INTERIM ACTIVITY REPORT
OF THE BULGARIAN-AMERICAN CREDIT BANK AD ON A CONSOLIDATED BASIS
FOR THE THREE MONTHS OF 2019

SOFIA, 25 APRIL 2019

GENERAL INFORMATION

During the first quarter of 2019 Bulgarian American Credit Bank AD (BACB, the Bank) continued to offer innovative and flexible solutions to the business and individuals, manage risks and be a "green", 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 customers’ needs, responsible attitude towards the environment and business goals set forth.

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

As at 31 March 2019 the total loan portfolio of the Bank has dropped by -2.52%, which represents net decline of BGN -22.943 million as compared to the prior 2018.

In its lending activity as at 31 March 2019 the Bank reported net increase in the carrying amount of its loan portfolio in the "Natural persons" segment by +9.16% or BGN +6.858 million compared to 31 December 2018. With respect to the ME, SME and Corporate Clients segments the Bank reports a decrease by -3.75% or BGN -26.715 million, which is due to the early repayment of several loan exposures. The "Restructuring" Sector portfolio (loans extended before 2011), which the Bank has been working actively to reduce, has dropped down by -5.06% or BGN -11.339 million.

The Bank continues its successful development and promotion on the market of its innovative product for individuals - fast consumer loan "BACB Express", offered at specialized points of sale in the big malls and shopping centers. Utilization of the approved cash limit without the need for a bank card at any ATM, offering the Cash M service, is a unique feature of the product at the competitive local banking market.

A new mortgage loan product — "For tomorrow" - was launched for customers — individuals. It is a unique product at the local banking market.

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

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

Since 2018 the Bank has signed an agreement with the Bulgarian Development Bank AD for indirect financing to small and medium-sized enterprises with a guarantee facility and counter-guarantees under COSME Program of the European Investment Fund, with the support of the European Fund for Strategic Investments - „COSME+” Program at the amount of EUR 10 million. The goal of the Program is to ensure easy access to financing for SMEs during the various stages of their life cycle: establishment, expansion or transfer of the operations. As a result of the COSME+ Program the guarantee coverage is already up to 60% of the loan. This reduces the requirements for provision of collateral by the business and the financing options are facilitated. Using the guaranteed resources provided by the BDB under the COSME+ Program BACB grants investment and working capital loans, and bank guarantees. As at 31 March 2019 BACB AD has supported 15 enterprises with more than 203 employees.

Using the guaranteed resources provided by the BDB under the COSME+ Program BACB will grant investment and working capital loans, and will issue bank guarantees. The maximum amount of loans granted is up to EUR 150 000, and the repayment term is between 12 and 120 months.

In June 2018 BACB joined the Financing Innovative Start-ups Program of Sofia Municipality. It is a special guarantee scheme of the Municipal Small and Medium-Sized Enterprise Guarantee Fund (MSMEGF). The
Program aims to promote the development of start-ups and to facilitate their access to the financial resources required for the implementation of their business projects. The Program provides guarantees up to 50% with a maximum guarantee amount of the MSMEGF of BGN 30 000. The guarantee commitment covers a period of up to 60 months. As at 31 December 2018 the Bank has extended 4 loans to innovative enterprises with guarantee amount of BGN 85 000. At 31 March 2019 the Bank has extended 4 loans to innovative enterprises with guarantee amount of BGN 85 000.

BACB has signed a standard contract with the Ministry of Education and Science under the Undergraduate and Graduate Student Loans Act. As at 31 March 2019 BACB AD has agreed state guarantee for granting loans to undergraduate and graduate students amounting to BGN 3 million. In 2019 the credit scheme of MES allows BACB AD to expand and strengthen its cooperation with the government institutions in the country by attracting new customers — individuals — undergraduate and graduate students in accordance with the Bank's development strategy. State guarantee amounting to 100% of the loan is used under this Program.

During the period, jointly with BORICA, BACB launched a pilot project related to the global national project "New Generation" for certification of new BINs for VISA & MasterCard cards, and pilot project for certification and implementation of the new 3DS2 security standards for MasterCard transactions.

