

**INTERIM ACTIVITY REPORT
OF "BULGARIAN-AMERICAN CREDIT BANK" AD ON A CONSOLIDATED BASIS FOR THE THREE MONTHS
OF 2023
SOFIA, 28 APRIL 2023.**

General information

The Bulgarian-American Credit Bank AD (BACB, the Bank) continued to operate in the first quarter of 2023 as a universal bank offering a full range of banking services, aimed at the green economy, incl. financing small and medium-sized enterprises and expanding the services in retail banking by offering a variety of products in the field of housing and consumer lending and transaction banking. The bank strives to meet its clients' needs by offering a comprehensive range of banking services and providing modern banking technologies and thereby to expand its customer base.

Economic overview

External environment

Over the past year the global economy outlook remains uncertain amid banking turmoil, high inflation rates, the continuous impact of the Russian Federation's invasion in the Republic of Ukraine, along with COVID19. Pursuant to the forecasts of the International Monetary Fund (IMF, the Fund) from April 2023, we may expect a real GDP slowdown worldwide to 2.8% in 2023 (from 3.4% in 2022), followed by a slight rise to 3.00% in 2024. Global price pressures remain high amid relatively stable demand, tight labor market conditions and high food prices, but they are expected to ease as commodity markets stabilize and growth weakens.

Continued actions by Central Banks aimed at tightening their monetary policy by raising key interest rates, used as the main tool to combat inflation, have not yet yielded the expected result, with the inflation rates remaining high and representing a major challenge to the economic development.

The ECB expects that the average annual growth of the real GDP will significantly slow down - to an average of 1.0% in 2023 (from 3.6% in 2022), then slightly increase to 1.6% in 2024 and 2025. Compared to the December 2022 ECB macroeconomic forecasts, the GDP growth forecast was revised upwards by 0.5 percentage points for 2023 as a result of the improved short-term outlook - the energy prices drop and the greater resilience of economy to the challenges presented by the international environment.

The Eurozone labor market conditions remain unchanged. The unemployment rate remains at a level of 6.6% as of February 2023. The unemployment rate is expected to remain around the levels reached at the end of 2022, with a possibility for minor deviations.

Global inflation is expected to drop from 8.7% in 2022 to 7.00% in 2023 on the background of declining energy carrier prices, but forecasts indicate a slow decline, forcing the monetary policy tightening to continue longer than expected. Rising interest rates could lead to debt servicing difficulties for highly indebted countries in the context of higher borrowing costs and weaker economic growth.

In February 2023 the overall inflation rates in the Eurozone dropped to 8.5%. According to the ECB's latest forecasts, inflation rates are expected to decline to 5.3% in 2023, with a subsequent decline to 2.9% in 2024 and 2.1% in 2025. The decline in inflation rates over the forecast period reflects the effects related to the gradual impact of ECB's monetary policy of raising interest rates starting in December 2022, the outlook for weaker growth and the assumed reduction in energy and food prices, along with the assumption that long-term inflation expectations will remain stabilized. An additional driving factor in this direction is the gradual elimination of fiscal measures which compensate for the energy prices increase.

Bulgaria

The International Monetary Fund (IMF, the Fund) forecast for the Global Economy from April 2023 suffered a more than doubled decrease with regards to Bulgaria's GDP growth, reaching 1.4% for 2023, compared to the expectations for a 3% growth under the previous October 2022 forecast. IMF expects an inflation level of 7.5% in 2023 (compared to the expectations of 5.2% under the previous forecast), and the Fund foresees its significant slowdown to 2.2% in 2024 – close to the long-term target level. The Fund forecasts a slight increase in the unemployment rate to 4.6% in 2023, followed by a subsequent reduction to 4.4% in 2024.

2023 Economic Growth Forecasts

Institution	New forecast	Previous forecast
BNB	0,4	0,1
MF	1,8	1,6
European commission	1,4	1,1
IMF	1,4	3,0
World bank	1,7	4,3
European Bank for Reconstruction and Development	1,0	1,5
Average value	1,28	1,93

Pursuant to the latest economic forecasts, the leading institutions expect the country's real GDP to grow by about 1.28% in 2023, which represents a decrease of about 0.65 percentage points compared to the previous expectations of the institutions. Out of the international organizations included in the sample, only the European Commission revised its forecast for 2023 economic growth of the country upward.

The spring macroeconomic forecast of the Ministry of Finance (MF) provides for a slowdown in GDP growth in the country in 2023 to 1.8% (given a growth in real terms of 3.4% in 2022). According to the forecast, the slowdown will be mainly due to a decrease in consumption, external demand deterioration and the interest rates increase. Growth in private consumption will be supported by the growth in the real disposable income, but it will slow down compared to 2022, in sync with the weaker growth in employment rates and lending to households. Growth in government consumption is also expected to be weaker than reported in 2022. Similar to its previous autumn forecast, the Ministry of Finance expects private investment activity to remain suppressed, due to high uncertainty and deterioration of financing conditions.

In 2024 the weakening of inflationary pressure will result in a higher growth in household consumption, which in turn will have a positive effect on private investment activity, on the background of relatively high growth of public investment. The improving external environment will represent an incentive for accelerating the growth in goods and services export, and the MF expects the country's GDP to grow by 3.3% for the entire year.

GDP growth in the period 2025–2026 is expected to slow down to 3.2% and 3%, respectively. During this period, the Ministry of Finance predicts a slight decline in public investment and an increase in private investment, related to expectations for a reduction in uncertainty and a continued demand growth. Based on the dynamics of the external environment, there are forecasts for accelerated increase in the export of goods and services in 2025, followed by a slight growth slowdown at the end of the period.

After we observed recovery of employment rates in 2022 after the revocation of all restrictive measures against COVID19, in 2023 the annual growth of employment is expected to slow down to 0.4%, in line with forecasts for an overall slowdown in the country's economic growth. Along with the acceleration in the growth rates of the Bulgarian economy, 2024 is expected to bring an increase in the growth of the number of employed persons by 0.7%. Despite the expectations for growth in the Bulgarian economy in 2025 and 2026, the MF predicts a slowdown in employment growth.

