

OVERVIEW

During fiscal year 2006, the Bulgarian-American Credit Bank (BACB) achieved record results, earning approximately €17.5 million while growing assets to over €248.5 million, with loans and advances to customers amounting to €193.3 million.

In EUR '000	2006	2005
Net interest income	24,379	18,471
Other income, net	2,559	3,179
Operating income	26,938	21,650
Operating expenses	(5,259)	(4,828)
Operating profit	21,679	16,822
Income before taxation	19,527	13,724
Net income	17,455	12,341
		1,414
Total assets	248,520	194,903
Loans and advances to customers	193,263	146,697
Shareholders' equity	57,114	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% due to 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 much of the growth takes place in Bulgaria.

- 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 18.44% at December 31, 2006, well in excess of the Bulgarian National Bank requirement of 12%, which allows, as previously announced for a payment of dividend.

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 Euro 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 Euro 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 Euro 1.534 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.



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

FINANCIAL STATEMENTS AND MANAGEMENT REPORT OF BULGARIAN-AMERICAN CREDIT BANK 2006

The following is a discussion of the results of operations and financial condition of the Bank for the year ended 31 December 2006. Investors should read this discussion together with the Bank's historical financial statements and the related notes included elsewhere in this document and should not rely just on the key summarized information contained in this document. The Bank has prepared its historical financial statements for the year ended 31 December 2006 in accordance with IFRS. The financial information in this section has been extracted without material adjustment from the Bank's historical financial statements for the years ended 31 December 2005 and 2006 and the related notes thereto included elsewhere in this document or from the Bank's accounting records that formed the underlying basis of the financial information in those financial statements.

This section contains forward looking statements. These statements are subject to risks, uncertainties and other factors that could cause the Bank's future results of operations or cash flows to differ materially from the results of operations or cash flows expressed or implied in such forward looking statements. Save for the discussion contained herein management is not aware of any other trends, circumstances or risks for which there is a significant chance to affect the financial position and the results from operation of the Bank.

The Bank is a specialist provider of secured finance to small- and medium-sized businesses in Bulgaria, with specific lending programs for financing SME companies in a variety of industries, and companies in the tourism and construction sectors. The Bank lends to its clients through its head office in Sofia and four other branches. Based on statistics published by the BNB, at 31 December 2006, the Bank was the 22nd largest bank in Bulgaria on the basis of total assets, the 10th largest bank on the basis of total capital and had the highest return on assets and return on equity of all the Bulgarian banks included in the BNB's statistics.

The Bank's net loan portfolio comprised 77.8% of the Bank's total assets at 31 December 2006. At that date, loans to small- and medium-sized businesses and individuals represented approximately 90.1% and 9.9%, respectively, of the Bank's total loans and advances to customers before provisions for impairment.

At 31 December 2006, the Bank employed 137 people compared to 139 at December 31, 2005.

The Bank reports its results of operations in Euro.

LIQUIDITY

Liquidity risk is the risk that the Bank will be unable to meet its obligations to its various counterparties when those obligations mature. Liquidity risk management seeks to ensure that the Bank has the ability, under varying scenarios, to fund increases in assets and meet maturing obligations as they arise.

The Bank believes that it has a conservative liquidity policy. At any time, the Bank maintains liquid assets (including cash, short-term deposits with banks and liquid securities) in excess of all deposits maturing within one month. The Bank also maintains a positive twelve-month maturity gap, so that short-term assets match or exceed short-term liabilities. The Bank typically uses interbank deposits to bridge temporary funding mis-matches rather than to fund loans.

The Bank's liquidity ratio (i.e. the ratio of liquid assets to total deposits) was 74.0% at 31 December 2006, compared to 103.1% at 31 December 2005. The decrease of the ratio in comparison to the 2005 figure is due to some increase of the deposits as percentage of the liabilities. The increase is mainly in

the interbank and the corporate deposits which the bank uses as a temporary source of funds at market rates. "Liquid assets" means cash and all assets which can easily be converted into cash within one month, including cash, short-term deposits with banks, and liquid securities. Unlike many other Bulgarian banks, whose funding bases generally contain a greater proportion of customer deposits, the majority of the Bank's liabilities have fixed maturity dates because these liabilities are in the form of bonds and term loans. The following table sets out the Bank's liquidity ratios at 31 December 2005 and 2006.

	At 31 December	
	2006	2005 (%)
Loans/assets	77.8	75.3
Loans/equity	338.4	368.8
Liquid assets/total assets	20.7	23.1
Liquid assets/total deposits	74.0	103.1

The Bank began investing in debt securities in 2002, principally to optimize its liquidity management. The Bank typically invests in Bulgarian government securities and has made some limited investments in Bulgarian corporate bonds in order to enhance the yield earned on its liquid funds. The Bank aims to keep no more than 50% of its liquid funds in the form of debt securities and, to date, has kept below this target.

At 31 December 2006, the Bank's portfolio of debt securities amounted to €6.4 million Euro as compared to €5.3 million Euro at 31 December 2005.

CAPITAL RESOURCES

Liabilities and Shareholders' Equity

The following table sets out the structure of liabilities and equity of the Bank at 31 December 2006 and 2005.

