

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

SOFIA, 25 SEPTEMBER 2018

GENERAL

In the first nine months of 2018 the Bulgarian-American Credit Bank AD (BACB, 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.

In 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 31.09.2018, the Bank registered a net increase in the book value of its loan portfolio for the segment "Natural Persons" by + 25.74% or BGN +14.041 million compared to 31.12.2017. As regards the SME and Corporate Clients segments, the Bank also reported a growth of +14.16% or BGN +81.099 million. The portfolio of the Restructuring Sector (loans, provided before 2011) decreased by BGN 28.804 million, as a result of Bank's active efforts in this respect.

As at 30.09.2018 the total growth in the Bank's loan portfolio was 11.10%, a net increase of BGN 98.501 million compared to the end of the previous year.

Bank continues its successful development and promotion on the market of its innovative product for individuals - fast consumer credit "BACB Express"

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

BACB considers as a 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 Programme for Funding Innovative Start-Ups of the Sofia Municipality. This is a special guarantee scheme of the General Guarantee Fund for Small and Medium-Sized Enterprises (GGFSME). The objective of this programme is to provide incentives for the development of start-ups and to facilitate their access to financial resources, required for the implementation of their business projects. The top priorities of the programme are the innovations in the area of information and communication technologies, as well as new technologies in creative and reactive industries. The programme gives advantage to women-entrepreneurs, having a BA/BS degree in the area of the project, businesses with social and environmental impact and business, providing new jobs to the unemployed. The programme provides guarantees for up to 50%, as the maximum guarantee amount of the GGFSME is BGN 30 000. The period of the guarantee commitment is up to 60 months.

BACB has signed 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 amounted to BGN 3 mln. 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 development strategy. The program benefits from a state guarantee amounting to 100% of the loan amount.

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 mln.

Regarding the cards business, BACB continues its successful cooperation with the card organizations, participating in joint campaigns with VISA and Technopolis, for payments with the Visa Business card, the Bank has already announced several winning clients. The number of traders, using BACB's POS terminals continued to grow, and as at 30 September 2018 their total number reached 475. At the same time, the Bank attracted a new partner in the business with POS and ATM devices and their technical and software maintenance and support - Asseco SEE Bulgaria EOOD. The Bank launched a joint project with Pamporovo AD and Asseco SEE Bulgaria for the certification, installation and commissioning of iSelf POS terminals, which will provide improved mobility and convenience for the visitors of the Pamporovo Resort and the users of its ski runs.

The upgrades and incorporating additional functionality in Bank's systems continued in Q3 of 2018, aimed and improvement of the quality of data in the clients' files, improving the payment processes automation ratio and implementing additional controls, in order to further mitigate the operating risk. Department's proposal for a redesign of the payment processes was approved. This involved payments processing, charging, defining the payment services, based on the payment systems used, in order to improve client's awareness and financial culture, to ensure transparency of the fees and commissions and the periods, required for the performance of payments within the EU and to third countries.

In Q3 of 2018 the Bank preserved the number and volume of the transfers and documentary operations, compared to Q2 of 2018. The number of the transfers increased by 11%, and their volume – by 10%, vs. the same period last year. With respect to the letters of credit and guarantees abroad, the Bank also reported an increase of 20% in their volume, compared to Q3 of 2017.

The increase in the business operations was also reflected in the fees and commissions collected on the payment transactions. In the third quarter of 2018, they reached BGN 1.4 million, an increase of 27% compared to the same period in 2017.

In the third 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 implementation of such products will commence in the next quarters. At the same time, the application of deposit-taking schemes from abroad continued

Compared to the spring forecast of the Ministry of Finance, the decreased growth in the European economy will be more clearly marked in the current year, reflecting both certain adapting to the long-term growth rate, and some temporary negative effects on various countries. Despite the expected slower GDP growth in the EU in the medium term, the factors, supporting sustainable development, remained the same.