Since the last quarter of 2022 we have been observing a downward trend in the annual inflation rates based on the HICP. Since September 2022, when the highest inflation rate of 15.6% on an annual basis was reported, inflation has been slowing down to 13.7% in February 2023 and additionally to 12.1% in March 2023. The slowdown in inflationary processes in the country is largely due to the decreased international prices of energy goods and raw materials, which are expected to drop further throughout the entire forecast period.

The Ministry of Finance forecasts a decrease in inflation rates at the end of 2023 to 5.6%, and the annual average rate to be 8.7%. The slowdown will be mainly due to a significant reduction in the contribution of food and energy goods, and the prices of the latter are expected to demonstrate a slight decrease in the end of the year. Inflation rates in 2024 are expected to continue slowing down, reaching 3.2% at the end of the year and an average annual rate of 3.8%. In 2025 and 2026 the average annual inflation will continue to decrease, reaching 2.8% and 2.2%, respectively.

Basic macroeconomic Indicators	Reported data*		Forecast			
	2021	2022	2023	2024	2025	2026
International environment						
Global economy [real growth, %]	6,10	3,40	2,80	3,10	3,20	3,20
European economy - EU [%]	5,40	3,50	0,70	1,80	2,10	1,90
Exchange rate [USD/EUR]	1,18	1,05	1,06	1,06	1,06	1,06

Brent oil price [USD/barrel]	70,40	99,80	82,20	77,40	73,30	70,00
Non-energy commodity prices [in USD, %]	32,70	8,70	-10,60	-2,10	-1,40	-0,60
EURIBOR 3m. [%]	-0,50	0,30	3,30	3,30	2,80	2,30
Gross Domestic Product						
GDP [millions of BGN]	139 012	165 384	184 486	197 566	210 190	222 693
GDP [real growth, %]	7,6	3,4	1,8	3,3	3,2	3
Consumption	6,7	5,2	3	3,3	3,3	3,3
Gross fixed capital formation	-8,3	-4,3	6,3	12,6	6,5	4,8
Export of goods and services	11	8,3	1,7	4,3	4,7	4,3
Import of goods and services	10,9	10,5	3,9	6,4	5,4	5
Labor market and prices						
Employment rate [System of National Accounts, %]	0,2	1,3	0,4	0,7	0,5	0,3
Unemployment rate [Labor force monitoring, %]	5,3	4,3	4,1	3,9	3,8	3,8
Compensation per employee [%]	11,3	18,4	11,5	10,6	7,7	7,1
GDP deflator [%]	7,1	15,1	9,5	3,7	3,1	2,8
Average annual inflation [HICP, %]	2,8	13	8,7	3,8	2,8	2,2
Payment balance						
Current account [% of GDP]	-1,9	-0,7	-0,7	-1,7	-1,9	-2
Trade balance [% of GDP]	-4,1	-5,8	-5,6	-6,9	-7	-7,1
Direct foreign investment [% of GDP]	2,9	3,6	3,7	3,8	3,7	3,6
Monetary sector						
MH [%]	10,7	13,2	12,4	11,9	12,1	11,7
Receivables from companies [%]	6,1	11,1	7,2	7,9	8	7,7
Receivables from households [%]	13,4	14,6	11,7	11,2	9,5	8,9

Source: MF, NSI, BNB, IMF, Bloomberg

The global geopolitical situation retains its high degree of uncertainty, which poses significant risks to the realization of the macroeconomic forecast. The Bulgarian economy's openness makes it dependent on the economic dynamics present in the country's main trading partners - the European Union, in particular.

The higher than expected inflation rates, the accelerated rise in interest rates and the corresponding drop in disposable income of households are all factors that would limit external demand. The effective ban on crude oil imports from Russia to the EU, may impact negatively the export of oil products from Bulgaria to third countries, although our country currently benefits from a derogation.

Meanwhile, we also observe certain positive indicators. In 2022, on the background of rising inflation rates, household consumption in the country remained stable. The reported growth was higher than expected, and if this trend is preserved this year, a larger GDP growth may be reported. In the first quarter of 2023 the indicators of the economic agents' attitudes revealed a substantial improvement in the assessments and expectations for the Eurozone development and that of other leading economies. In this regard, this year the country's trading partners could achieve a higher growth than expected, which would have a favorable impact on the country's exports. Investment activity may also be improved by reducing uncertainty and reorienting company spending from shock absorption to long-term investment programs.

BACB – business performance

At the end of the first quarter of 2023, the Bank's loan portfolio grew by a net of 0.47%, or BGN 6.492 million, compared to the end of 2022. The newly granted loans reached a net increase of BGN 11.738 million or a 0.90% increase.

With regards to SMEs and corporate loans to legal entities, the Bank reports a net growth of BGN 4.396 million or 0.46%, with a share of 66.96% of the Bank's total loan portfolio, compared to 66.93 in the end of 2022. The market share of legal entities is 2.40% as of the fourth quarter of 2022, given the values of 2 - 2.5% provided for in the Development strategy.

With regards to borrowed funds from SMEs and Corporate clients at the end of the first quarter of 2023, the total borrowed resource amounts to BGN 478.048 million, representing an increase of 20.34% (BGN 80.825 million in absolute value) compared to the end of 2022, when the total borrowed resource for the segments reached BGN 390.428 million. Compared to the values as of 31.12.2022 we report a significant increase by BGN 65.963 million

(184.58%) for term deposits, and for demand funds – an increase of BGN 2.506 million (4.11%). In view of the “borrowed funds from legal entities” values BACB reached 3.19% market share as of 31.12.2022, given the values of 2-2.5% set out in the strategy.

In compliance with the Bank's strategy, the old "legacy" loan portfolio of legal entities was reduced net by BGN 0.380 million or 2.04% for the quarter, reaching a total book exposure of BGN 18.235 million, as a result of which their share in the Bank's total portfolio dropped from 1.28% at the end of 2022 to 1.25% as of 31.03.2023.

