

**INTERIM ACTIVITY REPORT
OF BULGARIAN-AMERICAN CREDIT BANK AD ON A CONSOLIDATED BASIS FOR 2020.
SOFIA, 29 APRIL 2021**

General information

In the first three months of 2021, Bulgarian American Credit Bank AD (BACB, the Bank) continued to operate as a universal bank offering a full range of banking services aimed at the green economy, including financing of small and medium-sized enterprises, and expanding retail banking services by offering various products in the field of housing and consumer lending and transaction banking. The Bank strives to meet customer needs by providing a comprehensive range of banking services through modern banking technology and, as a result, expanding its customer base.

External environment

The stronger than expected recovery in the global economic activity in the second half of 2020, the achievement of a trade agreement between the European Union and the United Kingdom, as well as the large-scale fiscal stimulus package adopted in the US were the main drivers that made the European Central Bank, the European Commission and the International Monetary Fund revise their latest macroeconomic forecasts for 2021 and 2022 in the direction of higher growth in world trade and the global GDP.

The incoming economic data, surveys and indicators with high frequency show a strong weakening of the economies of the Eurozone countries in the first quarter of 2021, caused by the resilience of the pandemic and the related restrictive measures. In the future, however, the ongoing vaccination campaigns and the gradual easing of these measures justify the expectations for a stable recovery in economic activity in 2021. This assessment is reflected in the baseline scenario of the ECB experts' macroeconomic forecasts for the Eurozone in March 2021. It projected an annual GDP growth in real terms of 4.0% in 2021, 4.1% in 2022 and 2.1% in 2023.

The annual inflation in the Eurozone rose sharply to 0.9% in January and February 2021 compared to -0.3% in December 2020. The rise in the headline inflation reflects a number of specific factors, such as the abolition of the temporary reduction in the VAT rate in Germany, the periods of deferred sales in some Eurozone countries, as well as the higher energy prices. Based on current oil futures prices, the headline inflation is likely to increase in the coming months, but is expected to remain somewhat volatile during the year, reflecting the changes in the dynamics of the factors that are currently pushing it up. This estimate is generally reflected in the baseline scenario of the ECB experts' macroeconomic forecasts for the Eurozone for March 2021, which forecast annual inflation of 1.5% in 2021, 1.2% in 2022 and 1.4% in 2023.

Bulgaria

In 2020, the spread of COVID-19 globally caused a decrease in real GDP of Bulgaria by 4.2%. Based on the assumption of a gradual recovery of economic activity in the world and the retention of significant discretionary measures by the government, the BNB economists expect the real GDP to grow by 3.8% in 2021, accelerating to 3.9% in 2022, after which will slow down to 3.2% at the end of the forecast horizon of 2021-2023. The projected growth of the real GDP in 2021 will be determined both by the acceleration of the growth of domestic demand in the conditions of the stimulated measures of the fiscal policy, and by the transition from negative to positive contribution of net exports. The private consumption is projected to increase by 2.0% in 2021 in line with projected wage growth, employment retention programs and increased net transfers from the government to the economic agents. There is considerable uncertainty about the forecast, even in the short term, despite the ongoing implementation of the vaccination plans and the continuing episodic tightening and mitigation of the anti-epidemic measures.

The labour market development will remain sluggish in 2021, with the number of employed and unemployed expected to remain close to that reported in 2020. The extension of the period of restrictive measures against the spread of COVID-19 and the high levels of national and international uncertainty about the development of the pandemic will make a major contribution to the limited recovery of the labour market. At the same time, the unemployment rate will gradually decline from 5.1% in 2021 to 4.4% at the end of the forecast horizon. After the reported decline of 1.9% in 2020 this year, the forecast is that labour productivity will increase by 4.2%. The growth of compensation per employee is projected to accelerate to 6.5% in 2021, driven by higher economic activity in the country, the increase in public sector wages and the increase in the minimum wage from 1 January 2021 by 6.6% (from BGN 610 to BGN 650).

On an annual basis, the inflation is projected to accelerate significantly to 3.0% at the end of 2021 (0.0% at the end of 2020), to which all major subgroups of goods and services, except the administratively determined prices, will contribute. The strongest increase in inflation at the end of 2021 is expected in the line of energy products and food,

which corresponds to the assumptions for significant growth in the international prices of these raw materials on an annual basis. The assumptions about the dynamics of oil and food prices on the international markets in EUR are essential for the projected slowdown in inflation at the end of 2022 to 0.7% and for its subsequent acceleration to 1.3% at the end of 2023. In terms of basic inflation, it is expected to be higher at the end of 2021 and in 2022 compared to the reported level at the end of 2020.

