

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

**SOFIA, 24 JANUARY 2019**

**GENERAL**

In 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 31.12.2018, the Bank registered a net increase in the book value of its loan portfolio for the segment "Natural Persons" by 39,92% or BGN 19.955 million compared to 31.12.2017. As regards the SME and Corporate Clients segments, the Bank also reported a growth of 24.28% or BGN 139.083 million. The portfolio of the Restructuring Sector (loans, provided before 2011) decreased by BGN 32.231 million, as a result of Bank's active efforts in this respect.

As at 31.12.2018 the total growth in the Bank's loan portfolio was 13.88%, a net increase of BGN 123.23 million compared to the end of the previous year.

In 2018 the Bank started presenting the consumer loans for students as per the Students Lending Act. Bank continues its successful development and promotion on the market of its innovative product for individuals - fast consumer credit "BACB Express", as well as the revolving consumer loan.

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.

The Bank began negotiations for starting a new guarantee scheme with NGF EAD, the Ministry of Agriculture and Food and Fishing and Aquaculture Agency for guarantees on loans to companies in the fishing sector.

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 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. As at 31 December 2018 the Bank has disbursed four loans with amount of the guarantees of BGN 85 thousand.

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.

On 23 November 2018 the Bank signed the first agreement with the Bulgarian Development Bank AD for indirect financing of SMEs with guarantee facility and counter – guarantees under the COSME Program of the European Investment Fund with the support of European Fund for Strategic Investments – "COSME+" Program in the amount of BGN 10 million. The purpose of the Program is to provide easy access to SME financing throughout the different stages of their existence – establishment, diversification or transfer of the activities.

Thanks to the COSME+ Program the guarantee coverage is now up to 60% of the amount of the loan. This way the collateral requirements are reduced and the options for financing are facilitated.

With the guarantee by the Program resources BACB will provide investment and turnover loans as well as bank guarantees. The maximum amount of a loan is up to EUR 15 thousand and the tenor – from 12 to 120 months.

Regarding the cards business, BACB continues its successful cooperation with the card organizations, participating in joint campaigns. The process for optimising the network of merchants who actively use BACB POS terminals continued. The Bank successfully concluded the project for certification of BACB with VISA and MasterCard for the iSelf devices for the ski slopes of Pamporovo.

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. The consumers' migration from the old online banking to Virtual Bank was completed. The e-TAN was successfully implemented as means for authorization of active online banking transactions in connection to the requirements for online payments security and multifactor clients' authentication.

In Q4 of 2018 the Bank preserved the number and volume of the transfers and documentary operations, compared to Q3 of 2018. The number of the transfers increased by 13%, and their volume – by 31%, compared to the same period last year. With respect to the letters of credit and guarantees abroad, the Bank also reported an increase of 28% in their volume, compared to Q4 of 2018.

The increase in the business operations was also reflected in the fees and commissions collected on the payment transactions. In the fourth quarter of 2018, they reached BGN 1.5 million, an increase of 10% compared to the same period in 2017.

In the fourth 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.

The reduced growth of the European economy will be more tangible during the current year, reflecting a certain adjusting to the long-term growth rate and some temporary negative effects in individual countries. In spite of the expected slower increase of the GDP in the EU in the mid-term perspective, the factors supporting sustainable development has preserved.

In the first half of 2018 the GDP of Bulgaria increased by 3.4% in real terms versus an expected annual growth of 3.9% set in the spring forecast. In spite of the favourable developments in consumption and investments, the downward dynamic in the export caused lower GDP growth and a revision of the expectations regarding the performance of the Bulgarian economy in 2018.

The seasonally adjusted data of the NSI show 3.1% growth of the GDP in the third quarter of 2018 compared to the third quarter of the previous year, and 0.7% growth compared to the second quarter of 2018. The real annual GDP growth according to the Ministry of Finance is expected to reach 3.6% and increase up to 3.7% in 2019. This growth was driven by the increased domestic demand, while the net export had a negative contribution. The weaker investment activity was due to the lower contribution of investments in both construction and the machine and equipment sectors. The export preserved its downward dynamic and reached 3.2% compared to the third quarter of the previous year. The weaker export and the domestic demand led to lower growth of the import of 3.8%, thus limiting the negative contribution of the net export compared to the one registered in the second quarter of the year.