In the first half of 2018. The Bulgarian GDP increased by 3.4% as a real growth, vs the expected annual growth of 3.9% as specified in the spring forecast. Despite the favourable development in consumption and investments, the downward dynamics of the export resulted in a lower GDP growth and revision of the expectations for the performance of the Bulgarian economy in 2018. The real GDP growth is expected to reach 3.6% in 2018., supported by domestic demand. The GDP growth will increase, reaching 3.7% in 2019 due to the stronger public investments and public consumption. Private consumption will retain its relatively higher growth rate. The export will increase, reaching 2.8% after the seemingly weaker performance in 2018, caused by the aggravated economic activity in Turkey, which is among the key trade partners of Bulgaria, along with certain temporary limiting factors in the trade with other countries outside the EU.

In the entire 2018 the employment growth is expected to be 0.6%, supported by the increased demand on the labour market in the service and industry sectors. The level of unemployment will drop to 5.4% and for the first time, it will be lower than its historical minimum in 2008. The high levels of labour demand are expected to be accompanied by limitations in supply. This is also the cause for the expected delay in the dynamics of employment in the mid-term. The compensation per employed will increase, reaching 8.4% in 2019. Along with the specified increases of the salaries in the education sector, as well as the increase in the minimum wage, further positive contribution is expected from the planned additional costs for labour in the budget sector.

In 2018 the HICP inflation will be higher than envisaged in the spring macroeconomic forecast. The overall level of consumer prices at the end of the period is expected to increase by 3.4% This acceleration is due to the international prices of energy goods and materials. Throughout the forecast period, the international oil prices are expected to be higher than expected, according to the previous forecast.

The sharp increase in the fuel prices (and mainly of crude oil) on the international markets in the period January-July, combined with the moderate increase in the prices of metals, were reflected in negative trading conditions. The current expectations of the international economic institutions, regarding the price dynamics by the end of 2018. Indicate a slight slowing of the export and import deflators in the second half of the year, while the negative trading conditions will continue. In terms of real growths, the aggravated economic activity in Turkey, which is among Bulgaria's key trade partners, along with certain temporary limiting factors in trading with other third countries will result in an overall drop of the export of goods in the first half of 2018. With respect to the services,

the positive dynamics, resulting from the export of tourist services, will be preserved, but goods will be key for the overall changes in the trade.

The main risks, in terms of external environment, are related to the instable geopolitical environment and the increasing number of protectionist measures, imposed by individual countries. The violation of generally accepted economic agreements limits foreign trade and has a negative impact on investment activities, as – depending on the degree of acuteness of the conflict, may result in serious consequences for certain economic sectors, regions and/or countries.

Main Macroeconomic Indicators and Forecasts of the Ministry of Finance

Forecast of the Ministry of Finance

	2018	2019	2020	2021
GDP (billion BGN)	108.1	116.4	124.6	132.9
GDP (real growth %)	3.6	3.7	3.5	3.5
Contribution:				
- Consumption	4.8	5.4	4.2	4.1
- Gross capital formation	8.9	9.5	5.1	6.7
- Export	2.3	2.8	2.8	2.7
- Import	5.3	6.7	4.1	4.6
Unemployment (%)	5.4	4.8	4.3	4.0
Inflation (%)	2.7	3.0	2.5	2.3
Foreign direct investments (% of GDP)	3.6	3.6	3.5	3.5
Loans granted to companies (%)	6.3	6.9	7.4	7.8
Loans granted to households (%)	9.6	5.4	6.1	6.4

Source: Ministry of Finance (MoF)

Although in the first half of 2018 the global economy developed at stable rates, the ECB is expecting this inertia to slow, as the growth rate is expected to reach 3,9% on an annual basis. Developed economies continue to benefit from the flexible monetary policy and fiscal incentives in the United States, while the activity in the countries – exports of key raw materials, was also enhanced by the restoration of the prices of such goods in the past year. The financial conditions, however, were tightened, especially certain emerging market economies. Apart from that, the growth of the global trade slowed down, and insecurity, regarding the future trade relations, increased. In the medium term, the global economic operations are expected to accelerate, at a rate close to the potential growth, as the lagging-behind of the actual from the potential production has already been overcome or is being overcome in the most developed economies. On a global scale, the pressure for increasing inflation is expected slowly to increase, with the reduction of the free production capacity.