BACB – business presentation

As at the end of the first quarter of the year, the loan portfolio of the Bank grew by 1.72% net, or by BGN 19.878 million, compared to the end of 2020. The total number of newly granted loans increased net by BGN 18,224 million or by 1.77%.

For SMEs and corporate loans to legal entities, the Bank reported a minimum net decline by BGN -1,692 million or 0.21%, as their share is 67.3% of the total loan portfolio, compared to 68.60% at the end of 2020. The market share in the system for the segment SMEs and corporate loans to legal entities was 2.68% at the end of December within the framework of the Bank's development strategy.

In the attracted funds from SMEs and Corporate Customers, the Bank reported an increase for the quarter compared to the end of the previous 2020 by BGN 11,412 million (25.63%) in fixed-term deposits, and in the demand deposits there was a decrease by BGN 84,943 million (28.97%) due to the planned payments on strategic infrastructure projects for the country. According to this indicator, BACB reaches 2.44% market share as at 31 December 2020, compared to 2-2.5% set under the strategy.

In pursuance of the Bank's strategy, the old legacy loan portfolio of legal entities decreased net by BGN 324 thousand or 0.78% for the quarter, whereby the share of the portfolio decreased from 3.32% at the end of 2020 to 3.25% as at 31 March 2021.

Despite the negative economic situation and the impact of the ongoing global COVID-19 pandemic which contribute to an increase in problem exposures of legal entities, BACB decreased by 3.67% or 6.176 million in absolute terms at the end of the quarter compared to the figures as at 31 December 2020. As a share of the total loan portfolio, the problem exposures decreased by 0.61% to 12.85% at the end of March, compared to 13.46% at the end of 2020, due to active actions of the responsible units and the outpacing growth of the regular loan portfolio.

The following initiatives carried out by BACB have also helped to extend credit operations to corporate customers:

- The Bank, jointly with BDB, supported 62 SMEs with a total of over 1,550 employees under the "Forward" Program for financing micro, small and medium-sized businesses.
- Since 2018, the Bank has applied the executed agreement with Bulgarian Development Bank AD for financing of small and medium-sized enterprises with guarantee facility and counter-guarantees under the COSME Program of the European Investment Fund with the support of the European Fund for Strategic Investments - COSME+ Program in the amount of EUR 10,000,000.

As at 31 March 2021, BACB AD has supported 121 enterprises with over 1,488 employees, with loans amounting to over BGN 18,397,069.06.

- BACB AD works under a guarantee scheme to facilitate SMEs' access to finance by commercial banks through a Risk Sharing Scheme of the National Guarantee Fund EAD and the Ministry of Agriculture and Food. As at 31 March 2021, the total active guarantees are 16 for the amount of BGN 3,588,540.49 or loans with principals for BGN 7,177,080.99.
- BACB applies NGF Guarantee Scheme to Support SMEs /SMEs 2019/ - working capital and investment loans as well as counter guarantees under bank guarantees - as at 31 March 2021 there are 9 new loans agreed under the program for the amount of BGN 2,472,513.30 or a total of 41 loans for BGN 21,706,006.75 with the amount of the guarantees being BGN 8,731,357.15. Under this program, 49 SMEs have been supported with a total of over 795 employees with a total assets of BGN 161,153,000.
- BACB applies Program COSME NGF Guarantee Scheme and the European Fund for Strategic Investments (EFSI) and as at 31 March 2021 there are 14 active loans with guarantees amounting to 2,152,784.58. A total of 27 SMEs with a staff of over 703 employees were supported under the scheme for a loan in the amount of BGN 12,200,222, whereby the guarantees amounted to BGN 6,434,692.96.
- BACB applies a guarantee scheme to support SMEs affected by the Covid-19 crisis jointly with BDB AD. The amount of the scheme comes to BGN 26,000,000, guarantees in the amount of 80%. From the beginning of the scheme on 1 June 2020 to 31 March 2021, there are 129 loans in the amount of BGN 27,091,700 granted to companies with a total of over 3,414 employees and total assets of BGN 332,690,962.
- BACB applies a guarantee scheme with Financial Instruments Manager Fund in Bulgaria - Portfolio Guarantee with a loss cap for handling the consequences of the COVID-19 pandemic in the amount of BGN

20,000,000, whereby the guarantees amount to 80%. As at 31 March 2021, there are 4 new loans in the amount of BGN 3,900,000 or a total of 9 loans for BGN 11,150,000 with guarantees amounting to BGN 8,920,000.