During the first quarter of 2019 the Bank noticed an increase in transfers and documentary transactions compared to the same period in 2018. The number of transfers ordered has gone up by 12%, and their volume — by 25%. With respect to letters of credit, cash collection and cross-border guarantees the Bank reports an increase in number by 44% and in volume by almost 100%.

The growth in business had an impact on the fees and commissions collected on payment transaction. During the first quarter of 2019 they reached BGN 1.5 million, which represents 18% increase compared to the same period in 2018.

In 2019 the global and European economic growth is significantly lower compared to the autumn forecast. The expectations in the next years during the forecast period 2020-2022 are also lower. The assumptions underlying the external environment indicate slight improvement in 2020 compared to 2019. The growth rate of the global economy in the next couple of years will remain without change, while the EU economy will grow at a slower pace.

Real growth in the gross domestic product in Bulgaria in 2018 reached 3.1%, compared to expected growth of 3.6% as per the autumn forecast. The slower growth was due to the poorer performance of exports, which had a 2.8 percentage points negative contribution to net exports. At the same time, domestic demand reported growth higher than the expected, driven mainly by the strong increase in private consumption.

According to the spring forecast of the Ministry of Finance GDP will go up by 3.4% in 2019. The budgeted increase in public investment and the increase in exports will have the biggest contribution towards the higher growth compared to 2018. Private consumption will continue to report stable development, but the rate will slow down compared to the prior year. The increased uncertainty related to the unstable external environment will be expressed in the poorer performance of private investment.

Recovery of the positive dynamic in exports is expected in 2019, after the depletion of the one-off negative effects of 2018. External demand from EU member states will continue to support the increase of Bulgarian export, but the contribution will be limited in view of the expected slowdown of the economic activity in most of the old member states. At the same time Bulgarian export to Turkey will remain adversely influenced by the slump in the economic activity in the country. The demand in export-oriented sectors and the upward dynamic of overall investments will accelerate the import.

The number of people employed marked a slight decrease of 0.1% in 2018, which was due to the decreased number of people employed in agriculture. The increased employment in 2019 is assessed at 0.4%, with the number of those employed in the industry and services is expected to go up, but at a slower pace compared to the prior year. The unemployment rate will drop down to 4.6%, which will be combined with an increased involvement of active-age population in the workforce. In 2019 the upward dynamic in labor remuneration up to 7.8% will be due both to the public and the private sector in the economy.

Internal inflation factors remain, although household consumption is expected to grow at a slower pace. The year is forecast to close at a quite lower price pressure on consumer goods prices compared to services as a result of the expected limited effect of international prices of raw materials. The inflation at the end of 2019 is forecast at 2.4%, slightly higher compared to the end of 2018. Food prices are expected to be higher due to the decrease in produce and added value in agriculture and the increased energy costs from the prior year, as well as the expected increase in international prices of certain grain crops in 2019. The average annual inflation is forecast at 1.8%, which is technically due to the monthly values reported in 2018. The basic inflation rate at the year-end is expected to reach 2.5% and to be higher compared to that at the end of 2018 of 2.1%.
The main risks to the realization of the forecast are related to the developments in the external environment. They represent unstable geopolitical situation, increasing protectionist measures in trade and slow-down in the economic activity, higher than the expected one, in the EU and third countries, which are important trade partners for Bulgaria. The realization of these risks would have adverse impact on exports and deterioration of the positive balance on the current account.

In its most recent report the International Monetary Fund (IMF) dropped its global economic development forecast and projected that growth in 2019 will be at the lowest pace for last three years and warned that the last few months’ trade tensions will give rise to further issues. The additional customs duties, the renewed tightening of the financial conditions, no-deal Brexit and the more significant than expected economic slowdown in China are among the threats mentioned in the report.