	At December 31		
	2006	2005	2006/2005
	<i>('000)</i>		<i>(%)</i>
Liabilities			
Deposits from banks	15,342	9,975	53.8
Deposits from customers	54,098	33,786	60.1
Other liabilities	2,869	1,952	47
Other borrowed funds	31,804	55,258	(-42.4)
Debt securities outstanding	87,293	54,152	61.2
Total Liabilities	191,406	155,123	23.4
Shareholders' Equity			
Share capital	6,455	6,455	-
Share premium	435	435	-
Retained earnings	50,280	32,825	53.2
Revaluation reserve	-56	65	(-186.2)
Total Shareholders' Equity	57,114	39,780	43.6
Total Liabilities and Shareholders' Equity	248,520	194,903	27.5

The principal sources of the Bank's funding have been the Bulgarian debt capital markets, long-term loans from international financial institutions and European banks, with these three categories of funding sources accounting for 62.2% of the Bank's total liabilities at 31 December 2006. At that date, deposits from customers and bank deposits comprised 36.3% of the Bank's total liabilities. The table below provides more information on the Bank's non-equity funding:

Non-Equity Funding: Sources of Non-Equity Funding by Category, Amount and Percentage
Year ended 31 December

	2006		2005	
	Amount (€ 000)	% of Total (%)	Amount (€ 000)	% of Total (%)
Deposits from Banks	15,342	8.1	9,975	6.5
Deposits from Customers	54,098	28.7	33,786	22.0
Loans from International Banks	5,006	2.6	15,000	9.8
Loans from International Financial Institutions	12,538	6.7	24,915	16.3
Loans from the BAEF	14,260	7.6	15,343	10.1
Debt Securities	87,293	46.3	54,152	35.3
Total Funding	188,537	100.00	153,171	100.0

At 31 December 2006, the Bank had total liabilities of approximately €191.4 million, compared to liabilities of €155.1 million at 31 December 2005. Unlike many other banks, a substantial portion of the Bank's funding requirements are met through comparatively expensive, long-term funding sources, including loans from international financial institutions, loans from European banks and by issuing bonds in the Bulgarian debt capital markets. This strategy results in relatively higher interest expenses for the Bank, but these are offset, at least in part, by lower operating expenses. This approach does not require a costly branch network or substantial marketing campaigns, and fits with the Bank's lending strategy. An additional benefit of this strategy is that the maturity mismatch between the Bank's funding and its expected cash inflow from client loans and other revenue-generating activities is minimal. This allows the Bank to maintain a strong liquidity position using fewer on-balance sheet liquid assets.

Overall, the Bank's average cost of funding has been declining since its formation in 1996. The Bank issued its first mortgage bonds in 2001 at a fixed interest rate of 7.75%, which was approximately 330 basis points over the three-year swap rate. In contrast, the Bank's most recent mortgage bonds were issued in March 2006 at 64 basis points over the six-month EURIBOR rate.

Debt securities are currently the Bank's largest single source of funding, and the Bank is currently one of the leading bond issuers in Bulgaria. At 31 December 2006, debt securities comprised 45.6% of the Bank's total liabilities, compared to 34.9% of total liabilities at 31 December 2005. All of the Bank's mortgage bonds were issued under the Mortgage Bonds Act of 2000 and are collateralized by a lien on the receivables from a pool of mortgage loans.

Between 1999 and 2004, international financial institutions such as the IFC and the EBRD advanced a number of loans to the Bank. The first of these loans in 1999 represented the Bank's first funding source other than loans from the BAEF. As Bulgarian debt capital markets have developed, the Bank has placed less emphasis on borrowing from international financial institutions and this source of funding is declining as a percentage of the Bank's total liabilities. At 31 December 2006, loans from international financial institutions comprised 6.6% of total liabilities, compared to 16.1% of total liabilities at 31 December 2005.

Since 2001, various international banks have advanced loans to the Bank. In 2004, the Bank agreed a syndicated term loan of €12 million with several European banks, which was repaid in full in 2006.

Loans from international banks comprised 2.6% of total liabilities at 31 December 2006 compared to 9.7% of total liabilities at 31 December 2005.

The Bank started accepting institutional deposits in 2000, and retail deposits in 2001. Although deposits are used to fund short-term liquidity needs, the Bank views customer deposits as an additional service provided to its clients rather than as a major funding source and it does not advertise or attempt to "cross-sell" its deposit facilities actively. At 31 December 2006, non-bank deposits held by the Bank comprised 28.3% of total liabilities, compared to 21.8% of total liabilities on 31 December 2005.

The Bank is subject to, and is in compliance with, the capital adequacy requirements of the BNB. Among other things, these regulations require the Bank to maintain a capital adequacy ratio of 12% (including Tier 1 and Tier 2 capital) and a Tier 1 capital ratio of 6%.

The Bank's total capital adequacy ratio at 31 December 2006 was 18.4% (assuming that 2006 profits are not retained) and at 31 December 2005 was 31.1%, and its Tier 1 capital adequacy ratio at 31 December 2006 was 18.5% and at 31 December 2005 was 25.6%.

The Bank's high capital adequacy is primarily due to the high level of the Bank's profitability and its policy of retaining earnings. Management believes that the high capital ratios which resulted from this policy have enabled the Bank to attract funding on favorable terms, in part because investors and rating agencies assess the Bank's capitalization to be consistent with its risk profile as a specialist provider of finance to small- and medium-sized businesses in Bulgaria. However, the Bank is currently sufficiently capitalized, if not overcapitalized and for this reason the Bank is expected to initiate a dividend payment program. For this reason and due to its strong 2006 results, the Bank intends to propose to its shareholders a dividend of BGN XX (€XX) per share for year 2006.

