

**INTERIM MANAGEMENT REPORT ON THE ACTIVITIES OF THE
BULGARIAN AMERICAN CREDIT BANK AD ON CONSOLIDATED BASIS FOR
THE TWELVE MONTHS OF 2008**

SOFIA, JANUARY 16TH, 2009

GENERAL INFORMATION

The Bank continues to be 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.

In 2008 the banking sector became more competitive, the growing financial awareness of customers created demand for more sophisticated financial products for diverse customer needs, and all market participants faced difficulties due to the more complicated environment on the international markets. Management believes that the Bank is prepared to meet the challenges of this environment, and that the Bank's flexible management and prompt decision-making will allow it to continue to take advantage of its opportunities in this constantly changing competitive landscape. In particular, management believes that the Bank's focused strategy and specialization in serving its selected target market and services, combined with its cost efficiency, prudent risk management and solid capitalization will continue to support BACB's business prospects.

OVERVIEW OF THE ACTIVITY FOR 2008

In 2008 BACB continued to pursue and achieve its traditional goals: sustainable portfolio growth and profitability, excellent efficiency and good asset quality by improving the risk management and performing successful workouts and foreclosures.

Since inception in 1996, the Bank has pursued a policy of managed growth. Loans and advances to customers comprise the Bank's principal asset (currently 82.7%) of its consolidated balance sheet. At December 31, 2008 the Bank had BGN 678.7 million loans and advances to customers, compared to BGN 590.1 million at December 31, 2007 – an increase by 15.0% on consolidated basis.

During 2008 the Bank's levels of business activity and growth continued to develop as expected and the Bank achieved good results with return on equity of 31.2%.

Negative global economic developments are being felt more acutely since September 2008. For the time being these developments have not yet had a significant impact upon the Bank or its clients. However, if adversity persists, non-performing loans may increase, resulting in higher provisions for impairment expense. In addition, BACB relies upon wholesale funding and, depending upon market developments, the availability of wholesale funds and their cost could become an issue. To date, we have seen some tightening in availability and, as a result, have experienced an increase in funding cost. Therefore, in light of the uncertainty of how global economic conditions will affect the Bulgarian economy, management has moderated its growth objectives and strengthened risk management.

No significant changes in the economic trends in Bulgaria have occurred during the period but the risk of their occurrence has increased as economic indicators such as unemployment rate and industrial production began to worsen in the fourth quarter of 2008. Any such changes could affect the financial condition of the Group and its results.

A more general discussion on the major risks and uncertainties that the Bank faces is presented in the Annual Consolidated Management Report for 2007, which has been made available to the Financial Supervision Commission (FSC) and the public.

The Annual Report is also available on the web page of the bank – <http://www.bacb.bg/en/reports.php?id=3>

Results at December 31, 2008

According to unaudited data on consolidated basis operating profit increased by 12.2% from BGN 76.5million at December 31, 2007 to BGN 84.2 million at December 31, 2008. Net profit increased by 1.7% from BGN 53.1 million at December 31, 2007 to BGN 54.0 million at December 31, 2008. The lower profit growth, compared to the record 2007 reflects among other things a higher provisions for impairment expense and slightly lower net interest margin owing to higher funding cost

The following table presents information on the two most important financial ratios measuring the development of the bank in recent years. The Letter to the Shareholders contains a summary and short analysis by the management of the unaudited financial results for the twelve months of 2008.

Ratio	2008 (Unaudited)	2007 (Audited)
Return on equity*	31.2%	39.7%
Cost-to-Income	14.0%	15.5%

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

Loan portfolio and asset quality

In 2008 net loan portfolio grew by 15.0% on consolidated basis. While loan quality remains good, in the fourth quarter of 2008 the Bank increased its provisions for impairment by BGN 6.5 million. At 31 December, 2008 provisions for impairment amount to 5.9% of gross loan portfolio. During the quarter loans classified as non-performing (NPL) increased by BGN 4.5 million from 5.6% of gross loan portfolio at 30 September, 2008 to 6.1% at 31 December, 2008. Write-offs for 2008 amount to BGN 463 thousand.

Liquidity and funding

In executing its funding agreements the Bank adheres to its strategy of diversification and optimization of the interest expense in providing for the liquidity needs of the Bank.

The most significant repaid obligations during 2008 were as follows:

1. On January 31, 2008 the third issue of BACB mortgage bonds in the amount of EUR 10 million matured. The issue was fully repaid.
2. On July 25, 2008 the fifth issue of BACB corporate bonds in the amount of EUR 20 million matured. The issue was fully repaid.
3. On December 14, 2008 the third issue of BACB corporate bonds in the amount of EUR 20 million matured. The issue was fully repaid.