In Q1 2021, Retail Banking, managing the business segment of natural persons in BACB, registered very good results in lending, with the highest growth being the low-risk mortgage loans higher by BGN 19,996 million or by 12.58% compared to 2020. The growth in mortgage lending is due to the excellent price conditions and the customer-oriented approach of the Bank. The consumer loans increased by BGN 3,892 million or by 6.57%.

The market presence of the two product segments in the banking system as at the end of 2020 was 0.73% for mortgages and 0.60% for consumer segments, respectively, and the Bank expects them to continue their upward trend. According to the set strategy of BACB, the goal in the business segment Retail Banking provides for additional significant growth and reaching 2% market share in the coming years.

By achieving high results, the Bank implements another main goal set in its strategy for development of Retail Lending related to increasing the share of loans to natural persons in the total loan portfolio, which at the end of Q1 2021 reached 23.81% compared to 20.64% in end of the previous 2020.

To increase its business with natural persons, BACB conducted the following activities:

- During the quarter, a payment product intended for natural persons "Clean Account" was developed and successfully started to be offered, whereby the natural persons are not required to pay a monthly fee for their current accounts under certain conditions.
- At the end of the quarter, a new 12-month deposit "Growing Interest" started to be offered, in which the interest rate increases every following quarter, while the customers continue to be provided with access to their funds and are allowed to withdraw money without violating the terms of the deposit.
- The Bank continues the promotion on the market of its innovative product for individuals - fast consumer loan "BACB Express", offered at specialized points of sale in the big Mall-type shopping centers. The products offered at these points are increasing, and the customers, in addition to credit, can now open a "Clean Account" in these locations, taking advantage of the extended working hours, 7 days a week.
- The Bank continues to apply a paperless process for granting the consumer loan "BACB Express", whereby all documents are signed with a digital certificate.
- BTL, online and Facebook advertising campaign of the Innovative payment package "Clean Account" and deposit "Growing Interest" were successfully carried out.
- BACB is actively working on student loans under the Undergraduate and Graduate Student Loans Act, with a total state guarantee limit of BGN 5,000,000. As at the end of Q1 2021, the MES loan scheme allows BACB AD to expand and strengthen its cooperation with government institutions in the country, as well as to attract new customers - natural persons - undergraduate and graduate students in accordance with the Bank's development strategy. Under the joint program of the Ministry of Education and Science (MES) for lending to students and doctoral students with a state guarantee, 4 new loans in the amount of BGN 40,179 have been agreed. There are a total of 49 active loans under the scheme for the amount of BGN 1,463,240 with a 100% guarantee.
- The Bank actively participates in the renegotiation of loans to natural persons under the BDB program related to COVID -19 in accordance with the BNB guidelines.

In an effort to be closer to its customers - natural persons and to offer them first-class service, BACB provides the opportunity for online opening of the deposit "Everything is Right" and the "Online Deposit", works on digitalization and other customer processes and offers extremely modern and convenient method of payments with the digital wallet B@CBPay.

In Q1 2021, the Bank processed a total of 258,984 transfers worth BGN 4.4 billion, which is an increase by 14% in the number of transfers and by 55% in the amount of transfers compared to Q1 2020. BGN transfers increase by 13% in number and by 77% in amount of transfers. Currency transfers increase by 24% in number and by 22% in amount of transfers.

Compared to the previous quarter (which is traditionally the strongest one) there is a decrease by 4% in the number of transfers and a decrease by 28% in the amount of transfers. BGN transfers decrease by 4% in number and increase by 3% in amount of transfers. Currency transfers decrease by 3% in number and by 55% in amount of transfers.

In Q1 2021, 22 new documentary operations were processed, which is a decrease by 12% compared to Q1 2020 and an increase by 16% compared to the previous quarter.

In Q1 2021, the collected fees and commissions (excluding those from loans and cards) amount to BGN 1.7 million, which is an increase by 1% compared to Q1 2020 and a decrease by 15% compared to Q4 2020.

In pursuance of its strategy, the Bank is actively working on the implementation of process optimization, automation and digitalization. Changes in the regulations and reporting are reflected in a timely manner. Internal bank documents are updated.