OPERATING AND FINANCIAL REVIEW AND RESULTS OF OPERATIONS

The one important economic development in 2006 is that the bank acquired from the BAEF 100% of the shares of Kapital Direct EAD, a non-bank financial institution, which had no operations. Kapital Direct is BACB's only subsidiary and its results are consolidated in BACB's financial statements. The bank paid 100,000 BGN (nominal value) and then increased Kapital Direct's capitalization to Euro 1.5 million. The bank is using Kapital Direct as a vehicle for originating and possibly for securitizing loans. Kapital Direct's after tax profit represents 1.96% of the Bank's consolidated profit for 2006.

Significant Factors Affecting Results of Operations

Effect of Growth Policy

Since its formation in 1996, the Bank has pursued a policy of managed growth. At 31 December 2006, the Bank had total assets of €248.5 million, compared to total assets of €194.9 million at 31 December 2005. Loans and advances to customers comprise the Bank's principal asset on its balance sheet and increased by 31.7% to €193.3 million at 31 December 2006.

The Bank seeks to manage its loan portfolio growth at sustainable levels. However, growth in any given month varies with the flow of new business and the rate of loan repayments. The Bank's average loan portfolio before provisions for impairment, taken on a monthly basis, was €137.7 million in 2005 and increased 29.2% to €177.8 million in 2006.

The Bank has also achieved consistent growth in profitability for the ten years since inception. For the year ended 31 December 2006, the Bank's net income was approximately €17.5 million, an increase of 41.4% from €12.3 million for the year ended 31 December 2005.

Net interest income for the year ended 31 December 2006 increased to €24.4 million, an increase of 32.0% from €18.5 million in 2005. The increase was due to the Bank's growing loan portfolio,

declining funding costs and sustained margins on loans, which the Bank was able to achieve despite increasing competition.

Effect of Diversification of Funding Base

At 31 December 2006, the Bank had total liabilities of €191.4 million, compared to liabilities of €155.1 million at 31 December 2005. Credit lines and long-term loan facilities from international financial institutions and international banks and the BAEF have historically been among the Bank's principal sources of funding. Since inception the Bank has gradually diversified its funding from the Bulgarian debt capital markets through the issue of unsecured and mortgage bonds, from international banks, through syndicated loans, and from customer and bank deposits.

Results of Operations for the Years Ended 31 December 2006 and 2005

The following table sets out the Bank's net income and the principal components thereof for the years ended 31 December 2006 and 2005, as well as the percentage variation within each line item.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	(€ 000)		(%)
Income Statement Data			
Interest income	31,874	25,383	25.6
Interest expense	(7,495)	(6,912)	8.4
Net Interest Income	24,379	18,471	32.0
Fees and commission income, net	1,830	2,345	(22.0)
Other non-interest income	729	834	(12.6)
Operating Income	26,938	21,650	24.4
Operating expenses	(5,259)	(4,828)	8.9
Provisions for impairment	(2,152)	(3,098)	(30.5)
Income before taxation	19,527	13,724	42.3
Income taxes	(2,072)	(1,383)	49.8
Net income	17,455	12,341	41.4
Cash Flow Statement Data			
Net cash (used in) operating activities	(39,366)	(18,034)	118.3
Net cash (used in)/provided investing activities	(1,450)	760	(290.8)
Net cash provided by financing activities ...	37,478	25,057	49.6
Net (decrease)/increase in cash and cash equivalents	(4,383)	9,910	(144.2)

Net Interest Income

A number of factors affect the Bank's net interest income. It is primarily determined by the volume of interest earning assets, such as loans and advances to customers, interest-earning securities which the Bank holds and loans to other credit institutions, and the volume of interest bearing liabilities, such as debt securities issued, loan facilities from international financial institutions, deposits from other credit institutions and customer deposits, as well as the difference between rates it earned on interest earning assets, on the one hand, and rates it paid on interest-bearing liabilities on the other.

The following table sets out the principal components of the Bank's net interest income for the years ended 31 December 2006 and 2005, as well as the percentage variation within each line item.

Year ended 31 December Variation

	2006	2005	2006/2005
	(€ 000)	(€ 000)	(%)
Interest income	31,874	25,383	25.6
Interest expense	(7,495)	(6,912)	8.4
Net interest income	24,379	18,471	32.0

Interest Income

Interest income is comprised of interest and deferred loan management fees paid to the Bank. It also includes interest earned on inter-bank placements and debt securities held by the Bank for its own account.

The following table sets out the principal components of Bank's interest income for the years ended 31 December 2006 and 2005.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	(€ 000)	(€ 000)	(%)
Interest Income			
Loans	30,474	24,627	23.7
Due from banks	1,076	446	141.3
Securities	324	310	4.5
Total interest income	31,874	25,383	25.6

Interest income increased by €6.5 million, or 25.6%, from €25.4 million in the year ended 31 December 2005 to €31.9 million in the year ended 31 December 2006. These increases were primarily a result of the loan portfolio growth and sustained interest margins during the years ended 31 December 2006 and 2005, but were also influenced by the variations in the timing of when new loans and advances to customers were made during the course of these years and the size of its liquid assets

Interest Income from Loans

During the year ended 31 December 2006, interest income from loans increased by €5.9 million, or 23.7%, from €24.6 million during the year ended 31 December 2005 to €30.5 million in the year ended 31 December 2006. This increase was attributable to the increase in the Bank's loans and advances to customers over the period. The size of the Bank's portfolio of loans and advances to customers increased in part due to the growth in GDP, increased investment activity associated with the EU accession and rising asset prices. Inflation per se did not have a significant effect on net income over the period.

The interest income from deposits placed and interest income from securities have historically been relatively small in size and do not have a significant effect on the Bank's net income. However, the increase in the interest income from those two sources is due to an increase in the absolute level of liquid assets and the general increase of the market rates.