In the second quarter of 2018, the real GDP growth in the Eurozone grew on a quarterly basis by 0,4%, as in the first quarter. ECB's monetary policy measures are still supported by domestic demand. The Private consumption is supported by the increasing employment (which, on its part, partially reflects the already performed reforms on the labour market), as well as the increasing salaries. The business investments are stimulated by the favourable financing conditions, the increasing profitability of the enterprises and the stable demand. Residential investments remain significant. In addition, the expansion of the economic activity on a global scale is expected to continue, driving the export of the Eurozone.

According to the macroeconomic forecasts of ECB's experts from September 2018, the real GDP growth of the Eurozone is expected to increase by 2,0% in 2018 on an annual basis, by 1,8% in 2019 r. and by 1,7% in 2020. Compared to the macroeconomic forecasts of the experts in the Eurozone from June 2018, the forecast for the real GDP growth is a bit lower for 2018 and 2019, mainly due to the lower contribution of foreign demand. Although the risks, related to the increasing protectionisms, the vulnerable elements of the emerging markets and the fluctuations on the financial markets, have recently become more clearly pronounced, the risks, regarding the forecast for the growth in the Eurozone can still be considered as largely thoroughly balanced.

According to Eurostat's preliminary assessment, the annual HICP inflation in the Eurozone was 2,0% in August 2018, dropping from 2,1% in July. IN perspective, based on the current prices of oil futures, the total inflation on an annual basis will probably remain at its current level until the end of the year. Although the basic inflation measures generally remain low, these have increased, compared to the previous low levels. The pressure, based on domestic expenses increased and expanded, due to the high levels of use of production capacities and tighter labour-market conditions, driving the increase of the salaries. The base inflation is expected to increase by the end of the year, and then gradually grow in the mid-term, supported by ECB's measures on the monetary policy, by the continuing economic upswing and the accelerating salary growth.

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 31.4% x to USD 31.4% to 71.5 per barrel, with an expected growth of 17.6% in the spring forecast. These expectations are related to the good growth outlook of the global economy, as well as to the decision of the meeting of the OPEC countries in June for a stricter adherence to the agreed limitation of the production, which increased the price of the raw material in the second quarter of this year. In August and September the crude oil prices once again started going up, due to the expected shrinking in the supply after the implementation in November of the new US sanctions against Iran's oil export. At the same time, the so-called "trade wars" carried out by the United States, resulted in increased global uncertainty and thus - slight reductions in the forecasts of the international institutions, regarding the growth of both developed and emerging economies in 2019. The OPEC reduced their forecasts for the crude oil demand in the next year, accordingly.

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 unfavourable demographic trends in the country.

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 Q3 2018

Selected indicators and ratios

<i>In EUR'000 and %</i>	31.12.2017 (audited)	30.09.2017 (unaudited)	30.09.2018 (unaudited)	Change 09.2018/09.2017
Size of assets	634,143	616 095	704,053	14.28%
Loans (net value)	391,710	378 465	444,640	17.49%
Borrowed funds	540,388	523 569	590,206	12.73%
Equity	91,172	90 169	93,681	3.90%
Net interest income	14,749	10 769	13,262	23.16%
Net income from fees and commissions	2,957	2 026	2,438	20.34%
Loans/borrowed funds	72.49%	72.29%	75.34%	
Liquid assets ratio	26.69%	28.52%	-	
Liquid Coverage Ratio LCR	-	-	225.21	
Capital adequacy	18.67%	19.08%	%	

Active operations

At the end of the Q3 of Y2018, the Group's assets amounted to EUR 704 053 thousand, as compared to the 2017 audited data, showing an increase of EUR 69.9 million or an increase of 11 %.

As at 30 September 2018, the Group recorded an increase in the loan portfolio at a book value of EUR 56.6 million or 12.6% reaching EUR 506.9 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 EUR 62.3 million and provided coverage of 12.3% of the loan portfolio with a volume of EUR 58.7 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 EUR 3.7 million or 6.3%, including the effect of applying IFRS 9 at EUR 2.7 million.

At the end of September 2018, the net loan portfolio amounted to EUR 444.6 million and formed a 63.2% share of total assets. The loan portfolio includes receivables under finance leases for EUR 5 238 thousand at book value of EUR 3 015.1 thousand at the end of the previous year.