Regardless of the negative economic conditions generated by the growing imported inflation and the slowdown in economic expansion present worldwide, which contributes to an increase in problem exposures of legal entities, BACB reports a decrease of this indicator by 2.33% or BGN 2.923 million in absolute value at the end of the quarter, compared to the values as at 31.12.2022. As a share of the total loan portfolio, problem exposures were reduced by 0.25% to 8.40% compared to 31.12.2022, as a result of the proactive approach of the units responsible for their collection and the outpacing growth of the new performing loan portfolio.

During the fourth quarter of 2022 the bank developed an “European Programs and Sustainable Development” Structural unit, which is responsible for the Bank's activities related to the EU Taxonomy, the instruction of ESG factors and sustainable development.

The following initiatives carried out by BACB also helped expanding credit operations for Corporate clients:

- The “Napred” joint program with BDB for financing micro, small and medium-sized businesses, as a result of which 62 SMEs employing more than 1550 people were supported;
- Since 2018, the Bank has implemented the agreement concluded with "Bulgarian Development Bank" EAD for financing of small and medium-sized 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+" European Fund for Strategic Investments in the amount of EUR 10 000 000. As of 31.03.2023, the total number of loan agreements concluded is 126, for the amount of BGN 19 363 067.06, with a total principal of BGN 6309210.48 and guarantees in the amount of BGN 3785526.29. This program supported 126 SMEs employing more than 1 505 people and holding total assets of BGN 192 094 998.63;
- BACB AD operates under a guarantee scheme, aimed at facilitating the access of SMEs to financing from commercial banks, through a risk sharing scheme by the National Guarantee Fund EAD and the Ministry of Agriculture and Food. As of 31.03.2023 there are 9 active guarantees for BGN 1104578.30 and loans for BGN 2093797. Since the beginning of the program, 76 SMEs clients have been supported, with a total amount of loans of BGN 48 700 000.
- BACB implements a Guarantee scheme for supporting SMEs by the NGF /SMEs 2019/ - revolving and investment loans, as well as counter-guarantees under bank guarantees. As of 31.03.2023, there are 48 active deals under the program for BGN 18349020.28 with guarantees amounting to BGN 9174510.14. This program supported 80 SMEs employing more than 1 073 people and holding total assets of BGN 216 810 000.
- BACB implements the COSME Guarantee Scheme of the NGF and the European Fund for Strategic Investments (EFSI). As of 31.03.2023 there are 16 active loans with a principal of BGN 3345691.11 and guarantees in the amount of BGN 1672845.56. In total, the scheme has supported 32 SMEs employing more than 741 people and has granted loans in the amount of BGN 12 834 222, with guarantees amounting to BGN 6 417 111 BGN.
- BACB also implements the guarantee schemes of the Municipal Guarantee Fund for small and medium-sized enterprises with the Capital Municipality. As of 31.03.2023, there is an active portfolio under the guarantee scheme of the Municipal Guarantee for SMEs in the amount of BGN 774144.22, respectively - loans in the amount of BGN 3 314 916.
- BACB implements a Guarantee Scheme to support SMEs affected by the Covid-19 crisis, jointly with BDB EAD. Since the introduction of the scheme - 01.06.2020 to 31 March 2023, 195 loans totaling BGN 42 648 104.63 were granted to companies employing more than 4 175 people and holding total assets of BGN 942 767 962. As of 31.03.2023 there are 156 active loans, with principals in the amount of BGN 26655387.62 and guarantees in the amount of BGN 21324310.10.
- BACB implements a Guarantee scheme under the "Recovery" Program to support business through guarantees by BDB EAD in the amount of 80%. The loans have a maximum amount of BGN 3 000 000 and are provided without collateral, with shortened approval periods. Since the start of the program, 61 loans totaling BGN 26 109 580.23 have been granted to clients with a total of over 563 employees and total assets of BGN 277 264 042, where active loans have a total principal of BGN 20125269.47 and guarantees in the amount of 16100215.58.
- BACB implements a guarantee scheme with the Fund manager of financial instruments in Bulgaria - Portfolio guarantee with a loss cap, aimed at overcoming the consequences of the COVID-19 pandemic in the amount of BGN 20 000 000, where the guarantees amount to 80%. As of 31.03.2023, there are active credits totaling BGN 10795000, principal in the amount of BGN 8949324.53 with guarantees of BGN 7179459.62. The full amount of the agreed guarantee portfolio has been realized;
- BACB AD also implements a Guarantee scheme with the Fund manager of financial instruments in Bulgaria - Portfolio guarantee with a loss cap, aimed at overcoming the consequences of the pandemic -

"Recovery" Program. As of 31.03.2023 there are a total of 10 loans for BGN 2 100 000 with guarantees in the amount of BGN 1096241.91.

- The Bank also applies a Guarantee program for unsecured loans jointly with the Fund manager of financial instruments in Bulgaria - Portfolio guarantee with a loss cap "Recovery 2" with total guarantees of BGN 10 427 706 covering 80% of the loans. As of 31.03.2023 there are a total of 14 loans for BGN 12 951 166 with guarantees in the amount of BGN 9579157.
- The Bank applies a Guarantee scheme for the support of SMEs by the NGF /SME 2022/ with a total guaranteed portfolio of BGN 55 000 000, which enables BACB to provide loans of more than BGN 110 000 000. As of 31.03.2023, there are a total of 25 active transactions under the program for BGN 8013980.45 with guarantees amounting to BGN 3178285.73. As a result of this program, a total of 25 SMEs were supported, employing more than 313 people and holding assets totaling BGN 42526070.00;

In the first quarter of 2023, the Retail Banking business line, which manages the Individuals segment at BACB, reported very good results in its lending activities, with the highest growth belonging to low-risk mortgage loans - an increase of BGN 11.1 million or 4.37% compared to the end of the previous quarter. The growth in mortgage lending is conditioned by the excellent price terms and the Bank's individualized customer-oriented approach. Consumer loans, on the other hand, grew by BGN 1.8 million or 2.66% compared to the previous quarter.

