted to companies (%)	5.0	5.7	6.2	6.4
Loans granted to households (%)	4.8	5.0	5.5	6.2

Source: Ministry of Finance (MoF)

Expectations for the development of the world and European economy are improving compared to the fall forecast of 2017, mainly as a result of the better performance in 2017. The growth of the world economy was accelerated in 2017, supported both by developed and developing countries. The EU economic growth was also accelerated, with contributions from both domestic demand (consumption and investment) and net exports. The rising dynamics of the European economy was driven by the favorable development in most of the Union's countries, with an economic growth better than expected in the largest Member States, with the exception of the United Kingdom. In 2018, the world economic growth is expected to continue to grow steadily, backed by the increased economic activity in developing countries and the acceleration of the US GDP growth. At the same time, the growth of the European economy will start to slow down due to the more limited employment growth. Uncertainty related to the consequences of the UK's forthcoming exit from the EU is a potential risk to economic activity in the region. The European economy growth will continue to slow down throughout the forecast period.

The assumptions about the price dynamics of the main groups of raw materials are based on the current IMF and WB expectations. Based on this information, in 2018, the average price of Brent crude oil is expected to increase by 17.6% to USD 64 per barrel, with an expected growth of 1.5% in September 2017. These expectations are related not only to the improved growth prospects of the global economy but also to the expanded agreement of the OPEC countries to restrict production, as well as the geopolitical tensions in the Middle East that raised the cost of raw materials by the end of 2017 and early 2018.

According to NSI data in 2017, the Bulgarian gross domestic product grew by 3.6% compared to the expected 4% in the forecast of the Ministry of Finance in September 2017. The lower growth was due to the stronger negative contribution of net exports (-1.7 pp), while domestic demand performed better than expected with a positive contribution of 5.3 pp to the GDP growth.

The GDP is forecasted to grow by 3.9% in 2018, with growth continuing to be driven by domestic demand. Final consumption will rise by 5%, while core capital growth is expected to reach 10.1%. The forecasted increase in public consumption and investment will have a major contribution to rising domestic demand. Private consumption will slightly accelerate to 4.9%, backed by the improved consumer confidence, continued employment growth, and a real increase in household disposable income. The forecasts of international institutions are for negligible slowdown in economic activity in the EU and acceleration of global growth. This will reflect in preserving the dynamics of external demand, and the growth in exports of goods will remain close to that of the previous year. At the same time, due to the low base of 2017 and the expected favorable dynamics in the current year, growth in exports of services is expected. Increased domestic demand and exports will support the growth of imports. As a result, in 2018 the negative contribution of net exports to GDP is expected to increase compared to 2017 and reach 2 pp.

In 2017, employment grew at a faster pace than expected in the autumn macroeconomic forecast of the Ministry of Finance, which is also associated with a higher labor force increase. At the beginning of 2018, expectations for labor market developments remain favorable. Business assessments of employees' dynamics are rising, which is relevant to both industry and construction and services. In 2018, employment growth is expected to be 0.6% after a significant increase of 1.8% in 2017. The main reason for the slowdown is agriculture. The high share of the persons employed in the sector, with a tendency for the EU countries to decline and the ongoing process of restructuring of the farms

to the larger ones, hiring workers, are the ones that determine the expected decrease of the self-employed in the sector. Thus, positive impact in 2018 is expected via demand of labor in industry and services.

The main risks to the macroeconomic forecast are related to the uncertainty in the development of the external environment and the expectations for international prices, as well as the unfavorable demographic trends in the country.

The risks to downward economic growth are mainly driven by external demand. The European economy growth may be delayed more than expected due to factors such as the uncertainty surrounding the forthcoming UK exit from the EU, less favorable global financing conditions, the strengthening of protectionist policies in some countries, mostly in the United States, the rise in geopolitical tensions and the stronger than expected slowdown in the Chinese economy. The weaker economic activity of our main EU trading partners would have a negative impact not only on the Bulgaria's exports but also on the domestic demand, both by limiting the growth of consumption and by lower investment activity.

The BACB's management retains its expectations for 2018 and believes that the financial year will be marked by significant challenges - items expansion, product quality development, including the introduction of digital technologies, under the terms of tight interest rate margins and high competition; adequate preparation for forthcoming regulatory changes. The management believes that, given the conservative provisioning policy and the good capital adequacy ratio, the Bank is adequately positioned and capable of responding flexibly to the needs of business and individuals. The stable deposit base combined with reasonable risk management and the fast and flexible business model of the Bank remain the main advantages that will allow it to avail itself of the opportunities offered by the changing market environment.