In 2008 BACB continued to rely on wholesale funding with four major transactions. Information on the most significant new funding sources is available in the Corporate Events section, items 8, 11, 13 and 14 of this report. In result, at 31 December 2008 the Bank had over BGN 118 million of liquid assets.

The liquidity crisis on the international markets and the unfavorable economic developments have led

to an increase in funding cost but have not yet had significant impact on the Bank's ability to finance its activity. Depending upon future market developments, the availability of wholesale funds and their cost could become an issue which would have a negative impact on results of operation.

BACB is well positioned to face all of its maturing liabilities for 2009.

Capital resources

At December 31, 2008 the capital adequacy ratio of BACB on consolidated basis (under Basel II) was 16.86%.

The Bank has a strong capital base that continues growing due to the Bank's high profitability.

Corporate events

1. On January 4, 2008 BACB received by Standard & Poor's a written affirmation of its credit rating BB/Stable/B.

Standard & Poor's underscored the following rating factors as strengths: successful niche business strategy, consistently high profitability, good capitalization commensurate with risk profile and growing funding diversification.

Standard & Poor's underscored the following rating factors as weaknesses: small niche market position, small absolute level of capital, reliance on wholesale funding and rapid loan growth in a transitional economy.

2. On January 11, 2008 BACB published its interim consolidated and non-consolidated financial statements as of December 31, 2007 along with the interim management reports of the activities and the letter of the shareholders.

Detailed information is available on the web site of the Bank:
<http://www.bacb.bg/en/reports.php?year=2007>.

3. On February 21, 2008 BACB received a notification that the Bulgarian-American Enterprise Fund (BAEF) entered into an agreement to sell 6,311,100 shares in BACB owned by BAEF to Allied Irish Banks P.l.s., Ireland at the price of BGN 67.00 per share (AIB transaction).

The transaction was for a total amount of €216,196,551.85 and represented the sale of 49.99% interest in BACB. Completion was conditional upon receipt of the requisite regulatory approvals from the competent Bulgarian and Irish institutions.

Detailed information is available on the web site of the Bank: <http://www.bacb.bg/en/read-publications.php?id=2>

4. On February 26, 2008 BACB received a notification by Standard & Poor's that the credit rating of the Bank was placed on Credit Watch with positive implication. The decision of Standard & Poor's followed the announcement of the AIB transaction.

5. On March 7, 2008 BACB reported audited profit for 2007 on an individual basis of BGN 51.099 million and audited profit for 2007 of BGN 53.114 million on consolidated basis.

On the same date the Bank announced that the Supervisory Board has decided to propose the Annual General Meeting of the Shareholders to distribute BGN 18.937 million as dividend to the shareholders. The gross dividend per share amounts to BGN 1.50.

6. On March 20, 2008 BACB published the invitation and the agenda for the Annual General Meeting

of the Shareholders for 2007.

7. On March 31, 2008 BACB published its Audited Annual Financial Statements for 2007. Detailed information and the full text of the report is available on the web site of the Bank: <http://www.bacb.bg/en/reports.php?year=2007&id=3>.

8. On April 9, 2008 BACB signed a syndicated term loan facility of EUR 32 million with mandated lead arranger and agent for the transaction Raiffeisen Zentralbank Oesterreich AG. The Facility has a maturity of two years with one year extension option. The proceeds will be used for general financing purposes.

9. On April 11, 2008 BACB published its quarterly consolidated financial statement for Q1 2008. Based on unaudited data at March 31, 2008 on consolidated basis BACB reported net profit of BGN 14.739 million, an increase of approximately 29.3% compared to March 31, 2007 when net profit on consolidated basis was BGN 11.396 million.

10. On April 22, 2008 the Annual General Meeting of the Shareholders for 2007 was held. The Annual General Meeting of the Shareholders approved the proposal made by the Supervisory Board for distribution of gross dividend for 2007 in the amount of BGN 1.50 per share. The dividend was paid on June 6, 2008.

The General Meeting of the Shareholders appointed Deloitte Audit OOD for auditor of the Bank for 2008.

The General Meeting of the Shareholders approved amendments to BACB By-laws as per the Proposal for amendments to BACB By-laws enclosed in the Agenda materials. All amendments were related to complying with the requirements of the Financial Instrument Market Act, which entered in force on November 1, 2007. The approved amendments to BACB By-laws were registered with the Commercial Register on June 3, 2008.