### Forecast of the Ministry of Finance

<table>
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<tr>
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<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
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</thead>
<tbody>
<tr>
<td>GDP (billion BGN)</td>
<td>115.4</td>
<td>122.8</td>
<td>130.4</td>
<td>138.4</td>
</tr>
<tr>
<td>GDP (real growth %)</td>
<td>3.4</td>
<td>3.3</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td><strong>Contribution:</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Consumption</td>
<td>4.6</td>
<td>4.0</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>Gross capital formation</td>
<td>9.9</td>
<td>5.0</td>
<td>6.3</td>
<td>6.8</td>
</tr>
<tr>
<td>Export</td>
<td>1.8</td>
<td>2.0</td>
<td>1.8</td>
<td>1.7</td>
</tr>
<tr>
<td>Import</td>
<td>5.0</td>
<td>3.3</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Unemployment (%)</td>
<td>4.6</td>
<td>4.1</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>1.8</td>
<td>2.5</td>
<td>2.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Foreign direct investments (% of GDP)</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Loans granted to companies (%)</td>
<td>7.5</td>
<td>7.9</td>
<td>8.3</td>
<td>8.6</td>
</tr>
<tr>
<td>Loans granted to households (%)</td>
<td>7.6</td>
<td>7.2</td>
<td>7.0</td>
<td>6.9</td>
</tr>
</tbody>
</table>

Although the economic activity globally remained stable during the second half of 2018, it was still uneven and signs of slow-down in growth are still demonstrated. The upsurge phase in the economic cycle globally, the weakening monetary incentives in many developed economies and the impact of the customs tariffs between USA and China have negative impact on the global economic activity. Global trade growth slowed down slightly, and the uncertainty concerning future trade relations increased. At the same time the terms of financing remain favorable in the developed economies, while in some emerging markets they were tightened. Global economic activity is expected to slow down in 2019 and remain stable thereafter. The pressure to push inflation up globally is expected to intensify slowly with the decline in spare production capacity.

The growth of real GDP in the Eurozone remained low during the fourth quarter of 2018, at a level of 0.2% on quarterly basis. Information received indicates that growth in the near future will remain moderate. Published data still indicated slowing down, especially in the sector of the processing industry, reflecting the decrease in external demand, combined with some individual country- and sector-specific factors. The impact of these factors turns out to be more lasting, which suggests that in the short-term horizon growth will be lower as compared to previous forecasts. The effect of these negative factors is expected to fade in a longer term perspective. The upsurge in the Eurozone will still be supported by the favorable financing terms, the further increase in employment and increasing salary levels, as well as the increasing economic activity globally, although slower than expected.

This assessment was generally reflected in the Eurozone macroeconomic forecasts of the ECB experts published in March 2019. The forecasts project real GDP to grow by 1.1% on annual basis in 2019, by 1.6% in 2020 and by 1.5% in 2021. The real GDP growth forecast is revised downwards as compared to the macroeconomic forecasts of the Euro-system experts from December 2018 - significantly for 2019 and slightly for 2020. The risks concerning the economic growth perspectives in the Eurozone still tend to overstate the forecasts due to the lasting uncertainty related to factors of geopolitical nature, the threat of protectionism and vulnerabilities in the emerging market economies.

According to Eurostat snapshot assessment the annual H CPI inflation in the Eurozone went up to 1.5% in February compared to 1.4% in January 2019. Based on the current prices of oil futures it is probable that the general inflation rate will remain close to its current levels, and then go down by the end of the year. The basic inflation indicators remained weak as a whole, but the pressure to increase labor costs strengthened and expanded its scope in a situation of high level of production capacity utilization and tightening at the labor market. Basic inflation is expected to increase gradually in the future over the medium term, supported by the ECB monetary policy measures, the economic upsurge and the stronger salary increase rate.

This assessment as a whole will be reflected in the Eurozone macroeconomic projections of the ECB experts in March 2019, which forecast annual H CPI inflation of 1.2% in 2019, 1.5% in 2020 and 1.6% in 2021. The H CPI
inflation projections are revised downwards over the entire forecast horizon as compared to the macroeconomic forecasts published by the Euro-system experts in December 2018, which reflects mainly the lower growth outlook in the near future. Annual HPCI inflation, excluding energy and foods, is expected to be 1.2% in 2019.

Energy product prices jumped significantly on annual basis in 2018 in US dollars and Euro, which was due both to the higher demand for oil, but also the restrictions imposed on the production of the raw material as a result of the agreement of the OPEC and the other big producer countries. The increase in the oil prices at the international markets was further influenced by the expectations for the reduced supply of oil products following the sanctions imposed on Iran by the USA in relation to Iran's nuclear program. Despite the limited demand for the raw material and the exemptions for certain countries from the USA sanctions against oil import from Iran, in 2019 we expect slight increase in the price of oil compared to 2018. This will be mainly due to the new agreement reached in December between OPEC and other leading oil producing countries for reduction of oil production during the first six months of 2019.