The market presence of the two product segments in the banking system at the end of December 2022 was respectively 1.07% for mortgage loans and 0.68% for consumer loans, while the Bank expects them to continue their upward trend in 2023. According to BACB's strategy, the target in the Retail Banking business segment is for additional significant growth and reaching a 2% market share over the next years.

Given the high results achieved, the Bank managed to fulfill yet another main goal laid down in its strategy for Retail lending development relating to the share of loans to individuals in the total loan portfolio, which at the end of the first quarter of 2023 was 24.49% compared to 23.60% at the end of the previous quarter.

In order to develop its business with individuals, BACB carried out the following activities:

- The offering of the "Clean account" payment product for individuals with the new VISA card, online management using BACB Online and with a new functionality for digital payments through Google Pay and Apple Pay, also continues. The product continues to be a leading factor in attracting new customers.
- A functionality has been developed for online opening of the "Clean Account" for new clients, without having to visit a bank office.
- The bank successfully conducted a TV advertising campaign for the "Clean Account" product, with an emphasis on online opening
- We continue the development of the loan product "Just Now" - a completely online consumer loan combining speed, convenience and security, facilitated by automatic approval and disbursement of funds without the need to visit a bank office.
- We updated the terms of the twelve-month "Growing Interest Rate" deposit, where the interest rate grows each subsequent quarter, while at the same time clients have access to their funds and may withdraw money without breaching the terms of the deposit, continues to be the leading deposit product of the Bank.
- The bank signed a contract for offering the pension products of PIC Doverie AD using its office network and points of sale of BACB Express.
- In the end of March we commissioned the Bianca Digital Assistant, which will provide information to our clients 24/7.
- The bank continues to market its innovative product for individuals – the fast consumer loan "BACB Express", offered at specialized points of sale in large mall-type shopping centers. The number of products offered through these points of sale is growing and our clients are now able to open a "Clean Account" at these locations, taking advantage of their extended opening hours, seven days a week. The pension insurance products of PIC Doverie will soon be offered by these points of sale as well.
- BACB is actively working to lend to students under the Lending to Students and PhD Students Act with a total state guarantee limit of BGN 5 000 000. The credit scheme of the Ministry of Education and Science allows BACB AD to expand and further develop its cooperation with state institutions in the country, as well as to attract new clients - individuals (students and PhD students) in compliance with the Bank's development strategy. There are 85 active loans granted under the scheme for BGN 2 315 112 with a 100% guarantee.

In an effort to be closer to its clients - individuals and to offer them first-class service, BACB also offers them the possibility for full online servicing – online application and opening of the "Clean Account" with a debit card and online application and opening of the "It's All Good" and "Online deposit", the Just Now online credit and online application and opening of "Clean Account" with a debit card. We are working on digitizing the application for a mortgage loan and other customer processes and in order to offer an extremely modern and convenient way for making payments with the BACB Pay digital wallet.

In the first quarter of 2023 the bank processed a total of 351979 transfers totaling BGN 6 billion, which represents a 10% increase in the number and 2% decrease in the amount of transfers compared to the first quarter of the previous year. The number of BGN transfers grew by 9% and currency transfers – by 12%.

During the reporting period, 22 new documentary operations were processed for BGN 6 million and 14 changes were made under bank guarantees.

In the first quarter of 2023, the total collected fees and commissions (excluding those from loans and cards) amounted to BGN 2.6 million, which represents an increase of 14%, compared to the first quarter of the previous year. The highest nominal growth was reported in the income from accounts (BGN 145 thousand, 29%), cash operations (BGN 122 thousand, 36%) and from payments (BGN 82 thousand, 7%). Share of revenue: 50% from payments (BGN 1.3 million), 25% from accounts (BGN 0.65 million), 18% from cash operations (BGN 0.46 million), 5% from documentary operations (BGN 0.1 million) and 2% from others (BGN 0.04 million).

The bank also serves the customer payments of 5 electronic money companies (EMCs). In the first quarter of 2023 the bank has processed 322586 client transfers of EMCs for BGN 692 million (+30% in the number and +64% in the amount as compared to the first quarter of 2022) and has collected fees in the amount of BGN 80 thousand (+29% compared to Q1 2022)

In the first quarter of 2023 the Bank successfully implemented the consolidated platform of the TARGET system and immediate BGN payments Blink.

In implementation of its strategy, the Bank is actively working on the implementation of optimizations, automation and digitization of other processes.

During the reporting period card business revenues amount to BGN 375911.95, and costs - BGN 212955.46, with the net result being BGN 162956.49. For the period, the Bank reported a total of 1953 issued and renewed debit cards and 498 credit cards.

In the first quarter of 2023 BACB started working on a project for certification before Borica, Visa and MS for ATMS with a deposit function.

In the first quarter of 23 the Bank started migration of physical POS terminals serviced by Mellon to the new host of Borica way4.

During the period, the new electronic banking platform BACB Online offered its clients – individuals an opportunity for secure and convenient remote banking using new versions of the desktop and mobile application. The migration process towards BACB online for bank customers – legal entities proceeds according to schedule.

Overview of the activity in the first quarter of 2023.

Selected metrics and ratios

<i>in thousands of BGN and %</i>	31.12.2022 audited	31.03.2022 (unaudited)	31.03.2023 (unaudited)	<i>change 03.2023/03.2022</i>
Total assets	2657292	2477 577	2 677 733	8.08%
Loans (net worth)	1378850	1 250 452	1 386 586	10.89%
Borrowed funds	2352247	2 208 304	2 360 507	6.89%
Equity	270878	236 295	282 582	19.59%
Net interest income	52158	11 463	20 188	76.11%
Net income from fees and commissions	14852	3 658	3 343	-8.61%
Loans/borrowed funds	58.62%	56.62%	58.74%	
Liquidity Coverage Ratio (LCR)	178.62%	265.26%	0.00%	
Capital adequacy	18.00%	18.59%	17.63*%	

* As on the date of issue/publication of this report, the Bank is in the process of obtaining regulatory approval for inclusion of the audited profit for 2022 in equity, whereby the total capital adequacy ratio on a consolidated basis as on 31.03.2023 will stand at 20.74% and the Tier 1 capital adequacy ratio on an individual basis at 20.74%

Active operations

As of 31.03.2023, the Group's assets amount to BGN 2 677733 thousand, where the comparison with the audited data for 2022 reveals an increase of BGN 20.4 million or a growth of 0.77%.