OVERVIEW OF THE ACTIVITIES IN Q2 2018

Selected indicators and ratios

<i>In BGN'000 and %</i>	31.12.2017 (audited)	30.06.2017 (unaudited)	30.06.2018 (unaudited)	Change 06.2018/06.2017
Size of assets	1 240 276	1 206 005	1 332 087	10.45%
Loans (net value)	766 119	694 188	818 499	17.91%
Borrowed funds	1 056 907	1 027 300	1 127 886	9.79%
Equity	178 318	174 737	179 528	2.74%
Net interest income	28 847	13 895	16 760	20.62%
Net income from fees and commissions	5 782	2 579	3 103	20.32%
Loans/borrowed funds	72.49%	67.57%	72.57%	
Liquid assets ratio	26.69%	31.12%	26.02%	
Capital adequacy	18.67%	19.79%	17,87%	

Active operations

At the end of the second quarter of 2018, the Group's assets amounted to BGN 1 332 087 thousand, as compared to the 2017 audited data, showing an increase of BGN 91.8 million or an increase of 7.4%.

As at 30 June 2018, the Group recorded an increase in the loan portfolio at a book value of BGN 59.1 million or 6.7% reaching BGN 939.9 million compared to the volume at the end of 2017. From the beginning of 2018, the Bank calculates accumulated credit losses and impairments under IFRS 9, which amounted to BGN 121.4 million and provided coverage of 12.9% of the loan portfolio with a volume of BGN 114.7 million at the end of 2017, a coverage of 13% and an average level for the banking system of less than 8%.

In 2018, the accumulated provisions for impairment increased by BGN 6.7 million or 5.8%, including the effect of applying IFRS 9 at BGN 5.2 million.

At the end of June 2018, the net loan portfolio amounted to BGN 818.5 million and formed a 61.4% share of total assets. The loan portfolio includes receivables under finance leases for BGN 5 610 thousand at book value of BGN 5 897 thousand at the end of the previous year.

In the first half of 2018, the Group granted new loans amounting to BGN 249.7 million and the amount of repaid loans for the same period was BGN 194.1 million, including debt reduction by BGN 6.1 million against acquired collateral.

As of 30 June 2018, overdue loans over 90 days represented 18.2% of the total loans at book value, compared to the reported 17.9% as at 31 December 2017.

The share of non-performing loans is above the average for the banking system with a continuing steady downward trend. The main reason for the higher share is the sectoral orientation of the Bank - financing of projects in the construction and real estate sector before the global financial crisis. The loan policy applied in recent years and now is focusing on poorly cyclical and promising economic sectors, aiming at effective diversification both in terms of sectoral positioning and size and timing so as to provide a sustainable basis for development and limit the impact of individual exposures in a given industry. As a result, and due to revitalization in the construction and real estate sector, the negative effects gradually diminished in 2017 and the share of non-performing loans decreased by more than 7 percentage points, and decreased by a further 2 percentage points within the 6 months of 2018 r. To improve the quality of the loan portfolio, continuous control of problem loans is carried out and adequate procedures for their management are applied. Regular internal analyzes developed and complex stress tests help timely assess the effects of a possible deterioration of the business environment on the bank's portfolio.

In 2018, in accordance with the requirements of IFRS 9 (implemented with effect from 1 January 2018 with a detailed depiction effect from the implementation in the Group's consolidated financial statements notes as of 30 June 2018), the Group has reclassified the securities held "available for sale" and "held to maturity" in "recognized at fair value through other comprehensive income" and "measured at amortized cost".

The Group has not chosen to recalculate comparable information for 2017 for financial instruments within the scope of IFRS 9, therefore the information for 2017 is presented in accordance with IAS 39 and is not comparable to the information presented for 2018.

As at 30 June 2018, the financial assets held at fair value through other comprehensive income amounted to BGN 51.7 million or 3.9% of the total assets, formed from 81.2% first-rate government securities of the Republic of Bulgaria, 15.7% of corporate bonds and 3.1 % of equity instruments. In the first quarter 2018, a decrease of BGN 3.1 million was recorded, due mainly to two issues matured in January and sold in June. Equity instruments of BGN 1.6 million include equity interest in a special investment vehicle of BGN 712 thousand at book value, unchanged from the end of the previous year, equity participation in Class C privileged shares in Visa Inc.'s capital amounting to BGN 858 thousand at fair value (BGN 728 thousand at the end of 2017) and participation in the BSE for BGN 3 thousand.