On the supply side the gross added value (GAV) increased by c 2.8% in the third quarter versus an increase of 2.9% in the second. The registered growth was mainly due to *services*, mostly *real estate transactions* that increased by 14.9%. *The industry and construction* also registered increase by 0.9% and 2.1% respectively on an annual basis.

For the entire year 2018 the increase in employment is expected to reach 0.6%, supported by the increased labour demand in the services and industries. The unemployment rate will go down to 5.4% and for the first time will be lower than its historical minimum in 2008. The high labour demand rates are expected to continue and be accompanied by limited supply. This explains the expected slowing down in the employment dynamic in mid-term perspective. The compensation of one employee will increase to 8.4% in 2019. Together with the planned increase of the salaries in the education sector and the growth of the minimum wage, a positive contribution is also expected along the lines of planned additional labour costs in the budget sphere.

The consumer prices measured through HICP went down by 0.3% on a monthly basis in November. The main reason for that was the depreciation of fuels by 3.6%. The prices of non-processed foods and durable consumer

goods also made a negative contribution. The annual inflation rate slowed down to 3% in November versus 3.6% a month earlier. The growth rate in the prices of energy goods decreased compared to the same month of the previous year to 8.9%. In terms of international prices, the price of the Brent type crude oil went sharply down in November, decreasing by 18.2% in BGN equivalence. The downward rate in the prices of energy raw materials accelerated compared to a month earlier and the foods and metals depreciated by 1.7% and 4.1% respectively compared to the same month of the previous year.

The main risks with regard to the external environment are related to the unstable geo-political situation and the increasing number of protectionist measures introduced by some countries. The violation of universally recognised economic agreements limits the internal trade and has a negative impact on the investment activity. Depending on the acuteness of the confrontation, it could lead to serious consequences on certain economic sectors, regions and/or states.

In its latest report the International Monetary Fund (IMF) lowered its forecast for the global economy, predicting that in 2019 its growth will be the lowest in the past three years and warned that the trade tensions of the last months will bring along additional problems. Among the threats quoted in the report are the supplement custom duties, the renewed tightening of the financial terms, Brexit "with no deal" and an economic growth slowdown in China greater than expected.

#### *Ministry of finance forecast*

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<i>GDP (in billion BGN)</i>	108.1	116.4	124.6	132.9
<i>GDP (real growth %)</i>	3.6	3.7	3.5	3.5
<i>Contribution:</i>				
- <i>Consumption</i>	4.8	5.4	4.2	4.1
- <i>Gross capital formation</i>	8.9	9.5	5.1	6.7
- <i>Export</i>	2.3	2.8	2.8	2.7
- <i>Import</i>	5.3	6.7	4.1	4.6
<i>Unemployment (%)</i>	5.4	4.8	4.3	4.0
<i>Inflation (%)</i>	2.7	3.0	2.5	2.3
<i>DFI (% of GDP)</i>	3.6	3.6	3.5	3.5
<i>Corporate loans (%)</i>	6.3	6.9	7.4	7.8
<i>Household loans (%)</i>	9.6	5.4	6.1	6.4

Although the global economic activity remained stable in the second half of 2018, it was considerably less even, and signs of reduced growth have emerged. The achieved upsurge phase in the economic cycle worldwide, the weakening monetary stimulation in many developed economies and the impact of customs duties introduced between USA and China negatively influenced the global economic activity. The world trade growth has slowed down and the uncertainty regarding the future trade relations has increased. At the same time the terms for financing remained favourable in the developed economies, while in some countries with newly-emerged markets they were tightened. The expectation is for the global economic activity to slow down its rate in 2019 and then remain stable. The global pressure for increased inflation will probably increase slowly along with the diminishing free production capacities.

In the third quarter of 2018 the Eurozone real-term GDP increased on a quarterly basis by 0,2% after a 0,4% growth during the two previous quarters. The latest data and research results are worse than expected, reflecting the decreasing contribution of external demand and some specific factors for individual countries and sectors. Although some of these factors are likely to fade away, it could be a sign of forthcoming weaker growth inertia. At the same time the internal demand, supported by the position of the Management Council for non-restrictive monetary policy keeps assisting the economic upsurge in the Eurozone. The stable labour market expressed in the growing employment and increasing remuneration continues to support private consumption. In addition, the domestic demand, the favourable financing conditions and the improving balances had a positive impact on the business investments. Housing investments remain stable. It is also expected that the global economic activity will continue intensifying, although at a slower pace, stimulating the export from the Eurozone.