At the end of the first quarter of 2023, the Group reports an increase in the loan portfolio based on its reported value by BGN 9.9 million, up to BGN 1 448.9 million, or it has achieved a growth of 0.7% compared to the volume at the end of 2022. Accumulated credit losses and loan impairments according to IFRS 9 amount to BGN 62,3 million and provide a coverage of 4.3% of the loan portfolio, given a volume at the end of 2022 of BGN 60,1 million, coverage of 4.2% and values reported as of 31.12.2022 of 4.01% for the banking system. As at 31.03.2023, loan impairments increased by BGN 2192 thousand compared to 31.12.2022.

As of 31.03.2023, the net loan portfolio amounts to BGN 1 386.6 million and forms a 51.8% share of the total assets.

Since the beginning of 2023 the Group granted new loans in the amount of BGN 175.8 million, and the amount of repaid loans for the same period was BGN 165.9 million, including debt reduction by BGN 6 million against acquired collateral. In the first quarter of 2023 no loans were written off on account of set aside impairments.

As of 31.03.2023, loans overdue by more than 90 days represent 10.1% of the total loans by book value, compared to 9.3% reported as of 31.12.2022. The share of non-performing loans is above the average level for the banking system. The main reason for the higher share is the Bank's sectoral orientation - financing projects in the construction and real estate sectors before the global financial crisis. The credit policy applied in recent years and at present

places an emphasis on promising and weakly cyclical economic sectors, and aims to achieve effective diversification, both in terms of industry positioning, as well as in terms of size and term, so as to ensure a sustainable basis for development and to limit the influence of individual exposures in a specific industry. As a result, and due to the recovery of the construction and real estate sectors, the negative effects were gradually minimized and the share of non-performing loans decreased by more than 18 percentage points throughout the period December 2017 - March 2023. To improve the quality of its loan portfolio, the Bank developed and implemented a strategy for non-performing exposures management, including a detailed three-year operational program, the implementation of which is monitored and controlled by the management bodies and adequate control procedures are applied. The developed regular internal analyzes and complex stress tests contribute to the timely assessment of the effects of a possible deterioration in the business environment on the bank's portfolio.

As of 31.03.2023, the debt and capital financial assets owned, reported at fair value in the other comprehensive income, amount to BGN 109.5 million or represent 4.1% of the total assets, given their values of BGN 86.5 million and a share of 3.3% at the end of 2022. The portfolio of securities reported through the other comprehensive income is formed by 45% first-quality government securities of the Republic of Bulgaria, 43% first-grade state securities of foreign governments, 8% corporate bonds and 4% capital instruments. In the first quarter of 2023 the Bank purchased one issue with a nominal of BGN 1 Million - state securities of the Republic of Bulgaria, along two issues with a nominal of EUR 5 million of the Republic of Germany, issue with a nominal of EUR 5 million of the Republic of France and an issue with a nominal of USD 10 million of the USA. During the reporting quarter one EUR issue of Bulgarian government securities matured with a nominal of EUR 12.5 million. Capital instruments amount to BGN 4.1 million and include participation in the BSE for BGN 170 thousand (BGN 180 thousand as of 31.12.2022), shares in two payment services companies for a total of BGN 2 934 thousand. (Fire AD - BGN 978 thousand and Paynetics AD - BGN 1 956 thousand) and shares in a company for the development and management of electronic systems in urban transport and parking Tixi AD for BGN 978 thousand.

As of 31.03.2023, the portfolio of debt instruments, reported at amortized value, includes bonds of the Bulgarian and foreign governments with fixed payments and maturity. In the first quarter of 2023, four issues mature – two with a nominal of EUR 5 million each of the Republic of Germany and the Republic of France, one with a nominal value of EUR 10 million of the Republic of Bulgarian and one with a nominal value of USD 5 million of the USA, and the portfolio is supplemented by two issues of US government securities with a total nominal value of 15 million US dollars, three securities issues of France with a total nominal value of EUR 23.5 million and a securities issue of the Republic of Bulgaria with a nominal of EUR 10 million and two securities issues of the Republic of Bulgaria with a nominal value of BGN 1 million. As a result, the debt instruments portfolio reported at amortized value, reached BGN 153.9 million as compared to BGN 128.6 million at the end of 2023, or it reached an increase of 19.6%. At the end of the first quarter of 2023, the share of total assets reached 5.7% compared to 4.8% at the end of 2022.

Since the beginning of 2020, based on the management's decision, the Bank has been reporting in "Financial assets at fair value in profit or loss" its investment in shares of Visa Inc., acquired as a result of BACB's membership in VISA Europe, which became the property of VISA Inc. This investment is measured at fair value, upon reflecting any changes in the profit or loss for the period. The initially acquired 560 preferred shares of class C are subject to mandatory conversion into ordinary class A shares /or preferred shares series A, where applicable/ within a 12-year period, at a certain ratio, which is subject to revision and adjustment over time under certain conditions. Newly issued Class A shares are not subject to restrictions and may be freely transferred. The fair value of the investment in VISA Inc. as of 31 March 2023 is BGN 1 250 thousand, compared to BGN 1 192 thousand as of 31.12.2022.

As of 31.03.2023, the Bank has two subsidiaries – BACB Finance EAD and BACB Trade EAD, which it fully owns.

The group has a share in a joint venture with the largest shareholder in BACB - "CSIF" AD, in which they each hold 50% of the registered capital. As of 31.03.2023, the Group's investments in joint ventures amounted to BGN 221 thousand, compared to BGN 225 thousand at the end of 2022.