The portfolio of debt instruments measured at amortized cost includes bonds of the Bulgarian government with fixed payments and maturity. Within the reporting half-year, there was a slight increase to BGN 20.6 million or 1.5% of total assets.

As at 30 June 2018, receivables from banks amounted to BGN 133.6 million and held a share of 10% of total assets of BGN 68.7 million and a share of 5.6% at the end of 2017. The reported increase of 94.3% compared to the end of 2017 is formed by the accumulation in fixed-term deposits and growth in demand deposits.

Cash and cash held by the central bank decreased by 12.5% to BGN 156.7 million at the end of the half-year, compared to BGN 179.2 million at the end of 2017, bringing its share in total assets from 14.5% to 11.8 %.

Tangible and intangible fixed assets held by the Group decreased from BGN 9.5 million to BGN 9.3 million at book value by the end of 2017, and their share in total assets declined slightly from 0.8% to 0.7%.

As of 30 June 2018, assets acquired and classified as "assets for sale" and "investment property" amounted to BGN 126.7 million or 9.5% of total assets at BGN 127.5 million and 10.3% at 31 December 2017. During the reporting quarter, "investment properties" were sold amounting to BGN 1 790 thousand at book value, reclassified as fixed assets and inventory (assets under development) BGN 4 883 thousand were sold, "assets for sale" were acquired for BGN 6 485 thousand and "investment properties" for BGN 244 thousand at book value. Acquired assets amounting to BGN 29 192 thousand were reclassified from "assets for sale" to "investment property".

For the realization of the acquired assets, as well as for the organization and administration of the accompanying activities, a specialized department is formed and operates in the Bank.

Liabilities

As at 30 June 2018, the Group recorded borrowed funds from banks amounting to BGN 8.2 million or by 61.1% less than at the end of 2017.

Borrowed funds from companies and individuals increased by BGN 87 million over the half-year period to BGN 1 086.5 million at 30 June 2018, or 94.3% of total liabilities at BGN 999.5 million and 94.1% at the end of 2017. Reported growth was a result of growth of companies' funds by BGN 66.9 million (financial institutions, state-owned enterprises and budget organizations) and an increase by BGN 20.1 million in the funds of citizens (including BGN 5.9 million deposits from Germany and Spain).

In the first half of 2018, the Bank fulfilled the terms of the issued Eighth Mortgage Bonds Issue (BSE-Sofia Code: 5BNF) by making a regular principal payment of EUR 550 thousand and interest payments under the terms of the issue of the bond. As at 30 June 2018, issued debt securities amounted to BGN 4 343 thousand at book value and formed 0.4% of total liabilities at BGN 5 427 thousand and 0.5% at the end of 2017.

In the item "other borrowed funds", credit line commitments by the Bulgarian Development Bank (BDB) under the target micro, small and medium-sized business program of an agreed amount of BGN 35 million are reported. As of 30 June 2018, long-term funding from BDB amounts to BGN 28.9 million or 2.5% of total liabilities compared to a volume of BGN 30.9 million at the end of 2017 and a share of 2.9%.

Equity

During the reporting half-year of 2018, there were no changes in fixed capital.

As of 30 June 2018, the item "reserves and retained earnings" includes the realized profit for the previous year amounting to BGN 7 884 thousand and the one-off effect of applying IFRS 9 at the amount of BGN 5 182 thousand, meaning it reported a net increase of BGN 2 702 thousand.

Unrealized gains and losses on revaluation of financial assets measured at fair value in other comprehensive income form a revaluation reserve of BGN 1 558 thousand at BGN 2 141 thousand at the end of 2017. Changes in the fair value of equity instruments measured at fair value through other comprehensive income amounted to BGN 320 thousand for the reporting period. The formed revaluation reserve on the Bank's own buildings used in its operating activities is BGN 4 498 thousand as at 30 June 2018 and is unchanged compared to the end of 2017.

REVIEW OF THE FINANCIAL POSITION AS AT 30 JUNE 2018

The Group ended the first half of 2018 with a positive financial result of BGN 6 655 thousand after taxes compared to reported earnings for the same period in 2017 amounting to BGN 4 590 thousand or growth of 45%. The achieved is indicative of improving performance from activities.