The dynamic in the international prices of non-energy products was multidirectional in Euro and US dollars in 2018, which was due to the devaluation of the US dollar to the Euro. The reported growth in the prices of non-energy products in US dollars was due to the agriculture raw materials and metals (which was related mainly to temporary shortages along the lines of supply), while there was a decrease in the prices of foods. In 2019 we expect the prices of non-energy products in US dollars to decrease slightly compared to those in 2018, but they will go up once again in 2020.

The major risks to the macroeconomic forecast are related to the uncertainties in the development of the external environment and the expectations regarding prices at international markets, as well as the unfavorable demographic trends in the country.

OVERVIEW OF THE ACTIVITIES IN Q1 2019

Selected indicators and ratios

<table>
<thead>
<tr>
<th></th>
<th>31.12.2018 (audited)</th>
<th>31.03.2018 (unaudited)</th>
<th>31.03.2019 (unaudited)</th>
<th>Change 03.2019/03.2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size of assets</td>
<td>731,172</td>
<td>644,470</td>
<td>735,295</td>
<td>14.09%</td>
</tr>
<tr>
<td>Loans (net value)</td>
<td>463,816</td>
<td>404,367</td>
<td>454,088</td>
<td>12.30%</td>
</tr>
<tr>
<td>Borrowed funds</td>
<td>627,657</td>
<td>549,301</td>
<td>629,730</td>
<td>14.64%</td>
</tr>
<tr>
<td>Equity</td>
<td>94,750</td>
<td>90,223</td>
<td>96,803</td>
<td>7.29%</td>
</tr>
<tr>
<td>Net interest income</td>
<td>18,086</td>
<td>4,046</td>
<td>4,773</td>
<td>17.97%</td>
</tr>
<tr>
<td>Net income from fees and commissions</td>
<td>3,531</td>
<td>786</td>
<td>1,011</td>
<td>28.63%</td>
</tr>
<tr>
<td>Loans/borrowed funds</td>
<td>73.90%</td>
<td>73.62%</td>
<td>72.11%</td>
<td></td>
</tr>
<tr>
<td>Liquid assets ratio</td>
<td>N.A.</td>
<td>25.75%</td>
<td>N.A.</td>
<td></td>
</tr>
<tr>
<td>Liquid Coverage Ratio (LCR)</td>
<td>194.77%</td>
<td>207.21%</td>
<td>440.15</td>
<td></td>
</tr>
<tr>
<td>Capital adequacy</td>
<td>16.47%</td>
<td>19.18%</td>
<td>16.27%</td>
<td></td>
</tr>
</tbody>
</table>

Active operations

At the end of the first quarter of 2019, the Group’s assets amounted to EUR 735 295 thousand, as compared to the 2018 audited data, showing an increase of EUR 4.1 million or an increase of 0.6%.

As at 31 March 2019, the Group recorded a decrease in the loan portfolio at a book value of EUR 14.1 million or 2.7% reaching EUR 501.9 million compared to the volume at the end of 2018. From the beginning of 2019, the Bank calculates accumulated credit losses and impairments under IFRS 9, which amounted to EUR 47.9 million and provided coverage of 9.5% of the loan portfolio with a volume of EUR 523.3 million at the end of 2018, a coverage of 10.1% and an average level for the banking system of less than 7%.

In 2018, the accumulated provisions for impairment decreased by EUR 4.4 million or 8.4%.

At the end of March 2019, the net loan portfolio amounted to EUR 454.1 million and formed a 61.8% share of total assets. The loan portfolio includes receivables under finance leases for EUR 15 624 thousand at book value of EUR 15 986 thousand at the end of the previous year.

In the first quarter of 2019, the Group granted new loans amounting to EUR 67.4 million and the amount of repaid loans for the same period was EUR 81.4 million, including debt reduction of EUR 0.2 million against acquired collateral and principals written off against the impairment provisions account amounting to EUR 3.2 million.

As of 31 March 2019, overdue loans over 90 days represented 16.1% of the total loans at book value, compared to the reported 16.3% as at 31 December 2018.
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 in 2018 by 6 new percentage points. 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.