As of 31.03.2023, the receivables from banks amount to BGN 86.2 million and occupy a share of 3.2% of the total assets, compared to BGN 46.3 million and a share of 1.7% at the end of 2022. The reported increase by BGN 39.9 million compared to the end of 2022, is formed mainly by an increase in term deposits by BGN 37.7 million and an increase in demand deposits by BGN 2.2 million.

Cash at hand and accounts held in the central bank decreased by 8.2% to BGN 798.7 million at the end of the first quarter of 2023, compared to BGN 870.3 million at the end of 2022, and their share in total assets amounted to 29.8% compared to 32.8% at the end of 2022. The main reason for the decrease is the decrease in funds on current accounts at the BNB.

The tangible and intangible fixed assets owned by the Bank decreased compared to the end of 2022 by BGN 0.7 Million, to reach BGN 13.4 million in book value, and their share of the total assets amounts to 0.5%. This value includes assets with the right to use in the amount of BGN 9.4 million (2022: BGN 9.8 million).

As of 31.03.2023, the assets acquired, classified as "assets held for sale" and "investment properties", totaled BGN 108.4 million or 4.1% of the total assets compared to BGN 106.2 million or 4% of the total assets as of 31.12.2022. Since the beginning of the year, "investment properties" in the amount of BGN 3906 thousand and "assets held for sale" valued at BGN 71 thousand have been sold. The "assets held for sale" acquired amounted at BGN 6178 thousand. The acquisition of properties worth BGN 6001 thousand was carried out at the expense of a direct

reduction of the loan portfolio. Assets worth BGN 12193 thousand were reclassified from "assets held for sale" to "investment property". The activity for realization of the acquired assets, as well as the management and administration of the accompanying activities, is served and managed by a specialized department at the Bank. In order to achieve the goals set for the realization of the acquired assets, the Bank developed and implemented an asset management strategy - acquired collateral from non-performing exposures, including a detailed three-year operational program, the implementation of which is monitored and controlled by the management bodies.

Liabilities

As of 31.03.2023 the funds borrowed from banks were BGN 55 thousand, which represents a decrease compared to the end of 2022, amounting to BGN 21 thousand (31.12.2022 - BGN 76 thousand).

Funds borrowed from companies and citizens increased by BGN 13.9 million to BGN 2 318.8 million as of 31.03.2023 or 96.8% of the total liabilities, compared to BGN 2304.9 million and 96.6% at the end of 2022. The reported increase of 0.6% was formed by growth in all sources, with the exception of borrowed funds from banks and term deposits from individuals.

On 23.12.2022, BACB issued unsecured bonds in the amount of EUR 15 million. The bonds are issued in fulfillment of the requirements for equity capital and acceptable liabilities, in accordance with the requirements of the Law on the Recovery and Restructuring of Credit Institutions and Investment Brokers. The bonds are ordinary, interest-bearing, non-materialized, registered, freely transferable, unsecured, non-convertible. The issue has a term of seven years, with a fixed interest payable in 6-month periods and a principal which will be paid in one lump sum upon maturity. Within 6 months of the bond's issue, it is expected to be registered for trading on the BSE.

As of 31.03.2023, BACB's obligations under issued debt securities, including accrued interest, amount to BGN 29.731 thousand (2022: 29.370 thousand).

The "other borrowed funds" position includes obligations under a credit line from the Bulgarian Development Bank (BDB) under the "NAPRED" and "COSME+" programs for targeted financing of micro, small and medium-sized businesses with an agreed amount of BGN 35 million and EUR 10 million. As of 31.03.2023, the long-term financing from BDB amounts to BGN 11.9 million or 0.5% of the total liabilities, compared to the values of BGN 17.9 million at the end of 2022, when the share was 0.8%.

As of 31.03.2023, a decrease of BGN 0.6 million was reported in "other liabilities", and their share of the total liabilities decreased to 1.3% (2022 – 1.4%).

Equity

As of 31.03.2023, there are no changes in the fixed capital.

The "reserves and retained earnings" position reported an increase with the profit as of 31.03.2023 in the amount of BGN 10722 thousand.

The "revaluation reserves" position includes negative changes in the fair value of debt instruments in the amount of BGN 1728 thousand and positive changes in the fair value of equity instruments in the amount of BGN 150 thousand, assessed at fair value in the other comprehensive income, as well as the revaluation reserve formed on the bank's own buildings used in its operational activity in the amount of BGN 165 thousand. As of 31.03.2023, an increase of BGN 982 thousand was reported, formed by an increase in the fair value of debt instruments by BGN 991 thousand and a decrease in the fair value of equity instruments by BGN 9 thousand.

Overview of the financial position as of 31.March 2023.

As of 31.03.2023, the Group achieved a positive financial result in the amount of BGN 10722 thousand after taxation, compared to the profit reported for the same period of 2022 in the amount of BGN 5624 thousand, which represents a growth of 90.6%. The reported value is mainly due to an increase in the net operating revenue before impairment by BGN 7.9 million and a decrease of expenses.

The comparison of the revenue from main activities (interest income) for the two periods shows an increase of BGN 8533 thousand, up to BGN 21214 thousand or a growth of 67.3%. The main share in the interest income generated is occupied by loan activity – 83.3%. The income reported from interbank deposits amounts to BGN 2253 thousand compared to BGN 7.8 thousand at the end of the first quarter of 2022. The interest income from the security portfolios held increased by BGN 1011.2 thousand and amounted to BGN 1291 thousand at the end of March 2023, compared to BGN 279.9 thousand for the same period of 2022.

As of 31.03.2023, interest expenses decreased by BGN 192 thousand compared to the report for the same period of the previous year and amounted to BGN 1026 thousand, with BGN 1218 thousand a year ago. The negative interest paid on accounts at the BNB and other banks decreased by BGN 707 thousand. A significant increase was reported in interest expenses on long-term financing by BGN 492 thousand and the costs on lease agreements, reported according to IFRS 16, amount to BGN 50 thousand, or BGN 22 thousand more than a year ago.