For the period, the Bank reports a total of 1,837 debit cards issued and renewed and 301 credit cards. The net result of Card Business for the three months of 2021 amounts to BGN 161,515.75, which is an increase by 7.95% compared to the previous quarter. For Q1 2021, the revenues and expenses from the card business come to a total of: During the period, biometrics was introduced for authentication of online payments with cards issued by BACB. A project for a new debit BIN of Visa has been implemented in connection with the project Visa only Bank, a design of the new debit card has been selected and an agreement has been concluded with MCO Visa for monobranding. During the quarter, a project for migration of physical POS terminals to Way4 was launched under the New Generation program.

OVERVIEW OF THE ACTIVITIES IN Q1 2021

Selected indicators and ratios

<i>BGN '000 and %</i>	31.12.2020 r. (audited)	31.03.2020 r. (unaudited)	31.03.2021 r. (unaudited)	<i>Change 03.2021/03.2020</i>
Total assets	1 869 193	1 607 722	1 947 197	21.12%
Loans (net value)	1 148 201	1 055 446	1 172 828	11.12%
Borrowed funds	1 633 193	1 380 572	1 704 339	23.45%
Equity	213 340	203 976	217 246	6.51%
Net interest income	42 089	10 543	10 408	-1.28%
Net income from fees and commissions	9 651	2 301	2 289	-0.52%
Loans/borrowed funds	70.30%	76.45%	68.81%	
Liquid Coverage Ratio (LCR)	140.83%	147.71%	170.08%	
Capital adequacy	16.61%	15.75%	16.45%	

Active operations

As at 31.03.2021 the Group's assets amounted to BGN 1 947 197 thousand, as compared to the 2020 audited data, showing an increase of BGN 78 million or a 4.2% increase.

At the end of Q1 2021 the Group recorded an increase in the loan portfolio at a book value of BGN 25.7 million to BGN 1 259.1 million or a 2.1% growth, as compared to the end of 2020. The accumulated credit losses and impairments on loans under IFRS 9 amounted to BGN 86.3 million and provided coverage of 6.9% of the loan portfolio with a volume of BGN 85.2 million at the end of 2020, a coverage of 6.9% and an average level for the banking system of 5.15% at the end of 2020. In Q1 of 2021 impairments on loans increased by over BGN 1 million as compared to end of Y2020.

As at 31.03.2021 the net loan portfolio amounted to BGN 1 172.8 million and formed a 60.2% share of total assets. The loan portfolio includes receivables under finance leases for BGN 22 321 thousand at book value vs BGN 23 194 thousand at the end of the previous year.

In the Q1 2021 the Group granted new loans amounting to BGN 145 million, and the amount of repaid loans for the same period was BGN 123 million, including BGN 169 thousand acquired collateral.

As at 31.03.2021 overdue loans over 90 days represented 13.5% of the total loans at book value, compared to the reported 13.6% as at 31.12.2020.

The share of non-performing loans is above the average for the banking system. 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 low-cyclical level 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 the revitalization in the construction and real estate sectors, the negative effects gradually diminished in 2017 and the share of non-performing loans decreased by more than 11 percentage points (on an individual basis). To improve the quality of the loan portfolio, continuous control of problem loans is carried out and adequate procedures for their management are applied. The regular internal analyses 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 31.03.2021 the debt and equity financial assets held measured at fair value through other comprehensive income amounted to BGN 72.8 million or 3.7% of the total assets compared to BGN 59.4 million and a 3.2% share at the end of 2020. The portfolio consists of 84% first-rate government securities of the Republic of Bulgaria, 11% corporate bonds and 5% equity instruments. In Q1 2021 a net increase of BGN 13.4 million was reported in debt securities, purchase of issue of government securities with a nominal value of EUR 7 million. The equity instruments of BGN 3.4 million with a minimal increase from the end of 2020 and include equity interest in a special investment vehicle of BGN 415 thousand at book value (unchanged from the end of the previous year), interest in BSE of BGN 109 thousand (31.12.2020 – BGN 98 thousand) and shares of two payment service companies totaled BGN 2 934 thousand (Fire AD - BGN 978 thousand and Paynetics AD - BGN 1 956 thousand).