Comparison of earnings from core business (interest income) for both periods shows an increase of BGN 1 650 thousand to BGN 20 758 thousand. The main share in the interest income accounted those from lending activities 95.4%. Reported income from interbank deposits amounted to BGN 342.3 thousand against BGN 136.7 thousand for the second quarter of the previous year. Interest income from security portfolios held recorded a decrease of BGN 13.5 thousand as of 30 June 2018 as compared to 30 June 2017 and amounted to BGN 597.8 thousand at the end of the reporting half-year.

The continuing decline in the cost of borrowed funds reflects a reduction in interest costs, despite the increase in the volume of resources. As a result, interest expense decreased by 30 June 2017 by BGN 1 215 thousand to BGN 3 998 thousand as at 30 June 2018, with the largest decrease being reported for interest expenses of clients by BGN 1 304 thousand.

As at 30 June 2018, net interest income amounted to BGN 16 760 thousand, or by BGN 2 865 thousand more than reported for the same period of the previous year.

Net fees and commissions income increased by BGN 524 thousand compared to 30 June 2017 and amounted to BGN 3 103 thousand or 14.4% of the Bank's total operating income, with a share of 14.1% as of 30 June 2017. The reported figures are result of expanding the product range, offering digital services and enhanced market competition.

As at 30.06.2018, the realized profit from financial assets measured at fair value in other comprehensive income amounts to BGN 161 thousand.

In the first half-year, the profit from purchase and sell of foreign currency amounted to BGN 1 276 thousand compared to BGN 826 thousand in the same period last year.

Administrative expenses increased by BGN 1 486 thousand compared to June 2017, in line with the strategy for the reasonable expanding of presence points and the development of new technologies and products. Expenditure for the Bank Deposit Guarantee Fund (BDIF) and the Bank Restructuring Fund (BRF) totalled to BGN 1 866 thousand compared to BGN 1 611 thousand as of 30 June 2017.

Impairment losses on financial and non-financial assets decreased by BGN 310 thousand compared to June 2017. Depreciation costs decreased by BGN 144 thousand compared to the same period of the previous year.

Liquidity and financing of the activity

The Bank follows the principles of diversification of sources of financing and optimization of interest expenses in pursuance of the strategy for securing its liquidity needs.

At the end of the first half of 2018, the Bank maintained a stable deposit base and reported an increase in the customer deposits by 8.53% compared to 31.12.2017. The Bank's active deposit activity contributed to a reduction of its dependence on external financing. The Bank continues to realize successful deposit-taking of natural persons from Germany and Spain.

The ratio of gross customer loans to customer deposits is 84.63% as at 30 June 2018.

The liquidity position of the Bank remains strong as the liquid assets (*cash in hand and deposits in accounts with the BNB, short-term loans and advances to banks and liquid government securities*) amounts to BGN 293.5 million. The ratio of these liquid assets to the total deposits (of customers and banks) as at 30.06.2018 is 25.99%.

During the period from the end of 2017 to 30 June 2018, the portfolio value of debt securities at fair value in the OCI of the Bank recorded a decrease of 8.74% to BGN 50.1 million (2017: BGN 54.9 million). Cash funds in the BNB, in hand and in banks decreased by BGN 22.5 million. During the reporting period, maturities of government securities issues amounting to BGN 3.9 million took place.

Since the beginning of 2018, in the portfolio "held for the collection of contractual cash flows" (Financial assets held to maturity) no new investments in government securities were made. For the portfolio "held for the collection of contractual cash flows and sale" in 2018 new corporate bonds with a nominal value of EUR 3.1 million were purchased.

As at 30 June 2018, the Bank's government securities portfolio had a book value of BGN 70.8 million (2017: BGN 75.4 million), allocated to the portfolio "held for contractual cash flow and sale" with a book value of BGN 50.134 million, and in the portfolio "held for contractual cash flows" with a book value of BGN 20,621 million.

Unrealized profits and losses from the revaluation of debt instruments at fair value in other comprehensive income were deferred in a revaluation reserve, net of tax. In the period when the asset was derecognized, the revaluation result was included in the profit or loss for that period. Since the beginning of 2018, a net income of BGN 161 thousand was reported in relation to the completed investments. Interest income from debt instruments at fair value in the OCI was currently recognized in profit or loss and for the period from 01.01.2018 to 30.06.2018 it amounted to BGN 451 thousand.