This assessment is generally reflected in the macroeconomic forecasts of the Euro-system experts on the Eurozone of December 2018. These forecasts envisage an increase in the real-term GDP of 1,9% on an annual basis in 2018., 1,7% in 2019., 1,7% in 2020 and 1,5% in 2021. Compared with the macroeconomic forecasts of the ECB experts of September 2018, the real GDP growth forecast was slightly downward adjusted for the years 2018 and 2019. The risks in view of the growth perspectives in the Eurozone can still be deemed more or less balanced. However, the balance of risks is moving more toward lower-than-expected results because of the durable uncertainty related to geo-political factors, the threat for protectionism, vulnerable spots in the newly-emerging markets and the financial markets fluctuations.

According to the Eurostat prior assessment, the annual inflation in the Eurozone, measured through HICP has gone down to 2,0% in September 2018 from 2,2% in October. Based on the current prices of oil futures it is likely that inflation will reduce in the following months. The basic inflation indicators remain generally weak. But the pressure on the domestic prices keeps increasing and enlarging in a situation of high-level burden on the production capacity and tightening of the labour market, which caused an increase of the salaries. The basic inflation is expected to grow in the future in the mid-term perspective, supported by the measures of ECB under the monetary policy. The continuing economic upsurge and the intensifying increase of salaries .

This assessment is also generally reflected in the macroeconomic Eurozone forecasts of the Euro-system experts from December 2018 who envisage an annual HICP inflation of 1,8% in 2018., 1,6% in 2019., 1,7% in 2020 and 1,8% in 2021. Compared with the macroeconomic forecasts of the ECB experts of September 2018, the HICP inflation forecast has been slightly upward adjusted for the years 2018 and 2019. The HICP inflation is expected to increase, without the energy and foods, from 1,0% in 2018 to 1,4% in 2019., 1,6% in 2020 and 1,8% in 2021.

As regards the prices of raw materials, the crude oil prices have been quite volatile since last August, reflecting the influence of supplies, including USA policy to the export of Iranian oil and the fears of reduced global demand . At the end of the year the prices of crude oil were around USD 55 per barrel and the markets expect them to remain at this level in the next 4-5 years. The prices of metals and agricultural goods have gone slightly down since last August due to the decreasing demand from China. Among the developing market economies, the inflation pressure was reduced as a result of the decreasing oil prices. For some, this relief was partly compensated by their currency depreciation.

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

The BACB's management retains its expectations for 2019 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 Q4 2018

### *Selected indicators and ratios*

<i>In EUR'000 and %</i>	31.12.2017 (audited)	31.12.2018 (unaudited)	Change 12.2018/12.2017
Size of assets	634,143	731,177	15.30%
Loans (net value)	391,710	463,816	18.41%
Borrowed funds	540,388	627,657	16.15%
Equity	91,172	94,755	3.93%
Net interest income	14,749	18,086	22.63%
Net income from fees and commissions	2,957	3,531	19.42%
Loans/borrowed funds	72.49%	73.90%	
Liquid assets ratio	26.69%		
Liquidity coverage ratio LCR		194.77%	
Capital adequacy	18.67%	16,44%	

### *Active operations*

At the end of the Q4 of Y2018, the Group's assets amounted to EUR 731 177 thousand, as compared to the 2017 audited data, showing an increase of EUR 97 million or an increase of 15 %.

As at 31 December 2018, the Group recorded an increase in the loan portfolio at a book value of EUR 65.8 million or 14.6% reaching EUR 516.05 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 52.25 million and provided coverage of 10.1% of the loan portfolio with a volume of EUR 58.6 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 decreased by EUR 6.4 million or 10.9%, including the net effect of applying IFRS 9 at EUR 2.65 million increase and receivables written off against the impairment provisions account amounting to EUR 10.8 million decrease.