As at 31.03.2021 the portfolio of debt instruments measured at amortized cost comprises bonds of the Bulgarian and foreign governments with fixed payments and maturity. In Q1 2021, the portfolio was supplemented with two issues of government bonds – one of the United States with a nominal value of USD 5 million and one of Bulgaria with a nominal value of EUR 7 million. Two US issues with a nominal value of USD 10 million matured. After all operations, the portfolio of debt instruments reported at amortized cost increased by 17.4 % to BGN 44.4 million compared BGN 37.8 million at the end of 2020. The share of total assets reached 2.3% as of 31.03.2021 compared to 2% at the end of 2020.

By decision of the Management, the position "Financial assets at fair value in the profit or loss" since the beginning of 2020 reports the investments, made by the Bank in shares of Visa Inc. acquired as a result of BACB's membership in VISA Europe, which became property of VISA Inc. This investment is evaluated at fair value, reflecting the changes in the profit or loss in the period. The originally acquired 560 class C privileged shares are subject to mandatory conversion into ordinary shares class A /or privileged shares series A, where applicable/ within a 12-year period, at a given coefficient, which may be reviewed and adjusted in time, under specific terms and conditions. In September 2020 the first conversion took place, and as a result BACB received 38 newly issued privileged shares series A. Financial assets, amounting to BGN 2 021 thousand (BGN 1 990 thousand as at 31.12.2020) were reported in that position as at 31.03.2021, including privileged convertible shares class C to the amount of BGN 678 thousand (BGN 668 thousand at year end 2020) and privileged shares series A to the amount of BGN 1 343 thousand (BGN 1 322 thousand at year end 2020).

As at 31.03.2021 BACB AD has 3 fully-owned subsidiaries subject to consolidation.

The Bank participates in a joint venture with the largest shareholder in BACB - CIESAEF AD, in which they hold 50% of the registered capital. As at 31.03.2021 the investments of the Group in joint ventures amount to BGN 323 thousand compared to the BGN 363 thousand at end of 2020.

As at 31.03.2021 the receivables from banks amounted to BGN 148.7 million and accounted for a share of 7.7% of total assets, compared to BGN 54.9 million and a share of 3% at the end of 2020. The reported increase of 170.8% as compared to the end of 2020 is formed by increase both in sight deposits and in fixed-term deposits.

Cash in hand and cash with the central bank decreased by 11% to BGN 356.3 million at the end of March 2021 compared to BGN 400.4 million at the end of 2020, and its share in total assets decreased from 21.4% to 18.3%. The main reason for the reported increase is the decrease in current account balances with the BNB.

Tangible and intangible fixed assets held by the Bank decreased by BGN 597 thousand compared to the end of 2020 and reached BGN 16.6 million as book value, including assets held for use, amounting to BGN 4.9 million, and their share in total assets remains at the level of end-Y2020 - 0.9%.

As at 31.03.2021 the assets acquired and classified as "assets held for sale" and "investment property" amounted to BGN 118 million or 6% of total assets compared to BGN 119.7 million and 6.4% at 31.12.2020. Since the beginning of the year, "investment properties" of BGN 722 thousand and "assets held for sale" of BGN 1 185 thousand were sold and "assets for sale" of BGN 176 thousand were acquired. Assets worth BGN 1 730 thousand have been reclassified from "assets held for sale" to "investment property". The Bank set up and operates a specialized department for the realization of the acquired assets, as well as for the organization and administration of the accompanying activities.

Liabilities

As at 31.03.2021 the borrowed funds from banks amounted BGN 147 thousand. As at 31.12.2020 the Group does not recorded borrowed funds from banks.

The funds borrowed from companies and individuals increased by BGN 71 million to BGN 1 666.1 million as at 31.03.2021 or 96.3% of the total liabilities compared to BGN 1 595.1 million and 96.3% at the end of 2020. The reported 4.5% increase is formed by the increase in the borrowings from companies and from citizens.

The payables on the credit facility provided 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 in the item "other borrowed funds". As at 31.03.2021 the long-term funding from BDB amounts to BGN 38.1 million or 2.2% of the total liabilities compared to BGN 38,1 million at the end of 2020 and 2.3% share.

As at 31.03.2021 a total increase of BGN 2.5 million was reported in the "other liabilities" position, and the share increased from 1.3% to 1.4% of the total liabilities.

Equity

No changes in the fixed capital were reported during Q1 2021.

The item "Reserves and retained earnings" has increased by the profit (unaudited) as at 31.03.2021, amounting to BGN 3 892 thousand.