Interest Expense

Interest expense comprises amounts paid by the Bank as interest on funds deposited or lent by customers and as interest on debt securities issued and other borrowed funds. The following table sets out the principal components of the Bank's interest expense for the years ended 31 December 2006 and 2005, as well as the percentage variation within each line item.

	Year ended 31 December		Variation
	2006	2005	2006/2005
	(€ 000)		(%)
Interest expense			
Deposits	(1,386)	(751)	84.6
Debt securities issued	(3,815)	(2,316)	64.7
Other borrowed funds	(2,294)	(3,845)	(40.3)
Total interest expense	(7,495)	(6,912)	8.4

Interest expense increased by €0.6 million, or 8.4%, from €6.9 million in the year ended 31 December 2005 to €7.5 million in the year ended 31 December 2006. The increase resulted from the increase in the volume of interest-bearing liabilities, although the average effective interest on the interest-bearing liabilities decreased.

The interest expense on deposits has historically been relatively small in size and does not have a significant effect on the Bank's net income.

Interest Expense on Debt Securities

Interest expense on debt securities issued increased by €1.5 million, or 64.7%, from €2.3 million in the year ended 31 December 2005 to €3.8 million in the year ended 31 December 2006. The increases resulted from increases in debt securities issued by the Bank over the relevant periods, and were partially offset by lower interest rates on the new issues. Debt securities issued increased by €33.2 million, or 61.2%, from €54.1 million at 31 December 2005 to €87.3 million at 31 December 2006.

Interest Expense on Other Borrowed Funds

Interest expense on other borrowed funds decreased by €1.5 million, or 40.3%, from €3.8 million in the year ended 31 December 2005 to €2.3 million in the year ended 31 December 2006. The decrease resulted from decrease in average amounts of borrowed funds from international financial institutions and international banks over the respective period, and also by lower interest rates on the borrowings. The monthly average amount of other borrowed funds for 2006 was €37.2 million in comparison to €59.6 million in 2005. The total principal amount of the Bank's other borrowed funds decreased by €23.5 million, or 42.4%, from €55.3 million at 31 December 2005 to €31.8 million at 31 December 2006.

Net Interest Income and Interest Margin

Net interest income increased by €5.9 million, or 32.0%, from €18.5 million in the year ended 31 December 2005 to €24.4 million in the year ended 31 December 2006. Increases in net interest income were caused by the growth in interest income exceeding the growth in interest expense, which was the result of the increase of the loan portfolio combined with steady interest margins and declining funding costs.

Operating Income

The operating income of the Bank increased by €5.3 million or 24.4% from €21.7 million for the year ended 31 December 2005 to €26.9 million for the year ended 31 December 2006. A number of factors affect the Bank's operating income, the most important being net interest income. Net interest income represented 90.5% and 85.3% of operating income for the years 2006 and 2005.

Fees and Commission Income

Fees and commission income is composed of fees in connection with current accounts, such as maintenance and transfer fees; certain loan fees, such as prepayment, appraisal and guarantee fees; asset servicing fees; and fees and commissions on settlement and brokerage operations. Net fee and commission income decreased by €0.5 million, or 22.0%, from €2.3 million during the year ended 31 December 2005 to €1.8 million during the year ended 31 December 2006.

Other Non-interest Income

Historically, other non-interest income has not been a material part of the operating income of the Bank.

Operating Expenses

Operating expenses comprised salaries and benefits and other administrative expenses. Total operating expenses increased by €0.431 million, or 8.9%, from €4.8 million during the year ended 31 December 2005 to €5.2 million during the year ended 31 December 2006.

Personnel

Personnel expenses include wages, staff bonuses and social security contributions. Personnel expenses increased by €0.334 million, or 13.1%, from €2.6 million during the year ended 31 December 2005 to €2.9 million during the year ended 31 December 2006. The increase is primarily due to the continued growth of the Bank's business and the increased amount of employee bonuses, following the increased profitability of the Bank in accordance with the Bank's Long Term Employee Incentive Plan. Net of the employee bonuses, personnel expenses increased by €0.236 million, or 12.1%, from €1.9 million during the year ended 31 December 2005 to €2.2 million during the year ended 31 December 2006. The Bank employed 137 people at 31 December 2006 and 139 people at 31 December 2005.

Contribution to and Payment under the Long Term Employee Incentive Plan

The Bank's contribution to and payment under the Long Term Employee Incentive Plan increased by €0.098 million, or 16.1%, from €0.607 million in 2005 to €0.705 million in 2006.

Depreciation and Amortization

The Bank's depreciation and amortization expense does not have a significant impact on net income.

Other Operating Expenses

Other operating expenses consist of general and administrative expenses, employee training, travel related expenses, the annual contribution to the Deposit Insurance Fund and marketing expenses and other expenses related to operations. Other operating expenses increased by €0.161 million, or 15.4%, from €1.044 million in the year ended 31 December 2005 to €1.205 million in the year ended 31 December 2006. The main causes of the increase were the increases in equipment maintenance, marketing expenses and contributions to the Deposit Insurance Fund, following an increase in customer deposits.

Provisions for Impairment

Provisions for impairment amounted to €12.919 million in 2006 as compared to €10.907 million in 2005.

Recoveries on previously written-off exposures are recognized directly in the income statement as other income and do not change provisions for impairment. Recoveries were €0.5 million in 2006 and zero in year 2005.

As a percentage of total loans and advances to customers, provisions for impairment decreased from 6.9% at 31 December 2005 to 6.3% 31 December 2006. The aggregate amount of all classified loans fell from 10.3% of the Bank's total portfolio at 31 December 2005 to 9.5% at 31 December 2006.