As at 31 March 2019, the financial assets held at fair value through other comprehensive income (Debt and Equity instruments) amounted to EUR 24.4 million or 3.3% of the total assets and volume of EUR 26.3 million or 3.6% of the total assets at the end of 2018. The portfolio of debt and equity instruments is formed from 78.9% first-rate government securities of the Republic of Bulgaria, 17.2% of corporate bonds and 3.9 % of equity instruments. In the first quarter, a decrease of EUR 2 million was recorded, due mainly to two issues and a ZUNK issue maturing in January. Equity instruments of EUR 0.96 million (2018 – EUR 0.86 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 535 thousand at fair value (2018 – EUR 445 thousand) and participation in the BSE for EUR 56 thousand (2018 – EUR 55 thousand).

The portfolio of debt instruments measured at amortized cost includes bonds of the Bulgarian government with fixed payments and maturity. Within the reporting quarter, there was a slight increase to EUR 10.4 million or 1.4% of total assets at EUR 10.3 million at the end of 2018.

As at 31 March 2019, receivables from banks amounted to EUR 66.1 million and occupied a share of 9% of total assets at EUR 34.3 million and a share of 4.7% at the end of 2018. The reported increase of 92.6% as compared to the end of 2018 is formed by growth, both in sight deposits and in term deposits.

Cash and cash held by the central bank decreased by 9.1% to EUR 107.7 million at the end of the first quarter, compared to EUR 118.5 million at the end of 2018, bringing its share in total assets from 16.2% to 14.6 %. The main reason for the reported first quarter decrease is a decrease in current account balances with the BNB.

Tangible and intangible fixed assets held by the Group increased from EUR 3.6 million compared to the end of 2018 by book value to EUR 9.1 million, and their share of total assets increased from 0.7% to 1.2 The reason is the introduction of IFRS 16 Leases as of 1 January 2019 and the resulting changes in the reporting of lease contracts (mainly real estate rent contracts) as finance leases rather than operating leases.

As of 31 March 2019, assets acquired and classified as "assets for sale" and "investment property" amounted to EUR 55.4 million or 7.5% of total assets at EUR 57.4 million and 7.8% at 31 December 2018. During the reporting quarter, "investment properties" were sold amounting to EUR 24 thousand at book value and "assets for sale" were sold amounting to EUR 2 155 thousand at book value and were acquired "assets for sale" for EUR 190 thousand at book value.

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 March 2019, the Group not recorded borrowed funds from banks at EUR 3.2 million at the end of 2018.

Attracted funds from companies and individuals increased by EUR 6 million over the three-month period to EUR 610.1 million at 31 March 2019, or 95.6% of total liabilities at EUR 604.1 million and 94.9% at the end of 2018. Reported growth was net of decrease of companies 'funds by EUR 0.6 million (financial institutions, private, state-owned enterprises and budget organizations) and a EUR 6.6 million growth in citizens' funds (mainly deposits from Germany and current account).

In the first quarter of 2019, the Bank fulfilled the terms of the issued Eighth Mortgage Bonds Issue (BSE-Sofia Code: 5BNF) by making a regular principal payment of EUR 700 thousand and interest payments under the terms of the issue of the bond. As at 31 March 2019, issued debt securities amounted to EUR 900 thousand at book value and formed 0.1% of total liabilities at EUR 1 616 thousand and 0.3% at the end of 2018.

In the item "other borrowed funds", credit line commitments by the Bulgarian Development Bank (BDB) under the “NAPRED” and “COSME*” programs for targeted financing of micro, small and medium-sized business of an agreed amount of BGN 35 million and EUR 10 million are reported. As of 31 March 2019, long-term funding from BDB amounts to EUR 18.7 million or 2.9% of total liabilities at a similar volume and share at the end of 2018.
During the first quarter of 2019 the line item “Other liabilities” is used to report an increase of EUR 5.4 million, which stands mainly for the reporting of lease contract liabilities in accordance with the requirements of IFRS 16.

**Equity**

During the reporting quarter of 2019, there were no changes in fixed capital.

As at 31 March 2019 the line item “Reserves and retained earnings” increases to reflect the profit generated during the first quarter of the year amounting to EUR 1 961 thousand.