The item „Revaluation reserves“ includes the positive changes in the fair value of debt instruments amounting to BGN 494 thousand and negative changes in the fair value of equity instruments amounting to BGN 171 thousand carried at fair value in other comprehensive income, as well as the revaluation reserve formed on the buildings owned by the Bank and used in its operations amounting to BGN 4 602 thousand. An increase of BGN 14 thousand was reported in Q1 2021, resulting from the positive change in the fair value of debt instruments by BGN 4 thousand and decreasing the negative change in the fair value of the equity instruments by BGN 10 thousand.

Review of the financial position as at 31 March 2021.

The Group ended the Q1 2021 with a positive financial result after tax of BGN 3 892 thousand compared to the profit reported for the same period in 2020 amounting to BGN 3 826 thousand or a increase by 1.7%.

The comparison of earnings from core business (interest income) for both periods shows a decrease by BGN 560 thousand to BGN 11 722 thousand. The income from lending operations accounted for the major share of 97.9% in the interest income. The reported income from interbank deposits amounted to BGN 5 thousand compared to BGN 155 thousand for the same period of the previous year. The interest income from security portfolios held decreased by BGN 60 thousand and amounted to BGN 245 thousand at the end of March 2021.

As at 31.03.2021 the interest expenses were down by BGN 425 thousand and compared to the same period of 2020 and amounted to BGN 1 314 thousand compared to BGN 1 739 thousand one year ago.

As at 31.03.2021 the net interest income amounted to BGN 10 408 thousand or BGN 135 thousand less than the reported at the end of March 2020.

The net fees and commissions income decreased by BGN 12 thousand compared to 31.03.2020 and amounted to BGN 2 289 thousand or 16.4% of the Group's total operating income, with a share of 17.5 % at the end of March 2020. The reported decline is a result of the restrictive measures imposed in connection with the COVID-19 pandemic the scope, duration and adverse effects of which are not yet predictable.

Visa Inc.'s shares owned by the Bank, reported at fair value, reflecting the changes in the profit or loss, form a negative result in the first quarter of 2021 to the amount of BGN 62 thousand at a loss of BGN 196 thousand at the end of March 2020, calculated upon the reclassification of these instruments for the preceding year for the purposes of data comparability.

As at 31.03.2021 there was not realized result from financial assets measured at fair value through other comprehensive income compared to loss BGN 12 thousand for the same period of the previous year.

At the end of Quarter 1 of 2021 a profit from the purchase and sale of foreign currency was reported to the amount of BGN 545 thousand and currency recalculations BGN 177 thousand vs BGN 509 thousand и BGN 9 thousand, respectively, realized in the same period in the previous year.

As at 31.03.2021 the administrative expenses and personnel expenses increased by BGN 404 thousand compared to the same period of the previous year. The expenses on the Bulgarian Deposit Insurance Fund (BDIF) and the Bank Restructuring Fund (BRF) amounted to BGN 1 640 thousand vs 1 511 thousand as at 31.03.2020.

The depreciation and amortisation expenses increased by BGN 25 thousand compared to the same period of the previous year, formed by an increase in depreciation expenses for tangible and intangible assets by BGN 13 thousand and an increase in the depreciation expense of assets held for use under IFRS 16 by BGN 12 thousand.

The expenses on impairment of financial assets increased by BGN 227 thousand compared to the same period of the previous year.

Liquidity and financing of the operations

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 Q1 2021 the Bank continued to maintain a stable deposit base and reporting an increase in customer deposits by 4.5% compared to 31.12.2020. 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 75.6% as at 31.03.2021.

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*) amount to BGN 558.7 million. The ratio of these liquid assets to the total deposits (of customers and banks) as at 31.03.2021 was 32,78%.

During the period from the end of 2020 to 31.03.2021, the portfolio value of debt instruments measured at fair value through OCI of the Bank recorded an increase by 23.9%, to BGN 69.4 million (2020: BGN 55,98 million). Cash with BNB, in hand and with banks increased by BGN 49.7 million. During the period from the beginning of the year and until 31.03.2021, a net increase in the securities of BGN 13.4 million was reported, due to purchase of an issue of government securities with a nominal value of EUR 7 million.

Since the beginning of 2021 new investments in government securities of BGN 37.1 million have been made in the portfolios "held for the collection of contractual cash flows" and "held for the collection of contractual cash flows and sale".