In the Q3 of 2018, the Group granted new loans amounting to EUR 200.3 million and the amount of repaid loans for the same period was EUR 148.8 million, including debt reduction of EUR 3.5 million against acquired collateral. As of 30 September 2018, overdue loans over 90 days represented 18.7% 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 at the moment 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 3.5 percentage points within the 9 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 September 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 September 2018, the financial assets held at fair value through other comprehensive income amounted to EUR 26.3 million or 3.7% of the total assets, formed from 80.9% first-rate government securities of the Republic of Bulgaria, 15.8% of corporate bonds and 3.3 % of equity instruments. In the third quarter 2018, a decrease of EUR 108.4 thousand was recorded. Equity instruments of EUR 0.87 million include equity interest in a special investment vehicle of EUR 364 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 EUR 504.2 thousand at fair value and participation in the BSE for EUR 1.5 thousand.

The portfolio of debt instruments measured at amortized cost includes bonds of the Bulgarian government with fixed payments and maturity. Within the reporting Q3 2018, there was a slight increase to EUR 10.3 million or 1.5% of total assets.

As at 30 September 2018, receivables from banks amounted to EUR 61.4 million and occupied a share of 8.7% of total assets at EUR 35.2 million and a share of 5.6% at the end of 2017. The reported increase of 74.7% as compared to the end of 2017 is formed by the accumulation in fixed-term deposits and decrease in deposits at sight.

Cash and cash held by the central bank decreased by 8.5% to EUR 83.8 million at the end of the Q3 2018, compared to EUR 91.6 million at the end of 2017, bringing its share in total assets from 14.5% to 11.9 %.

Tangible and intangible fixed assets held by the Group increased by at least EUR 15 thousand to EUR 4.9 million, and their share of total assets declined slightly from 0.8% to 0.7%.

As of 30 September 2018, assets acquired and classified as "assets for sale" and "investment property" amounted to EUR 61.3 million or 8.7% of total assets at EUR 65.2 million and 10.3% at 31 December 2017. During the reporting nine months of the year, "investment properties" were sold amounting to EUR 1.6 million at book value, reclassified as fixed assets and inventory EUR 2.5 million, and "assets for sale" for EUR 3.6 million were sold and were acquired "assets for sale" for EUR 3.7 million and "investment properties" for EUR 129 thousand at book value. Acquired assets amounting to EUR 14.9 million 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 September 2018, the Group does not recorded borrowed funds from banks.

Attracted funds from companies and individuals increased by EUR 62.8 million over the nine-month period to EUR 573.9 million at 30 September 2018, or 94.01% of total liabilities at EUR 511.02 million and 94.1% at the end of 2017. Reported growth was of growth of companies' funds by EUR 52.2 million (financial institutions, state-owned enterprises and budget organizations) and a EUR 10.6 million increase in citizens' funds (including EUR 2.7 million deposits from Germany and Spain).

In the nine-month period of 2018, the Bank fulfilled the terms of the issued Eighth Mortgage Bonds Issue (BSE-Sofia Code: 5BNF) by making a regular principal payments of EUR 1 150 thousand and interest payments under

the terms of the issue of the bond. As at 30 September 2018, issued debt securities amounted to EUR 1 599 thousand at book value and formed 0.3% of total liabilities at EUR 2 775 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 September 2018, long-term funding from BDB amounts to EUR 14.8 million or 2.4% of total liabilities at EUR 15.8 million and a share of 2.9% at the end of 2017.

Equity

During the reporting quarter of 2018, there were no changes in fixed capital.

As of 30 September 2018, the item "reserves and retained earnings" includes the realized profit for the previous year amounting to EUR 4 031 thousand and the one-off effect of applying IFRS 9 at the amount of EUR 2 649.5 thousand, meaning it reported a net increase of EUR 1 381.5 thousand.

Unrealized gains and losses on revaluation of financial assets measured at fair value in other comprehensive income form a revaluation reserve of EUR 754.2 thousand at EUR 1 094.7 thousand at the end of 2017. Changes in the fair value of equity instruments measured at fair value through other comprehensive income amounted to EUR 219.3 thousand for the reporting period. The formed revaluation reserve on the Bank's own buildings used in its operating activities is EUR 2 300 thousand as at 30 September 2018 and is unchanged compared to the end of 2017.