At the end of December 2018, the net loan portfolio amounted to EUR 463.8 million and formed a 63.4% share of total assets. The loan portfolio includes receivables under finance leases for EUR 15 985.5 thousand at book value of EUR 3 015.1 thousand at the end of the previous year.

In 2018, the Group granted new loans amounting to EUR 273.6 million and the amount of repaid loans for the same period was EUR 212.9 million, including debt reduction of EUR 3.8 million against acquired collateral and principals written off against the impairment provisions account amounting to EUR 10.1 million.

As of 31 December 2018, overdue loans over 90 days represented 16.3% 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 5.8 percentage points in 2018. 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 31 December 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 31 December 2018, the financial assets held at fair value through other comprehensive income amounted to EUR 26.2 million or 3.6% of the total assets, formed from 81.1% first-rate government securities of the Republic of Bulgaria, 15.8% of corporate bonds and 3.1% of equity instruments. Equity instruments of EUR 0.8 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 444.3 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 Q4 2018 amounted to EUR 10.3 million or 1.4% of total assets.

As at 31 December 2018, receivables from banks amounted to EUR 34.3 million and occupied a share of 4.7% of total assets at EUR 35.2 million and a share of 5.6% at the end of 2017. The reported decrease is 2.4% as compared to the end of 2017.

Cash and cash held by the central bank increased by 29.3% to EUR 118.5 million at the end of the Q4 2018, compared to EUR 91.6 million at the end of 2017, bringing its share in total assets from 14.5% to 16.2%.

Tangible and intangible fixed assets held by the Group decreased by at least EUR 12.8 thousand to EUR 4.8 million, and their share of total assets declined slightly from 0.8% to 0.7%.

As of 31 December 2018, assets acquired and classified as "assets for sale" and "investment property" amounted to EUR 57.4 million or 7.9% of total assets at EUR 65.2 million and 10.3% at 31 December 2017. During in the year 2018, "investment properties" were sold amounting to EUR 1 650 thousand at book value, they were acquired for EUR 159 thousand and reclassified as fixed assets and inventory (assets under development) EUR 5 995 thousand. In the same period "assets for sale" for EUR 3 977 thousand were acquired and were sold for EUR 4 257 thousand at book value. Acquired assets amounting to EUR 14 926 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 31 December 2018 borrowings from banks reported by the Group are down by EUR 7.6 million to EUR 3.2 million or 0.5% of the total liabilities compared to EUR 10.8 million and 2% as at 31 December 2017.

Attracted funds from companies and individuals increased by EUR 93.1 million over the twelve-month period to EUR 604.1 million at 31 December 2018, or 94.9% 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 63.5 million (financial institutions, state-owned enterprises and budget organizations) and a EUR 29.6 million increase in citizens' funds (including EUR 12 million deposits from Germany and Spain).

In the year 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 31 December 2018, issued debt securities amounted to EUR 1 616 thousand at book value and formed 0.25% of total liabilities at EUR 2 775 thousand and 0.5% at the end of 2017.

As of July 2015 the item "other borrowings" reports liabilities under the credit line from the Bulgarian Development Bank (BDB) under a program for targeted financing of micro, small and medium enterprises. Under the agreement BACB has available a credit line amounting to BGN 35 million for financing of projects meeting the goals of the program.

In November 2018 The Group signed a new agreement with BDB which is the first agreement for BDB under the EU COSME+ Program to support the small and medium-sized business in Bulgaria. COSME+ Program is implemented with the support of the European Fund for Strategic Investments. Its purpose is to facilitate the access to long-term and cheap financing for SME companies while reducing the requirements towards the collateral under the loans. Under the agreement the Group will receive up to 10 million EUR for a 10 year period for providing investment loans, working capital and guarantees to its clients.

As of 31 December 2018, long-term funding from BDB amounts to EUR 18.7 million or 2.9% 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 31 December 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 703.5 thousand. Changes in the fair value of equity instruments measured at fair value through other comprehensive income amounted to EUR 161 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 31 December 2018 and is unchanged compared to the end of 2017.