Capital Resources

In the second quarter of 2018, the Group reported equity, adequate to the risk profile and asset quality, and sufficient to meet the strategic objectives and implementation of the plan for the current year. As of 30 June 2018, the Group reported the ratio of total capital adequacy ratio of 17.66% and Tier 1 capital adequacy ratio on an individual basis of 17.66%, well above the minimum required 8% and 6%.

Information on the main risks faced by the Group is contained in the Annual Activity Report for 2017, which is provided to the FSC and the to public and is available on the Bank's website.

Corporate events and information under Art.7 of Regulation (EC) No 596/2014 of the European Parliament and of the Council on the Market Abuse and Annex 9 of Ordinance No 2 of the Financial Supervision Commission (FSC)

1. On January 30, 2018, BACB published its preliminary unaudited individual and consolidated financial statements as at December 31, 2017, together with the relevant interim activity reports and a letter to the shareholders;

2. On January 30, 2018, BACB AD published a Report under Art.100b of POSA for fulfillment of the obligations of the Bulgarian-American Credit Bank AD under the conditions of the Eighth Mortgage Bond Issue of BACB AD, ISIN BG2100006142 as at 31 December 2017.

3. In accordance with the terms of the Eighth Mortgage Bonds Issue of BACB AD, ISIN BG2100006142, BSE code 5BNF, on March 25, 2018 a seventh payment was made to the bondholders of the aforementioned issue amounting to BGN 1,180,472.65 (EUR 603,566.08 at the BNB fixed exchange rate - BGN 1.95583 per 1 EUR); of which BGN 1,075,706.50 (EUR 550,000 at BNB fixed exchange rate - BGN 1,95583 per 1 EUR) for payment of the principal amount and BGN 104,766.15 (EUR 53,566.08 at BGN fixed exchange rate - BGN 1.95583 per 1 EUR) for payment of interest.

The payment was effected through Central Depository AD, in proportion to the bondholders registered in the book of bondholders of the bond issue, on the third working day prior to the maturity, i.e. on 21.03.2018.

4. On 30 March 2018, BACB published its audited annual financial statements for 2017 on a consolidated and stand alone basis, together with information on the Bank's financial result for 2017, on a consolidated and standalone basis. Detailed information and full text of the reports are also available on the BACB AD website;

5. On April 27, 2018, BACB published its preliminary unaudited individual and consolidated financial statements as of March 31, 2018, together with the relevant interim reports on the activities and a letter to the shareholders;

6. On April 27, 2018, BACB AD published a Report under Art. 100b of POSA for fulfillment of the obligations of the Bulgarian-American Credit Bank AD under the terms of the Eighth Mortgage Bond Issue of BACB AD, ISIN BG2100006142 as at March 31, 2018.

7. On May 11, 2018, BACB published the invitation to convene a regular General Meeting of Shareholders and the proposed agenda for the General Meeting of Shareholders called on 15 June 2018 at 11:00 in Sofia at the headquarters of BACB AD, at 2, Slavyanska Str.

The agenda, the minutes and the materials related to the agenda of the meeting are also available on the Bank's website.

8. On 15.06.2018, the regular General Meeting of Shareholders of Bulgarian-American Credit Bank AD was held. The General Meeting of the Shareholders:

1. Approved the audited Annual Consolidated Financial Statements of BACB for 2017 together with the Annual Consolidated Management Report of BACB's Management Board for 2017 and the audited Annual Financial Statements of BACB on stand alone basis for 2017 together with the Annual Report of the Management Board for BACB's activity on stand alone basis for 2017.

2. Approved changes in the composition of the Audit Committee of BACB AD, as follows:

Mr. Jason Lyle Cook was dismissed as a member of the Audit Committee of BACB AD and Mr. Serge Liuyti was elected as a new member of the Audit Committee, with a term of office until 10.05.2019.

Following the dismissal of Mr. Jason Lyle Cook and following the election of Mr. Serge Liuyti, the BACB Audit Committee consists of three members with a term of office until 10.05.2019, namely:

Mr. Martin Boychev Ganev - Chair of the Audit Committee

Mr. Serge Liuyti, member of the Audit Committee

Ms Rayka Otsova, Member of the Audit Committee

3. Adopted a decision for amendments and supplements to the Statute of BACB AD as well as decisions on the remaining items of the announced agenda.

9. On July 13, 2018, an amended and supplemented Statute of BACB AD was announced with the Trade Register kept by the Registry Agency on the account of Bulgarian-American Credit Bank AD.