The line item „Revaluation reserves“ includes the changes in the fair value of debt and equity instruments carried at fair value in the other comprehensive income amounting to EUR 720 thousand and EUR 285 thousand, respectively during the reporting period, as well as the revaluation reserve formed on buildings owned by the Bank and used in its operating activities amounting to EUR 2 300 thousand as at 31 March 2019. An increase of EUR 92 thousand was reported during the quarter, which is the result from the positive change in the fair value of debt instruments by EUR 17 thousand and equity instruments – by EUR 75 thousand.

**REVIEW OF THE FINANCIAL POSITION AS AT 31 MARCH 2019**

The Group ended the first quarter of 2019 with a positive financial result of EUR 1 961 thousand after tax on reported earnings for the same period in 2018 amounting to EUR 1 739 thousand or growth of 12.8%. 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 603 thousand to EUR 5 797 thousand. The main share in the interest income accounted those from credit activity 94.5%. Reported income from interbank deposits amounted to EUR 176.7 thousand against EUR 68.8 thousand for the first quarter of the previous year. Interest income from security portfolios held recorded a decrease of EUR 8 thousand as of 31 March 2019 as compared to 31 March 2018 and amounted to EUR 142.7 thousand at the end of the reporting quarter.

Despite the retention of the cost of borrowed funds and the increase in the resources during the first quarter of 2019, as well as the inclusion of interest expenses on lease contracts in accordance with the requirements of IFRS 16, interest expenses are down compared to the first quarter of 2018. As at 31 March 2019 interest expenses are down by EUR 124 thousand and amount to EUR 1 024 thousand compared to EUR 1 148 thousand one year ago. Significant decrease is reported with respect to interest expenses of customers - by EUR 157.8 thousand, expenses on debt securities – by EUR 11 thousand, and there is an increase in interest expense on long-term financing and negative interest paid on accounts with BNB and other banks by EUR 12.2 thousand and EUR 18.4 thousand, respectively, while expenses on lease contracts in accordance with IFRS 16 amount to EUR 15.3 thousand.

As at 31 March 2019, net interest income amounted to EUR 4 773 thousand, or EUR 727 thousand more than reported for the same period of the previous year.

Net fees and commissions income increased by EUR 225 thousand compared to 31 March 2018 and amounted to EUR 1 011 thousand or 16.3% of the Bank's total operating income, with a share of 15.2% as of 31 March 2018. The reported figures are result of expanding the product range, offering digital services and enhanced market competition.

As of 31 March 2019, a gain from debt instruments recognized at fair value through other comprehensive income of EUR 2 thousand was realized.

Administrative expenses and personnel expenses are up by EUR 250 thousand during the first quarter of 2019 compared to the same period of the prior year.

Expenses on impairment of financial assets are up by EUR 244 thousand, incl. EUR 40.4 thousand negative effect of modification. Expenditure on the Bank Deposit Guarantee Fund (BDIF) and the Bank Restructuring Fund (BRF) amounted to EUR 522.5 thousand compared to EUR 515.4 thousand as of 31 March 2018.

Depreciation and amortisation expenses are up by EUR 249 thousand compared to the same period of the prior year. This is formed by decrease in the depreciation and amortisation expenses of non-current assets by EUR 7.2 thousand and the reporting of depreciation expenses on assets with the right to use in accordance with IFRS 16 amounting to EUR 256 thousand.

**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 quarter of 2019, the Bank maintained a stable deposit base and reported an increase in the customer deposits of 1% compared to 31.12.2018. 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 82.27% as at 31 March 2019.

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 EUR 186.44 million. The ratio of these liquid assets to the total deposits (of customers and banks) as at 31.03.2019 is 30.56%.

During the period from the end of 2018 to 31 March 2019, the portfolio value of debt securities at fair value in the OCI of the Bank recorded a decrease of 7.8% to EUR 23.5 million (2018: EUR 25.4 million). Cash in the BNB, in hand and in banks increased by EUR 20.9 million. During the reporting period maturities of government securities issues amounting to EUR 1.7 million took place.

In the first quarter of 2019, in the portfolios "held for the collection of contractual cash flows" (Financial assets at amortized cost) and "held for the collection of contractual cash flows and sale" no new investments in government securities were made.


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 2019, a net income of EUR 2 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 01.01.2019 to 31.03.2019 is amounted to EUR 105.8 thousand.