REVIEW OF THE FINANCIAL POSITION AS AT 30 SEPTEMBER 2018

The Group ended the nine-month period of 2018 with a positive financial result of EUR 5 280 thousand after tax on reported earnings for the same period in 2017 amounting to EUR 3 146 thousand or growth of 67.8%. The achieved is indicative of improving performance from activities.

Comparison of earnings from core business (interest income) for both periods shows an increase of EUR 1 565 thousand to EUR 16 271 thousand. The main share in the interest income accounted those from credit activity 95.1% (2017 – EUR 15 479 thousand, 2016 – EUR 14 144 thousand). Reported income from interbank deposits amounted to EUR 325.9 thousand against EUR 107.4 thousand for the nine-month of the previous year. Interest income from security portfolios held recorded an increase of EUR 1.1 thousand as of 30 September 2018 as compared to 30 September 2017 and amounted to EUR 455.9 thousand at the end of the nine-month period of the 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 September 2017 by EUR 928 thousand to EUR 3 009 thousand as at 30 September 2018, with the largest decrease being reported for interest expenses of clients by EUR 1 191.8 thousand.

As at 30 September 2018, net interest income amounted to EUR 13 262 thousand, or EUR 2 493 thousand more than reported for the same period of the previous year.

Net fees and commissions income increased by EUR 412 thousand compared to 30 September 2017 and amounted to EUR 2 438 thousand or 14.7% of the Bank's total operating income, with a share of 14.5% as of 30 September 2017. The reported figures are result of expanding the product range, offering digital services and enhanced market competition.

As of 30 September 2018, a gain from debt instruments recognized at fair value through other comprehensive income of EUR 82 thousand was realized.

As of 30 September 2018, a gain on trading activity amounted to EUR 942 thousand at EUR 686 thousand for the same period previous year.

Administrative expenses increased by EUR 1 095 thousand compared to 30 September 2017 in line with the strategy for the reasonable expanding of presence points and the development of new technologies and products. Expenditure on the Bank Deposit Guarantee Fund (BDIF) and the Bank Restructuring Fund (BRF) amounted to EUR 1 431.1 thousand compared to EUR 1 290.8 thousand as of 30 September 2017.

Impairment expenses and revaluation of financial and non-financial assets decreased by EUR 508 thousand compared to 30 September 2017

Depreciation costs decreased by EUR 84 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.

In all first nine months of 2018 the Bank maintained a stable deposit base and reported an increase in the customer deposits of 12,3% compared to the end of 2017. The Bank's active deposit activity contributed to a reduction in 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 85.65% as at 30 September 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 292,1 million. The ratio of these liquid assets to the total deposits (of customers and banks) as at 30.09.2018 was 25.2%

During the period from the end of 2017 to 30 September 2018, the portfolio value of debt securities at fair value in the OCI of the Bank decreased by 9,3% to BGN 49,8 million (2017: BGN 54.9 million). Cash in the BNB, in hand and in banks increased by BGN 15,3 mln. During the reporting period maturities of government securities issues amounting to BGN 3.9 million took place.

Since the beginning of 2018, in both portfolios - "held for the collection of contractual cash flows" and "held for the collection of contractual cash flows and sale", no new investments in government securities were made, as new corporate bonds with nominal value of EUR 3.1 were purchased in this period.

As at 30 September 2018, the Bank's government securities portfolio had a book value of BGN 70 million (2017: BGN 75.4 million), allocated to the portfolio "held for contractual cash flow and sale" with a book value of BGN 49.8 million, and in the portfolio "held for the collection of contractual cash flows" with a book value of BGN 20,2 million.

Since the beginning of the period, a total net income of BGN 161 thousand, was reported with respect to finished investments. The lost profit and losses from debt instruments revaluation at fair value in other comprehensive income, are deferred as revaluation reserves, net of taxes. In the period, when the asset is derecognized, the revaluation result is included in the profit or loss for the period. The interest income from debt instruments at fair value in other comprehensive income are recognized on a current basis in the profit or loss, as in the period 01.01.2018. – 30.09.2018, these amounted to BGN 671 thousand.

Capital Resources

In the Q3 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 September 2018, the Group reported the ratio of total capital adequacy ratio of 17.13% to Tier 1 capital adequacy ratio on an individual basis of 17.08%, 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 provided to the FSC and the 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 Eight Mortgage Bond Issue of BACB AD, ISIN BG2100006142 as at 31 December 2017.