The amendments and supplements to the Statute of BACB AD were adopted by resolution of the General Meeting of Shareholders of BACB AD, held on 15.06.2018.

Additional information for the six months of 2018 (Art.33, para.1, item 7 of Ordinance No 2 of the Financial Supervision Commission on the prospectuses for public offering and admission to trading on a regulated securities market and for the disclosure of information by public companies and other issuers of securities)

1. There were no material changes in the Group's accounting policies over the period, except for the application of IFRS 9 Financial Instruments, which has a material impact on the Group's consolidated financial statements for 2018. IFRS 9 Financial Instruments came into effect on 1 January 2018, by replacing IAS 39 Financial Instruments: Recognition and Measurement. The differences arising from the application of IFRS 9 are transferred directly to equity as of 1 January 2018, to the position Reserve and retained earnings. Changes from the adoption of IFRS 9 are explained in detail in the notes to the Consolidated Financial Statements of the Group as at 30 June 2018.
2. No changes in the Bank's economic group were made
3. No organizational changes were made.
4. The Bank does not publish forecasts of its results.
5. Data on persons holding directly or indirectly at least 5% of the votes at the General meeting of the shareholders as at 30.06.2018 and changes in the votes held by the persons as at 31.03.2018 are as follows:

According to: (1) Book of shareholders kept by Central Depository AD; (2) Data of the received notifications for disclosure of shareholding under Art.145 and Art.146 of POSA; and (3) Powers of attorney submitted to the General Meeting of the shareholders and their accompanying constitutive documents of shareholders, as at June 30 2018, the Shareholders of BACB AD, holding 5 or more than 5 per cent of the shares directly and/or indirectly (under Art.146 of POSA) with the voting rights of the Bank, are as follows:

Shareholder	Number of shares held (directly and indirectly) as at 30.06.2018	Percentage of votes at the General Meeting of Shareholders as at 30.06.2018	Number of shares held (directly and indirectly) as at 31.03.2018	Percentage of votes at the General Meeting of Shareholders as at 31.03.2018

CSIF AD	15 167 642	61,429%	15 167 642	61,429%
Tsvetelina Borislavova Karagyozeva - the person exercising control over the direct shareholder CSIF AD (owns 99.99% of the shares of CSIF AD)	15 167 642	61,429%	15 167 642	61,429%
LTBI Holdings LLC	8 747 990	35,43%	8 742 425	35,41%

6. Data on the shares held by the members of the management and supervisory bodies of the Bank as at 30.06.2018 and on the changes that occurred as at 31.03.2018.

The following table contains information regarding the members of the management and supervisory bodies of the Bank who own shares.

Name	Member of management or supervisory body	Number of shares held (directly and indirectly) as at 30.06.2018.	Percentage of votes at the General Meeting of Shareholders as at 30.06.2018	Number of shares held (directly and indirectly) as at 31.03.2018	Percentage of votes at the General Meeting of Shareholders as at 31.03.2018
Silvia Kirilova	Management Board	1 600	0.006%	1 600	0.006%

7. The Bank is not a party to pending court, administrative or arbitration proceedings concerning debts or receivables in the amount of 10 and more than 10 per cent of its equity.
In relation to its normal activity and in particular, with the active management of the classified loans portfolio, the Bank is a party to enforcement and insolvency proceedings against debtors for collection of overdue receivables.
8. Data on the loans granted by the Bank, guarantees provided or liabilities assumed jointly to one person or to its subsidiary, including to related parties.

BACB AD is a bank and its main activity is to provide loans and accept deposits. The BACB's interim financial statements, annual financial statements and prospectuses contain detailed information on its loan portfolio, large exposures and asset quality of the Bank.

LARGE TRANSACTIONS ENTERED INTO WITH RELATED PARTIES

"Related parties" are those persons where one of them is capable of controlling or exerting significant influence over the other one in making financial and business activity decisions in compliance with the applicable accounting standards.

1. Related party transactions entered into during the reporting period that have materially affected the financial position or performance during that period.

The Bank enters into transactions with related party only as part of its ordinary banking activities. These transactions are performed under conditions that would be customary in transactions between unrelated parties and involve the provision of loans, the acceptance of deposits and securities transactions.

2. Changes in related party transactions disclosed in the annual report that have a material impact on the financial position or performance of the Bank during the six months of 2018.

More detailed information, if applicable, is contained in the Related Party Transactions section of the Accounting Policies and Selected Explanatory Notes as at 30.06.2018.