Income Taxes

Income tax expense comprises the current tax expense and the deferred tax expense.

The Bank's income taxes increased by €0.689 million, or 49.8%, to €2.1 million for the year ended 31 December 2006, as compared to €1.4 million for the year ended 31 December 2005. Due to certain exemptions explained in the Bank's financial statements, the Bank's effective tax rate for 2005 was 10.1% and for 2006 - 10.6%. The increase in the Bank's income tax expense was attributable to an increase in taxable operating profits for each year.

Net Income

The increase in net income for the year ended 31 December 2006 was caused by a combination of the factors discussed above, including the higher rate of growth of income compared to the rate of growth of expenses and fluctuations in the provisions for impairment expense. In particular, the Bank's operating income grew by €5.3 million or 24.4% to €26.9 million for the year ended 31 December 2006, as compared to €21.7 million for the year ended 31 December 2005. The Bank's operating expenses grew by €0.431 million or 8.9% to €5.2 million for the year ended 31 December 2006, as compared to €4.8 million for the year ended 31 December 2005. The ratio of operating expenses to operating income fell from 22.3% at 31 December 2005 to 19.5% at 31 December 2006.

IMPORTANT DEVELOPMENTS AFTER THE DATE OF THE LAST BALANCE SHEET

No important developments have occurred since the date of the last balance sheet.

EXPECTED DEVELOPMENT OF THE BANK

The Bulgarian banking sector is facing new challenges as Bulgaria entered the European Union. The banking sector has become more competitive, the growing financial awareness of customers is creating demand for more sophisticated financial products for diverse customer needs, and all market participants are facing changes in the regulatory environment resulting from the accession. Management believes that the Bank is well prepared to succeed in this environment, and that the Bank's flexible management and swift decision-making will allow it to take advantage of its opportunities. In particular, management believes that the Bank's focused strategy and specialization in serving its selected target market and services, and its cost efficiency, prudent risk management and solid capitalization will continue to allow for sustained asset growth and profitability, resulting in growth in shareholder value.

The Bank's objectives for the current financial year are focused on sustaining growth in assets and earnings in existing product lines, greater efficiency, and improving asset quality through enhanced risk management and successful work-outs of non-performing loans. In addition, management intends to continue the improvement of its management information system.

In 2005, the BNB set loan portfolio growth targets applicable from the second quarter of the year to limit the growth of loans in the banking system. Any bank which exceeds these growth targets is required to maintain additional reserves with the BNB. These limitations restricted somewhat the Bank's growth in the years ended 31 December 2005 and 2006. The growth in the Bank's loan portfolio exceeded the BNB's target growth rates and, therefore, the Bank was required to maintain additional reserves at the BNB. BNB removed growth restrictions in late 2006, effective in early 2007.

In order to achieve further reduction in its funding costs, management intends to leverage off the continuing stability of Bulgaria and both Bulgaria's and the Bank's credit ratings.

Since 31 December 2006, the Bank's level of business activity and growth have continued to develop as expected. Overall, the outlook for the Bank's trading for 2007 remains in line with management's expectations and management is confident of the Bank's prospects for the year.

CHANGES IN THE PRICE OF THE SHARES

The Bank listed its shares for trading on the Bulgarian Stock Exchange – Sofia on April 4, 2006 following a public offering to both Bulgarian and international investors in which the Bulgarian-American Enterprise Fund (BAEF), which is the principal shareholder of BACB, sold 3.75 million shares (30% of its holdings). The offering price was set at BGN 29 (€14.827) using a book building pricing process.

According to the BSE statistics for the period April 5, 2006 – December 31, 2006 there were 824 deals with the Bank's shares in which 3,128,010 shares were traded for a total volume of BGN 119,564,707.40 (€61,132,464). The closing price on December 22, 2006, the last day of trading for year 2006, was BGN 49.99 (€25.56).

On April 4, 2006 the BSE SOFIX index was 867.75 and on December 22, 2006 it closed at 1,224.12.

On February 9, 2007 BSE announced changes to the SOFIX index constituents and the methodology in calculating the index. Beginning February 26, 2007 BACB's shares will be included in the calculation of SOFIX. The weight of the index constituents will be a function of their market capitalization and free float.

CORPORATE GOVERNANCE

The Bank has adopted a Good Corporate Governance Program (GCGP) in 2006. During 2006 the activity of the Supervisory Board and the Management Board has been in compliance with the GCGP.

The Bank intends to amend its GCGP in 2007 in order to fully reflect recent changes in the Bulgarian legislation and to improve disclosure of information on its web site.

The discussion in the following sections provides additional information on the Bank's share capital and disclosures related to its corporate governance.

SHARES OF THE BANK

I. Capital structure

Share Capital

At 31 December 2006, the Bank's issued and outstanding share capital was BGN 12,624,725 comprising 12,624,725 Shares, each with a nominal value of BGN 1. All the issued and outstanding Shares were fully paid-up. There have not been any changes in the Company's share capital during 2006.

The Bank has a single class of ordinary shares, representing 100% of its registered capital. Each of the Shares ranks *pari passu* amongst themselves, with no preferential rights attached to any of the Shares. Each Share entitles its holder to one vote at a general meeting of shareholders, to dividends when declared and to participate in a liquidation of the Bank in proportion to the nominal value of the Share. The Bank does not have non-listed shares.