As of 31.03.2023, the net interest income was BGN 20188 thousand, or BGN 8725 thousand more than the values reported at the end of the first quarter of 2022.

As of 31.03.2023 the reported net revenue from fees and commissions is BGN 315 thousand less than the reported volume for the same period of the previous year and amounted to BGN 3 343 thousand or 13.7% of the total operating income before impairment, with a share of 22.1% as at 31.03.2023. The reported decrease was formed by a larger decrease in the volume of revenues and a minor increase in fee expenses.

The shares of Visa Inc. owned by the Bank, reported at fair value with a reflection of the changes in the profit or loss, form a positive result at the end of the first quarter of 2023 in the amount of BGN 80 thousand, compared to a profit of BGN 18 thousand at the end of the first quarter of 2022.

As of 31.03.2023 the Bank formed a negative result from currency revaluations of BGN 114 thousand, compared to a profit for the same period of the previous year of BGN 219 thousand.

At the end of the first quarter of 2023, the administrative costs increased as compared to the same period of the previous year by BGN 306 thousand to reach BGN 4866 thousand. Personnel costs increased by BGN 475 thousand compared to the same period last year. The administrative costs include expenses for the Bank Deposit Guarantee Fund (BDGF) and the Bank Restructuring Fund (BRF) in the amount of BGN 1387 thousand, compared to BGN 1375 thousand as of 31.03.2022.

Depreciation costs as at 31.03.2023 amount to BGN 1131 thousand, and compared to the same period of the previous year, they are increased by BGN 232 thousand, including a decrease in depreciation costs for fixed tangible assets by BGN 39 thousand, an increase in the depreciation costs for fixed intangible assets by BGN 2 thousand and an increase in the depreciation costs of "right of use assets" by BGN 269 thousand.

The costs for impairment of financial assets and modification increased by BGN 1172 thousand, compared to those reported at the end of March 2022 and reached BGN 2729 thousand.

Liquidity and activity financing

The bank follows the principles of diversification of funding sources and optimization of interest costs in fulfillment of the strategy for securing its liquidity needs.

As at the end of the first quarter of 2023 the Bank maintains a stable deposit base, reporting an increase in client deposits by 0.6% compared to 31.12.2022. The Bank's active deposit activity contributes to reducing its dependence on external financing. The bank continues to collect deposits from individuals from Germany and Spain.

The ratio of gross client loans to client deposits is 62.5% as of 31.03.2023.

The Bank's liquidity position remains strong, where liquid assets (cash at hand and in BNB accounts, short-term loans and advance payments of banks and liquid government securities) amount to BGN 1 072.9 million. The ratio of these liquid assets to the total deposits (of clients and banks) as of 31.03.2023 is 46.03%.

During the period from the end of 2022 to 31.03.2023, the value of the portfolio of debt instruments at fair value in the Bank's other comprehensive income reported an increase of 27.8%, to BGN 105.4 million (2022: BGN 82.4 million). Cash in the BNB, cash at hand and in banks decreased by BGN 31.7 million. During the reported period the bank purchased one issue with a nominal of BGN 1 million – government securities of the Republic of Bulgaria, along with two issues with a nominal value of EUR 5 million each of the Republic of Germany, an issue with a nominal value of EUR 5 million of the Republic of France and an issue of government securities of Croatia with a nominal value of USD 10 million. During the same quarter a government securities issue in EUR of the Bulgarian government with a value of EUR 12.5 million matured.

From the beginning of 2023 to 31.03.2023 new investments in government securities were made in the "held for collection of contractual cash flows" and the "held for collection of contractual cash flows and sale" portfolios in the amount of approximately BGN 122 million.

As of 31.March 2023, the Bank's government securities portfolio has a book value of BGN 249.9 million (2022: BGN 201.3 million), distributed in a "held for collection of contractual cash flows and sale" portfolio with a book value of BGN 96 million and a "held for collection of contractual cash flows" portfolio with a book value of BGN 153.9 million.

Unrealized gains and losses from the revaluation of debt instruments at fair value in the other comprehensive income are deferred in a revaluation reserve, net of tax. In the period in which the asset is written-off, the result of the revaluation is included in the profit or loss for the period. From the beginning of 2023 until 31.March 2023, there are no gains or losses reported in connection with completed investments. Interest income from debt instruments at fair value in the other comprehensive income is currently recognized in the profit or loss, and for the period from 01.01.2023 – 31.03.2023 it amounts to BGN 654 thousand.

Capital resources

At the end of March 2023, the Group reports equity capital adequate to the risk profile and asset quality and sufficient to implement the strategic goals and plan for the current year. As of 31.03.2023, the Group reported a total capital adequacy ratio of 17.63% and a Tier 1 capital adequacy ratio of 17.63%, which is significantly higher than the legally determined level.

*As of the date of issue/publication of this report, the Bank is undergoing a procedure for obtaining a permission from the regulatory authority to include the audited profit for 2022 in its equity, whereby the total capital adequacy ratio as of 31.03.2023 on an individual basis will amount to 21.01% and the adequacy of Tier 1 capital on an individual basis - to 21.01%.

Information on the main risks faced by the Group is contained in the Annual Management Report for 2022, which has been provided to the FSC and the public, and is available on the Bank's website.

Corporate events and internal information under Art. 7 of Regulation (EU) No. 596/2014 of the European Parliament and the Council on market abuse

The below information on corporate events/internal information under Art. 7 of Regulation (EU) No. 596/2014 is available on the corporate website of BACB AD at the following web address: <https://www.bacb.bg/bg/za-investitori/novini-za-investitorite>

1. On 31 January 2023, BACB published its preliminary unaudited individual and consolidated financial statements as of 31 December 2022, together with the relevant interim management reports and a letter to its shareholders;

2. On 29 March 2023, BACB published its audited annual financial statements for 2022 on a standalone and a consolidated basis, together with information on the Bank's financial result for 2022 on a standalone and on a consolidated basis. Detailed information and the full text of the statements are published on the BACB AD website.