As at 31 March 2021 the Bank's government securities portfolio is with a book value of BGN 105.7 million (2020: BGN 85.9 million), allocated to the portfolio "held for the collection of contractual cash flow and sale" with a book value of BGN 61,3 million and to the portfolio "held for the collection of contractual cash flows" with a book value of BGN 44.4 million.

Unrealized profits and losses from the revaluation of debt instruments at fair value in other comprehensive income were deferred in a revaluation reserve, net of tax. In the period when the asset is derecognized, the revaluation result is included in the profit or loss for that period. Since the beginning of 2021 there was not realized result from financial assets measured at fair value through other comprehensive income reported in relation to the completed investments. Interest income from debt instruments at fair value in OCI is currently recognized in profit or loss and for the period from 01.01.2021 to 31.03.2021 it amounted to BGN 181 thousand.

Capital resources

As the the end of the first three months of 2021 the Group reported equity adequate to the risk profile and asset quality and sufficient to meet the strategic objectives and implement the plan for the current year. As at 31.03.2021 the Group reported total capital adequacy ratio of 16.45% and Tier 1 capital adequacy ratio on a separate basis of 16.45%, well above the required minimum of 8% and 6%.

Information on the main risks faced by the Group is contained in the Annual Management Report for 2020 provided to the FSC and the public and is available on the Bank's website.

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

1. On 01 February 2021, BACB published its preliminary unaudited separate and consolidated financial statements as at 31.12.2020, together with the relevant interim activity reports and a letter to the shareholders;

2. On 31 March 2021 BACB published its audited sole annual financial statements for 2020, together with information on the Bank's financial result for 2019 on sole basis. The detailed information and the full text of the statements are also available on the BACB AD website;

Additional information for the three months of 2021 (Art. 33 (1) (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. In 2021 the Group consistently applied the Boyce accounting policy disclosed in the audited consolidated financial statements for 2020, taking into consideration the amendments to the IFRS, adopted by the EC and effective for annual periods beginning on or after 1 January 2021, as disclosed in explanatory notes to the annual financial statements for 2020.
2. Within the reported period there are changes in the economic group of the Bank, namely adopting a decision for liquidation/ dissolution of the 100% subsidiary company Paytech EOOD;
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 Shareholders as at 31.03.2021 and changes in the votes held by the persons as at 31.12.2020 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 submitted to the General Meeting to Shareholders and their accompanying instruments of incorporation of shareholders as at 31.03.2021, the shareholders of BACB AD, holding directly and/or indirectly (under Art.146 of POSA) 5 or more than 5 per cent of the voting shares of the Bank are as follows:

Shareholder	Number of shares held (directly and indirectly) as at 31.03.2021 r.	Percentage of votes at the General Meeting of Shareholders as at 31.03.2021 r.	Number of shares held (directly and indirectly) as at 31.12.2020	Percentage of votes at the General Meeting of Shareholders as at 31.12.2020
CSIF AD	15 199 133	61,56%	15 199 133	61,56%
Tsvetelina Borislavova Karagyozeva - the person exercising control over the direct shareholder CSIF AD (holding 99.99% of the shares of CSIF AD)	15 199 133	61,56%	15 199 133	61,56%
LTBI Holdings LLC	8 817 583	35,71%	8 816 618	35,71%

6. Data on the shares held by the members of the management and supervisory bodies of the Bank as at 31.12.2020 and on the changes that occurred since 30.09.2020.

The following table contains information on the members of the management and supervisory bodies of the Bank holding its shares.

Name	Member of management or supervisory body	Number of shares held (directly and indirectly) as at 31.03.2021	Percentage of votes at the General Meeting of Shareholders as at 31.03.2021.	Number of shares held (directly and indirectly) as at 31.12.2020	Percentage of votes at the General Meeting of Shareholders as at 31.12.2020
Silvia Kirilova		1 600	0.006%	1 600	0.006%

	Management Board				
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7. The Bank is not a party to pending legal, 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 core business is to provide loans and accept deposits. The BACB's interim financial statements, annual financial statements and prospectuses contain detailed information on its loan portfolio, large exposures and asset quality of the Bank.

LARGE TRANSACTIONS ENTERED INTO WITH RELATED PARTIES

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

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

The Bank enters into transactions with related party only as part of its ordinary banking operations. 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 in the three months of 2021.

More detailed information, if applicable, is contained in the Related Party Transactions section of the Accounting Policies and Selected Explanatory Notes as at 31.03.2021 r.