## **REVIEW OF THE FINANCIAL POSITION AS AT 31 DECEMBER 2018**

The Group ended the Q4 of 2018 with a positive financial result of EUR 6 462 thousand after tax on reported earnings for the same period in 2017 amounting to EUR 4 031 thousand or growth of 60.3%. 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 2 121 thousand to EUR 22 031 thousand. The main share in the interest income accounted those from credit activity 94.8% or EUR 20 895 thousand. Reported income from interbank deposits amounted to EUR 513 thousand against EUR 152 thousand for the Q4 of the previous year. Interest income from security portfolios held recorded an increase of EUR 8.9 thousand as of 31 December 2018 as compared to 31 December 2017 and amounted to EUR 607 thousand at the end of the year 2018. Interest income on other assets amounts to EUR 16.6 thousand.

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 31 December 2017 by EUR 1 216 thousand to EUR 9 945 thousand as at 31 December 2018, with the largest decrease being reported for interest expenses of clients by EUR 1 384 thousand.

As at 31 December 2018, net interest income amounted to EUR 18 086 thousand, or EUR 3 337 thousand more than reported for the same period of the previous year.

Net fees and commissions income increased by EUR 574 thousand compared to 31 December 2017 and amounted to EUR 3 531 thousand or 15.5% of the Bank's total operating income, with a share of 15.4% as of 31 December 2017. The reported figures are result of expanding the product range, offering digital services and enhanced market competition.

As of 31 December 2018, a gain from debt instruments recognized at fair value through other comprehensive income of EUR 82 thousand was realized.

As of 31 December 2018, a gain on trading activity amounted to EUR 1 151 thousand at EUR 965 thousand for the same period previous year.

Administrative expenses increased by EUR 1 802 thousand compared to 31 December 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 1 908 thousand compared to EUR 1 758 thousand as of 31 December 2017.

Impairment expenses and revaluation of financial and non-financial assets decreased by EUR 646 thousand compared to 31 December 2017

Depreciation costs decreased by EUR 91.5 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.

As of the end of 2018 the Bank maintained a stable deposit base and reported an increase in the customer deposits of 18,18% 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 85.36% as at 31 December 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 332.8 million. The ratio of these liquid assets to the total deposits (of customers and banks) as at 31.12.2018 was 7.04%

During the period from the end of 2017 to 31 December 2018, the portfolio value of debt securities at fair value in the OCI of the Bank decreased by 9,5% to BGN 49,7 million (2017: BGN 54.9 million). Cash in the BNB, in hand and in banks increased by BGN 52.5 million. During the reporting period maturities of government securities issues amounting to BGN 3.9 million took place.

Since the beginning of 2018, in 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 31 December 2018, the Bank's government securities portfolio had a book value of BGN 69.9 million (2017: BGN 75.4 million), allocated to the portfolio "held for contractual cash flow and sale" with a book value of BGN 49.7 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. – 31.12.2018, these amounted to BGN 893 thousand.

### Capital Resources

In the Q4 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 31 December 2018, the Group reported the ratio of total capital adequacy ratio of 16.44% to Tier 1 capital adequacy ratio on an individual basis of 16.44%, 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	Updated Rating
	July 27, 2016	

Long-term rating	<b>B</b>	<b>B+</b>
Outlook	Stable	Positive
Short-term rating	<b>B</b>	<b>B</b>
National-scale long-term rating	<b>B+ (BG)</b>	<b>BB (BG)</b>
Outlook	Stable	Positive
National-scale short-term rating	<b>B (BG)</b>	<b>B (BG)</b>

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%).

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

15. On 30 October 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 September 2018

**Additional information for the twelve 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 31.12.2018 and changes in the votes held by the persons as at 30.09.2018 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 31 December, 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 31.12.2018	Percentage of votes at the General Meeting of Shareholders as at 31.12.2018	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
CSIF AD	15 167 642	61,429%	15 167 642	61,429%
<b>Tsvetelina Borislavova Karagoyzova</b> - 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%
<b>LTBI Holdings LLC</b>	8 762 793	35,49%	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 31.12.2018 and on the changes that occurred as at 30.09.2018.

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 31.12.2018	Percentage of votes at the General Meeting of Shareholders as at 31.12.2018	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
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 2018.

More detailed information, if applicable, is contained in the Related Party Transactions section of the Accounting Policies and Selected Explanatory Notes as at 31.12.2018.