

Dear Shareholders:

During fiscal year 2006, the Bulgarian-American Credit Bank (BACB) achieved record results, earning approximately Euro 17.4 million while growing assets to over Euro 248 million, with loans and advances to customers amounting to Euro 193 million.

In EUR '000	2006	2005
Net interest income	24,367	18,470
Other income, net	2,571	3,180
Operating income	26,938	21,650
Operating expenses	(5,259)	(4,828)
Operating profit	21,679	16,822
Income before taxation	19,527	13,725
Net income	17,451	12,341
Total assets	248,510	194,904
Loans and advances to customers	193,263	146,697
Shareholders' equity	57,110	39,780
Return on Average Equity	36%	37%
Cost-to-Income	19.3%	22.9%

\* Annualized return on average equity is calculated by dividing net income by the simple average shareholders' equity for the period.

Net income grew by 41.4% on the back of loan portfolio growth of 31.7% and an attractive net interest margin that was sustained in part by continued reduction of funding costs. Loan quality remains high.

Growth and profitability were fueled by strong loan demand, reflecting a continuation of favorable business conditions in Bulgaria and BACB's focus on the vibrant SME sector where in Bulgaria much of the growth takes place.

- Loan growth continued to be limited by measures established by the Bulgarian National Bank to slow lending by the banking system. During 2006, BACB slightly exceeded the proscribed limits and as a result incurred costs in the form of additional reserves having to be placed at the central bank. Beginning in August 2006, the BNB eased these administrative measures so that the cost of exceeding the proscribed limits was less onerous. The BNB restrictions will be removed in 2007.

- Profit after tax, return on equity, return on assets, the ratio of cost to income, and net interest margin all equaled or exceeded expectations.

- Total capital adequacy ratio on a consolidated basis was 18.45% at December 31, 2006, well in excess of the Bulgarian National Bank requirement of 12%, which provides further encouragement that, as previously announced, the bank will be able to pay a dividend for 2006.

In summary, the bank had a very successful year.

The signal event for 2006 was that the Bulgarian-American Enterprise Fund (BAEF), which is the principal shareholder of BACB, sold 3.75 million shares (30% of its holdings) in a public offering to both Bulgarian and international investors. As a result of subsequent sales to increase the free float, at January 15, 2007, the BAEF holds 58.8% of BACB, while another 36.9% is owned by international institutional investors. Local investors, to include institutions, owned about 4.3% at the end of 2006.

On the funding side, BACB placed Euro 25 million in mortgage bonds at a rate of 6-month Euribor plus a margin of 64 basis points on March 30, 2006. In May 2006, a \$15 million 9% loan from BAEF was converted into a €12 million 7-year corporate bond at a rate of the six-month EURIBOR plus a margin of 1.0%. To further reduce funding costs, in June 2006, BACB repaid in full its lines of credit from the Netherlands Development Finance Company (FMO) in the amount of €8.2 million.

In May 2006, as previously announced, the bank purchased from BAEF all shares of Kapital Direct EAD, a non-bank financial institution, which had no operations. The bank paid 100,000 BGN (book value) and then increased Kapital Direct's capitalization to €1.5 million. The bank is using Kapital Direct as a vehicle for originating and possibly for securitizing loans. Kapital Direct is BACB's only subsidiary and its results are consolidated in BACB's financial statements.

Looking forward, Bulgaria has joined the European Union and offers one of the most attractive investment destinations in the region. As a result, the country continues to enjoy a high level of economic growth and an increased demand for banking services, particularly in the SME sector.

We remain very positive about the longer-term prospects for BACB and for Bulgaria and its economy.

Sincerely,



Frank L. Bauer,  
Chairman of the Management Board and Chief Executive Officer

January 17, 2007