**Capital Resources**

In the first quarter of 2019, 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 March 2019, the Group reported the ratio of total capital adequacy ratio of 16.27% to Tier 1 capital adequacy ratio on an individual basis of 16.27%, 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 2018 provided to the FSC and the public and is available on the Bank's website.


1. On January 30, 2019, BACB published its preliminary unaudited individual and consolidated financial statements as at December 31, 2018, together with the relevant interim activity reports and a letter to the shareholders;

2. On January 30, 2019, 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 2018.

3. On 19 February 2019 the Bulgarian Competition Protection Commission (CPC) initiated a procedure for granting a permission for concentration in the meaning of art. 22 (2) of the Bulgarian Competition Protection Act under a joint notification between “Bulgarian-American Credit Bank” (BACB) and “Bulgarian Telecommunication Company” (BTC). The joint notification is for the intention of the two companies to implement concentration under art. 22 (2) of PCA by establishment of a joint-venture company. The notification is based on planned new joint activity between BACB and BTC through the establishment of the new company. The notification filed is in compliance with the obligations under the Competition Protection Act for the entities that establish joint companies under art. 22 (2) of CPA. The permission of the concentration by the regulator body is required prior to undertaking any actions on execution of the transaction.

3. In accordance with the terms and conditions under the Eight mortgage bond issue of BACB, ISIN BG2100006142, Exchange code SBNF, on 25 March 2019 the ninth payment to the bondholders of the mortgage bond was made in total amount of BGN 1,430,097.93 (EUR 731,197.46 under fixed exchange rate of BGN 1.95583 for EUR 1.00), from which BGN 1,369,081 (EUR 700,000 under fixed exchange rate of BGN 1.95583 for
EUR 1.00) represent payment on principal and BGN 61,016.93 (EUR 31,197.46 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 20 March 2019.

5. On 30 March 2019, BACB published its audited annual financial statements for 2018 on a consolidated and stand alone basis, together with information on the Bank's financial result for 2018, on a consolidated and standalone basis. Detailed information and full text of the reports are also available on the BACB AD website;

Additional information for the three months of 2019 (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 16 Leases, which has a impact on the Group's consolidated financial statements for 2019. IFRS 16 Leases came into effect on 1 January 2019, by replacing IAS 17 Leases. Changes from the adoption of IFRS 9 are explained in detail in the notes to the Consolidated Financial Statements of the Group as at 31 March 2019.
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 31.03.2019 and changes in the votes held by the persons as at 31.12.2018 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 March 2019 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:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Number of shares held (directly and indirectly) as at 31.03.2019</th>
<th>Percentage of votes at the General Meeting of Shareholders as at 31.03.2019</th>
<th>Number of shares held (directly and indirectly) as at 31.12.2018</th>
<th>Percentage of votes at the General Meeting of Shareholders as at 31.12.2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSIF AD</td>
<td>15,167,642</td>
<td>61.429%</td>
<td>15,167,642</td>
<td>61.429%</td>
</tr>
<tr>
<td>Tsvetelina Borislavova Karagyozova - the person exercising control over the direct shareholder CSIF AD AD (owns 99.99% of the shares of CSIF AD)</td>
<td>15,167,642</td>
<td>61.429%</td>
<td>15,167,642</td>
<td>61.429%</td>
</tr>
<tr>
<td>LTBI Holdings LLC</td>
<td>8,771,640</td>
<td>35.53%</td>
<td>8,762,793</td>
<td>35.49%</td>
</tr>
</tbody>
</table>

6. Data on the shares held by the members of the management and supervisory bodies of the Bank as at 31.03.2019 and on the changes that occurred as at 31.12.2018.
The following table contains information regarding the members of the management and supervisory bodies of the Bank which own its shares.
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 three months of 2019.

More detailed information, if applicable, is contained in the Related Party Transactions section of the Accounting Policies and Selected Explanatory Notes as at 31.03.2019.

<table>
<thead>
<tr>
<th>Silvia Kirilova</th>
<th>Management Board</th>
<th>1 600</th>
<th>0.006%</th>
<th>1 600</th>
<th>0.006%</th>
</tr>
</thead>
</table>

Bulgarian-American Credit Bank AD