The following table shows the issued and outstanding share capital of the Bank at the dates indicated:

	Number of issued Shares	Paid-up share capital (BGN)
31 December 2005	12,624,725	12,624,725
31 December 2006	12,624,725	12,624,725

Pre-emption Rights

Each holder of Shares has pre-emptive rights to subscribe for any new shares or convertible bonds issued by the Bank *pro rata* to its existing holding of Shares. The number of Shares required to subscribe for one new share or convertible bond must be specified in the shareholder resolution approving the share capital increase. Under Bulgarian law, pre-emption rights may not be removed in any way, unless those pre-emption rights are automatically removed by operation of Bulgarian law, which occurs whenever shares are issued for the following purposes: (i) to be allotted to holders of interests in another company as part of a merger or a non-cash tender offer for the shares in that company; (ii) to be allotted to holders of convertible bonds or warrants due to the conversion of those

instruments; or (iii) in order to increase a bank's share capital at the direction of the BNB if its capital adequacy is insufficient, but only so long as that bank is unable to raise share capital in a rights issue.

If the capital increase is authorized by a shareholder resolution, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the ex-dividend date. If the capital increase is authorized by a unanimous resolution of the Management Board, the pre-emption rights accrue to those persons registered as shareholders at the Central Depository on the seventh day after the publication of the announcement of the rights issue in the Bulgarian State Gazette. On the business day following the ex-dividend date (or the seventh day after the announcement, as appropriate) the Central Depository opens rights accounts in the name of the relevant shareholders based on the register at the Central Depository at such date.

The first date on which pre-emption rights may either be: (1) exercised to subscribe for new shares or convertible bonds; or (2) traded on the BSE is required to be specified in the announcement of the rights issue. The final date for the exercise of pre-emption rights must be between fourteen and thirty days from the date set for the first exercise of such rights. All rights not exercised within this time must be offered to the public by means of an auction organized by the BSE five business days after the final date on which rights may be traded. This auction is open for a period of one day. Any right acquired pursuant to the auction must be exercised within ten business days of the auction.

2. Restrictions on Share Transfers

In general there are no limitations on the transfer of the shares and shareholders do not need the approval of the Bank or of any other shareholder in order to do so. However, due to the fact that BACB is in the banking business certain rules and regulations, stipulated in the Act on Credit Institutions do apply.

Certain Permissions and Disclosure Requirements under Bulgarian Act on Credit Institutions

Pursuant to the Act on Credit Institutions 2006, the pre-approval of the Bulgarian National Bank (BNB) is required whenever a person intends to acquire, directly and/or through related parties, a number of shares such that its interest in the bank's capital may reach or exceed the thresholds of 20%, 33%, 50%, 66%, 75% or 100% ("qualified ownership"). If the acquisition is done on the Bulgarian Stock Exchange or without pre-approval, the acquirer has no voting rights at the general meeting of the shareholders until proper permission is obtained. If BNB declines to issue proper permission, it has the authority to demand the acquirer to sell the excess number of shares within 1 month.

Any person intending to reduce its qualified ownership in a bank's capital is obliged to inform BNB of its intent to reduce its ownership and to specify the number of shares it intends to sell in that transaction not later than 10 days prior to executing the transfer.

Other Disclosure Requirements under Bulgarian Law

Pursuant to the Public Offer of Securities Act 2000, each shareholder is required to inform the Bank, the Financial Supervision Commission and the BSE in the event that his or her interest in the Bank reaches or falls below 5% or increases or decreases by 5% or a multiple of 5%. For these purposes an "interest" includes shares, convertible bonds, warrants and options. The disclosure notice must be served within seven days from the date at which the interest is acquired or transferred. However, if the change is price-sensitive information, e.g. a change of control, it must be disclosed not later than the next business day following the change. This information is disseminated to the public by means of the public register kept by the Financial Supervision Commission and a stock exchange bulletin. The notification to the Bank, the Financial Supervision Commission and the BSE must, if the interest is held by an legal entity rather than an individual, also disclose the persons who control it directly or indirectly and the manner in which they exercise control. Indirect holdings of interests are also subject to disclosure if: (i) the interest is held by a spouse or minor, (ii) the interest is held by a company controlled by the relevant person, (iii) the interest is held by other persons on their own behalf but for the account of the relevant person, (iv) the interest is held by another person with whom there is a written voting agreement, (v) the interest is conceded by another person with whom the person has concluded a written agreement stipulating temporary transfer of the voting rights attached to the shares,

(vi) the interest is pledged by the person as collateral (unless the secured creditor exercises a voting right), (vii) the interest is deposited with the person by a transfer of voting rights without any special instructions from the shareholder or (viii) the holder of the interest has authorized a proxy who can vote at his own discretion without any special instructions of the shareholder.

The above disclosure requirements do not apply if interests are acquired by a broker-dealer for its own account or for a client's account in the course of a normal trading or investment activity and the votes attached to the acquired interests are not intended to be cast and they are disposed of on a regulated market within 14 days of their acquisition. Irrespective of the above thresholds, each manager and board member must disclose in the annual report of a Bulgarian public company information about the type and number of shares he or she owns in the company and the proportion these shares represent of the relevant class of shares, as well as ownership of any options for acquisition of securities issued by that public company. The annual report is disseminated to the public through the public register kept by the Financial Supervision Commission and through the stock exchange bulletin.

The board members of a Bulgarian public company are obliged to declare to the company, the Financial Supervision Commission and the BSE: (i) the legal entities in which they own, directly or indirectly, 25% or more of the voting rights or over which they exercise control; (ii) the legal entities in which they participate in the supervisory or management bodies or are appointed as procurators; and (iii) the present and future transactions in respect of which they believe that they could be qualified as "interested" persons.