Additional information for the first quarter of 2023 under Art. 12 of Ordinance No. 2 of the FSC on the initial and subsequent disclosure of information during public offering of securities and admission of securities to trading on a regulated market

I. Information on facts and circumstances subject to disclosure according to Appendix 4 to Ordinance No. 2 of the Financial Supervision Commission, which occurred during the reporting period

There are no changes in the persons exercising control over the Bank:

No bankruptcy proceedings have been opened against BACB AD and/or against the Bank's subsidiaries.

Conclusion and execution of material transactions, including material transactions with related parties:

The Bank enters into transactions with related parties only as part of its ordinary banking activity under conditions that would be customary for transactions between unrelated parties and include granting of loans, acceptance of deposits and securities transactions.

More detailed information about the transactions concluded and the changes in the concluded transactions with related parties disclosed in the annual financial statements and having a material impact on the Bank's financial condition or operating results in 2022 (if any,) is contained in section "Related-Party Transactions" of the Accounting Policy and the selected explanatory notes as of 31.03.2023.

No decisions have been taken on the conclusion, termination and cancellation of a joint venture agreement.

The auditors of BACB AD and its subsidiaries have not been changed.

There are no lawsuits or arbitration proceedings initiated or terminated against the Bank and/or the Bank's subsidiaries, relating to liabilities or receivables of the Bank or its subsidiaries, with a claim price equal to or exceeding 10 percent of the Bank's equity.

In view of its ordinary activity of active management and collection of non-performing loan exposures, the Bank initiates and conducts enforcement proceedings and/or bankruptcy proceedings against borrowers/debtors for compulsory collection of overdue receivables.

Purchase, sale or pledge of shares in trade companies

For the reporting period BACB AD and/or its subsidiaries have not carried out any share purchase or sale transactions and have not established any pledges on the shares of trade companies owned by them throughout the period.

II. Information on changes in BACB AD's accounting policy

In the first quarter of 2023 BACB consistently applied the accounting policy disclosed in the audited annual financial statements for 2022, having taken into account the IFRS amendments adopted by the EU and coming into force for the annual periods beginning on or after 01 January 2022, as indicated in the explanatory notes to the annual financial statements for 2022.

III. Information on changes in the group of enterprises of BACB AD

There were no changes in BACB group of enterprises throughout the period.

IV. Information on organizational changes

No organizational changes have been made throughout the period the meaning of Art. 12, paragraph (1), item 4, letter "c" of Ordinance No. 2 of the FSC.

V. Forecasts for results from the current financial year

BACB AD does not publish forecasts for its results.

VI. Data on the persons directly or indirectly holding at least 5% of the votes in the general meeting of shareholders and changes in the votes held by the persons compared to the previous reporting period

Shareholder	Number of shares held (directly and/or indirectly) as of 31.03.2023.	Percentage of votes in the General Meeting of Shareholders as of 31.03.2023.	Number of shares held (directly and indirectly) as of 31.12.2022.	Percentage of votes in the General Meeting of Shareholders as of 31.12.2022.
CSIF AD (CSIF)	Directly owns 11 277 473 shares	45.68%	Directly owns 11 277 473 shares	45.68%
Tsvetelina Borislavova Karagyozeva - directly and indirectly as a person who exercises control over the direct shareholder CSIF AD (holding 99.99% of the shares of CSIF AD) and	Directly owns 2 465 000 shares Indirectly (through the controlled "CSIF" AD) owns 11 277 473 shares	9.98% 45.68%	Directly owns 2 465 000 shares Indirectly (through the controlled CSIF AD) owns 11 277 473 shares	9.98% 45.68%
LTBI Holdings LLC	8 824 775	35,74%	8 824 775	35,74%

The above-mentioned information is derived from (1) the book of shareholders, which is kept by "Central Depository" AD, (2) the data from the notifications received for the disclosure of shareholding under Art. 145 and 146 of the Public Offering of Securities Act and (3) the powers of attorney and accompanying founding documents of shareholders of BACB AD provided in connection with the General Shareholders' Meetings held.

VII. Data on the shares held by the members of the management and control bodies of BACB AD and changes in the votes held by the persons compared to the previous reporting period

Name	Member of a management or control body	Number of shares directly owned as at 31.03.2023	Percentage of votes in the General Meeting of Shareholders as of 31.03.2023	Number of shares directly owned as of 31.12.2022	Percentage of votes in the General Meeting of Shareholders as of 31.12.2022
Tsvetelina Borislavova Karagyozeva	Chairperson of the Supervisory Board	2465000	9.98%	2465000	9.98%
Silvia Kirilova Kirilova	Member of the Management Board	1600	0.006%	1600	0.006%

VIII. Information on pending judicial, administrative or arbitration proceedings concerning liabilities or receivables in the amount of at least 10 percent of the Bank's equity

The Bank and/or the Bank's subsidiaries are not parties to pending judicial, administrative or arbitration proceedings concerning liabilities or receivables in the amount of 10 or more than 10 percent of the Bank's equity. In connection

with its ordinary activity of active management and collection of non-performing loan exposures, the Bank initiates and conducts enforcement proceedings and/or bankruptcy proceedings against borrowers/debtors for compulsory collection of overdue receivables.

IX. Information on granted loans

BACB AD is a credit institution (bank) licensed and regulated by the BNB, holding a full license to provide all banking services under Article 2 of the Credit Institutions Act, the business of which is to take deposits or other repayable funds from the public and to grant credits or other financing for its own account and at its own risk.

BACB's subsidiary - BACB Finance EAD has been entered in the public register at the BNB as a financial institution with a main activity under Article 3 of the Credit Institutions Act, including granting of loans with funds which have not been raised from receiving deposits or other repayable funds from the public.

The annual and interim financial statements of BACB AD contain detailed information and financial data on the portfolio of loans granted by BACB or its subsidiaries, the large exposures within the meaning of the Credit Institutions Act and the quality of the Bank's credit assets.