3. In accordance with the terms of the Eight Mortgage Bonds Issuance of BACB AD, ISIN BG2100006142, BSE code 5BNF, on March 25, 2018 a seventh payment was made to the bondholders from the aforementioned issue amounting to BGN 1,180,472.65 (EUR 603,566.08 at 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 the interest rate.

The payment was effected through Central Depository AD, in proportion to the bondholders registered in the book of bondholders on 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.

10. On 30 July, 2018, BACB published its preliminary unaudited individual and consolidated financial statements as of 30 June, 2018, together with the relevant interim reports on the activities and a letter to the shareholders;

11. On 30 July 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 30 June 2018

12. On 30 July, 2018 "BCRA - Credit Rating Agency" AD updated the ratings assigned to BACB, as follows:

- Keeps the long-term rating at **B+**, changes the outlook from "**Stable**" to "**Positive**", keeps the short-term rating at **B**;
- Changes the national-scale long-term rating from **BB-** (BG) to **BB** (BG), changes the outlook from "**Stable**" to "**Positive**", keeps the national-scale short-term rating at **B** (BG);

Financial strength rating	Primary Rating July 27, 2016	Updated Rating
Long-term rating	B	B+
Outlook	Stable	Positive
Short-term rating	B	B
National-scale long-term rating	B+ (BG)	BB (BG)
Outlook	Stable	Positive
National-scale short-term rating	B (BG)	B (BG)

In the process of assigning the ratings BCRA uses the methodology which is officially adopted for assigning bank financial strength ratings (<https://www.bcra-bg.com/bg/methodologies>)

According to the published text, the stable improvement in the portfolio quality, the increase of the profit accumulated and the parameters for profitability, while maintaining stable capital adequacy and liquidity may have positive influence on the "Bulgarian-American Credit Bank" ratings.

In negative direction, deterioration of assets, increase of impairment expenses, significant contraction of the activities, as well as decrease of the capital adequacy and deterioration of the liquidity position of the bank may influence.

The complete text of the report is available on the "BCRA-Credit Rating Agency" AD web site: <https://www.bcra-bg.com/bg/ratings/bacb-rating>

13. In accordance with the terms and conditions under the Eight mortgage bond issue of BACB, ISIN BG2100006142, Exchange code 5BNF, on 25 September 2018 the eight payment to the bondholders of the mortgage bond was made in total amount of BGN 1,258,700.08 (EUR 643,563.13 under fixed exchange rate of BGN 1.95583 for EUR 1.00), from which BGN 1,173,498 (EUR 600,000 under fixed exchange rate of BGN 1.95583 for EUR 1.00) represent payment on principal and BGN 85,202.08 (EUR 43,563.13 under fixed exchange rate of BGN 1.95583 for EUR 1.00) represent interest payment.

The payment was made through Central Depository AD, pro rata the bondholders registered in the Register of Bondholders as of three days prior to the due date, i.e, on date 19 September 2018.

The interest rate applicable for the period from 25 September 2018 till the next due date – 25 March, 2019 including, is calculated at the level of 3.932% /three point nine three two per cent/ p.a. (Six-month Euribor as at 21 September 2018 equal to -0.268% increased by 4.20%).

Additional information for the nine 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 30.09.2018 and changes in the votes held by the persons as at 30.06.2018 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) Power of attorney granted at the General Meeting to the shareholders and their accompanying instruments of incorporation, as at 30 September, Shareholders of the 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 30.09.2018	Percentage of votes at the General Meeting of Shareholders as at 30.09.2018	Number shares of held and indirectly) as at 30.06.2018	Percentage of votes at the General Meeting of Shareholders as at 30.06.2018
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 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%	8 747 990	35,43%

6. Data on the shares held by the members of the management and supervisory bodies of the Bank as at 30.09.2018 and on the changes that occurred as at 30.06.2018.

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

Name	Member of management or supervisory body	Number of shares held (directly and indirectly) as at 30.09.2018	Percentage of votes at the General Meeting of Shareholders as at 30.09.2018	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
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 own capital. 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 of 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 PERSONS

"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 nine 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 30.09.2018.