3. Principal Shareholders

The following table sets out details, insofar as they are known to the Bank, of the interests in Shares held by persons who are directly or indirectly interested in five per cent or more of the Bank's issued share capital at the date of this document.

	At February 04, 2006	
	Number of Shares	% of issued share capital
Bulgarian American Enterprise Fund....	7,305,103	57.86
Balkan Ventures LLC	1,262,042	9.99
Gramercy Emerging Markets Fund	1,179,792	9.35
Others.....	2,877,788	22.79
Total	12,624,725	100

Save as disclosed in the table above, the Bank is not aware of any person who is holding directly or indirectly, 5% or more of the Bank's registered share capital.

None of the Bank's shareholders have different voting rights from any other holder of Shares in respect of any Shares held by them.

4. Controlling Shareholders

Bulgarian American Enterprise Fund

The BAEF is a US corporation, established pursuant to the SEED Act, the primary aim of which is to encourage entrepreneurialism and promote development in the former communist countries of Central and Eastern Europe. Under the SEED Act, the BAEF was granted \$57.8 million to invest in Bulgaria for the purposes of promoting the development of the private sector by supporting small- and medium-sized businesses in different sectors of the economy.

By virtue of the Bank's bylaws the general meeting of the shareholders has a quorum if at least 50% of the voting shares are presented. Unless otherwise provided by law or by the Bank's bylaws the decisions of the general meeting are taken with a 50%+1 or more of the voting shares. These provisions

of the bylaws reflect the general requirements of the Commercial Act 1990.

5. Employees and Directors as Shareholders

Bank's employees and directors hold certain interest in the Bank's shares, which does not exceed 1% of its capital. The Bank is not aware of any shareholder agreement, restriction or limitation being imposed on directors and employees in voting their shares. Each shareholder exercises his/her voting right or may choose to authorize a third party of its own choice to vote by proxy. The Bank is not aware of any employee shares being blocked or restricted.

6. Voting Rights Restrictions

The Bank is not aware of any restrictions or limitations on voting rights on any grounds. Two limitations may arise by law: (i) surpassing certain thresholds without BNB's preapproval (for more details see "Certain Permissions and Disclosure Requirements under Bulgarian Act on Credit Institutions") and (ii) voting on certain deals with interested parties as stipulated in article 114 et seq. of POSA.

7. Restrictive Shareholder Agreements

The Bank is not aware of any agreements between any of its shareholders that might lead to restrictions in transferring the Bank's shares or in exercising voting rights.

8. Appointment of the Supervisory Board and the Management Board and amendments and supplements of Bylaws

The bylaws of the Bank provide for a two-tier management system consisting of a Supervisory Board and a Management Board. Members of the Supervisory Board may be either individuals or legal entities. Only individuals are able to serve on the Management Board, not legal entities.

Supervisory Board

Bulgarian law and the Bank's bylaws provide that a Supervisory Board must consist of at least three and not more than seven persons. The members of the Supervisory Board may be appointed and dismissed by a resolution passed by a two-thirds vote of the shareholders in general meeting. Under Bulgarian law at least one third of the members of the Supervisory Board should be independent (i.e. not related to the Bank, its majority shareholder, another board member or to a person in a long-term commercial relationship with the Bank).

The Supervisory Board has the power to appoint and dismiss members of the Management Board, and it must approve any resolutions of the Management Board to delegate the power to represent the Bank.

Management Board

Bulgarian law and the Bank's bylaws provide that the Management Board should consist of at least three and not more than nine persons. Subject to the requirements for BNB consent, the members of the Management Board may be appointed and dismissed by the Supervisory Board.

The Bank's bylaws provide that a quorum of at least half of all Management Board members is necessary for a valid meeting and for passing of resolutions. A simple majority is sufficient for passing resolutions unless the law or the bylaws require otherwise. The Management Board has, with the approval of the Supervisory Board, authorized the Executive Directors to represent the Bank and to take responsibility for its daily operations. Board members may be re-elected without limitation and may be dismissed at any time by the Supervisory Board. A board member may resign and require to be deregistered as a Board member in the commercial register with notice in writing addressed to the Bank.

Amendments or supplements to the bylaws

The Bank's bylaws provide that the shareholder resolution to amend or supplement the bylaws require the approval of two-thirds of the voting shares present at the meeting. In addition, any amendment or

supplement to the Bank's bylaws require the prior written approval of the BNB. The BNB and the Financial Supervision Commission each has the power to issue a "stop order" or a compulsory instruction or injunction to the Bank if any resolution of the shareholders in general meeting or resolution of the Management Board or Supervisory Board is found to be illegal. The BNB alone may issue such an order if a resolution would be detrimental to interests of the Bank or its depositors, or would be detrimental to the stability of the payment system. The Financial Supervision Commission alone may make such an order if a resolution of the Management Board or Supervisory Board would be detrimental to the interests of shareholders or other investors.

Amendments and supplements to the bylaws of the Bank are only effective at the date of the registration of the resolution at the Bulgarian commercial register and the approval of the BNB.

9. Powers of the Supervisory Board and the Management Board

Supervisory Board

The Supervisory Board supervises the activities of the Management Board and approves the Bank's annual and three-year business plans. The Supervisory Board also monitors the Bank's risk control mechanisms and its management information systems. The Supervisory Board has the power to appoint and dismiss members of the Management Board, and it must approve any resolutions of the Management Board to delegate the power to represent the Bank. The approval of the Supervisory Board is also required for resolutions of the Management Board for:

- changing the internal and organizational structure of the Bank and substantial organizational changes;
- changing the internal regulations and rules which set down procedures for the Bank's operations and transactions;
- opening and closing of branches;
- increasing the Bank's capital under the powers given to the Management Board in the bylaws;
- acquiring and disposing of equity interests;
- amending of the bylaws;
- real estate transactions, other than in relation to foreclosing security granted in connection with a loan, but only if the value of the transaction exceeds certain internal thresholds;
- authorizing a procurator;
- extending credits which form a large exposure over 15% of the Bank's capital and credits to board members and employees; and
- approving a bond issue with a total nominal value of more than one-third of the Bank's capital base.

Management Board

The Management Board is responsible for securing the lawful and viable operation of the Bank. It resolves on all issues that are not of the exclusive competence of the general meeting or the Supervisory Board. The Management Board shall report on its activities before the Supervisory Board and the General Meeting of the Shareholders.

The most important resolutions of the Management Board are listed in the previous section and require the approval of the Supervisory Board, if not the approval of the General Meeting of the Shareholders. The Management Board resolves on all issues that are not of the sole competence of the General Meeting or the Supervisory Board.

Buy-back of Shares

Deciding on share buy-backs is of the sole competence of the General Meeting of the Shareholders. In addition, the Bank may repurchase its own shares upon written permission by the Central Bank pursuant to the Act on Credit Institutions, the Commercial Act, the POSA and the other applicable Bulgarian laws.

The Bank is not allowed to exercise any rights arising from the repurchased shares. Such rights are exercisable after the shares are transferred by the Bank to third parties.

10. Agreements Representing a Takeover Defense

The Bank is not aware of any agreements that shall become in effect, supplemented or cancelled in the event of change in control or a takeover bid.

11. Agreements on Severance Packages in Case of Termination of Employment

The Bank is not aware of any arrangements between the company and its directors or employees that may result in extra payments, bonuses or other compensation in case of termination of employment, dismissal or cancellation of employment without any legal grounds or due to a takeover bid.

ADDITIONAL DISCLOSURES

Share buy-backs

During 2006 the Bank and its subsidiary Kapital Direct have not executed any share buybacks. Neither the Bank, nor Kapital Direct own any of the Bank's shares. The Bank has not extended any loans against its shares and has not accepted collateral in the form of its own shares. In summary, the Bank has not been a party to any of the transactions listed in Art. 187d and 187e of the Bulgarian Commercial Act.

Annual remuneration of the members of the Supervisory Board and the Management Board

The General Meeting of the Shareholders decided that the members of the Supervisory Board shall not receive any remuneration for 2006.

The combined annual remuneration of the members of the Management Board for 2006 is €309,574.

Directors' owning and dealings in Bank's shares

The table below sets out the interests of the members of the Supervisory Board and the Management Board of the Bank in the share capital of the Bank at the date of this document.

	Number of Shares	% of issued share capital
Stephen Fillo		—
Marshall L. Miller		—
Valentin Braykov		—
Frank Bauer		—
Dimiter Stoyanov Voutchev	14,291	0.11
Stoyan Nikolov Dinchiiski	13,780	0.11
Michael Hunsberger		—
Dennis E. Fiehler		—

No member of the Supervisory Board and the Management Board of the Bank has bought or sold any shares of the Bank during year 2006.

Members of the Supervisory Board and the Management Board of the Bank do not have any special rights or privileges in acquiring securities issued by the Bank. The Bank does not have a stock option plan.

Other ownerships and directorships of the Directors

As of the date of this document in addition to their directorships of the Bank, the Members of the Supervisory Board and Management Board hold the following directorships, and are members of the following partnerships.

Director's Name	Current directorships / management roles	Current partnerships / other interests (at least 25% or control)
Stephen Fillo	BAEF – Board member	Fillo & Co. – partner
Marshall L. Miller	BAEF – Board member; Electronic Warfare Associates, Inc. – Board member	Baise & Miller P.C. – Partner
Valentin Braykov		Braykov's Legal Office
Frank L. Bauer	BAEF – President and CEO; Serdica Capital Advisors LLC, USA – Executive Director; Enterprise Realty Group EOOD, Sofia – Manager SEGA 21 EOOD, Sofia – Manager;	SEGA 21 EOOD, Sofia – Sole owner; Serdica Capital Advisors LLC, USA – Partner
Dimiter Stoyanov Voutchev	Partners Bulgaria Foundation – Board member; Zarnobazi AD, Dobrich – Board member	
Stoyan Nikolov Dinchiinski	Fen Consult EOOD– Manager	Fen Consult EOOD,
Michael Hunsberger	Board member EVCHE EOOD, Sofia – Manager; Bulgarian-American Property Management EOOD, Sofia – Manager; Enterprise Realty Group EOOD, Sofia – Manager; Lozenets Development Company EOOD, Sofia Manager Shipks Enterprise EOOD- Manager	Sofia – Sole owner EVCHE EOOD, Sofia– Sole owner
Dennis E. Fiehler	Bulgarian-American Property Management EOOD, Sofia– Manager; Preslav Enterprise EOOD, Sofia – Manager; Sredetz Enterprise EOOD, Sofia – Manager Kapital Direct EAD – Manager Shipka Enterprise EOOD - Manager	Serdika Capital Advisors LLC, USA–partner

Conflicts of interest

No member of the Supervisory Board and the Management Board of the Bank or a party related to them has entered into any deals or agreements with the Bank outside of its ordinary course of business. All transactions between the Bank and members of the Supervisory Board and the Management Board, to the extent that there are any, are executed at an arms length basis and following approval according to the Bank's bylaws and rules of operation.



Frank L. Bauer
Executive Director



Stoyan Dimchiiski
Executive Director