The Minutes from the Annual General Meeting of the Shareholders was presented to the Financial Supervision Commission and the Bulgarian Stock Exchange within the deadline provided by law.

11. On April 23, 2008 the Bank signed a term loan facility with Black Sea Trade and Development Bank (BSTDB) for EUR 12.5 million. The Facility has a maturity of one year and extension options. The purpose of the Facility is to assist the Bank in making loans to small- and medium-sized enterprises in Bulgaria.

12. On July 08, 2008 BACB published its quarterly consolidated financial statement for the first half of 2008. Based on unaudited data at June 30, 2008 on consolidated basis BACB reported net profit of BGN 30.964 million, an increase of approximately 25.4% compared to June 30, 2007 when net profit on consolidated basis was BGN 24.693 million.

13. On July 29, 2008 BACB issued its sixth mortgage bond. The face value of the three-year bond is EUR 35 million. The Bank plans to use the proceeds to refinance maturing obligations and to fund the continued growth of its loan portfolio.

14. On July 31, 2008 BACB issued its sixth corporate bond. The face value of the two-year bond is USD 31 million. The Bank plans to use the proceeds to refinance maturing obligations and to fund the continued growth of its loan portfolio.

15. On August 29, 2008 the Bulgarian-American Enterprise Fund (BAEF) sold 49.99% interest in BACB at a price of BGN 67.00 per share to Allied Irish Banks, p.l.c., Ireland.

16. On September 4, 2008 Standard & Poor's Ratings Services announced that pursuant to the acquisition by Allied Irish Banks, P.L.C. (AIB; A+/Positive/A-1) it has increased the long-term

counterparty credit rating of BACB from BB to BB+ with stable outlook. The short-term credit rating was confirmed at B with stable outlook.

17. On September 15, 2008 BACB published an invitation for extraordinary general meeting (EGM) of the shareholders of BACB. The EGM will be held on October 20, 2008 in Crystal Palace Hotel at 14 Shipka Str., Sofia with the following agenda: changes in the number and members of the Supervisory Board. The materials and agenda are available on the web site of the Bank (<http://www.bacb.bg/en/annual-meeting.php?year=2008>).

18. On October 10, 2008 BACB published its quarterly consolidated financial statement for the first nine months of 2008. Based on unaudited data at September 30, 2008 on consolidated basis BACB reported net profit of BGN 43.92 million (EUR 22.46 million) an increase of approximately 14.6% compared to 30 September 2007 when net consolidated profit was BGN 38.33 million (EUR 19.60 million).

19. On October 20, 2008 the EGM elected three new members of the Supervisory Board: Mr. Gerald Byrne, Mr. John Power and Mr. Evgeni Ivanov. The minutes of the EGM are available here: <http://www.bacb.bg/en/annual-meeting.php?year=2008> and the detailed biographies of the members of the Supervisory Board are available here: <http://www.bacb.bg/en/investors-supervisory-board.php>

20. On October 28, 2008 Mr. Michael Hunsberger and Mr. Dennis Earl Fiehler were relieved as members of the Management Board and Mrs. Maria Sheytanova was appointed to serve as member of the Management Board and Executive Director.

21. On November 18, 2008 Mr. Stoyan Dinchiiski was relieved as Executive Director and Member of the Management Board of BACB and Mr. Frank Bauer was relieved as Executive Director but retained his position as Member of the Management Board of BACB. The Bank is represented by its Executive Directors Dimiter Voutchev and Maria Sheytanova always jointly. The detailed biographies of the members of the Management Board are available here: <http://www.bacb.bg/en/investors-management-board.php>

22. On November 18, 2008 Standard & Poor's Ratings Services announced that it affirms BACB's credit rating at BB+/B and revises the outlook to negative from stable.

Detailed information is also available on the web site of the Bank:
<http://www.bacb.bg/bg/investors.php>

ADDITIONAL INFORMATION FOR THE FOURTH QUARTER OF 2008

1. The accounting policy of the Group was not changed or amended.
2. No changes to the economic group of the Bank were made.
3. No organizational changes were made.
4. The Bank does not publish earnings estimates or forecasts.
5. Information on the persons having direct or indirect interest of at least 5% of the votes in the general meeting of the shareholders at December 31, 2008 and changes in their shareholding since September 30, 2008

According to: (1) the shareholders' book kept by the Central Depository AD; (2) data from the shareholders' notifications as per art. 145 and 146 of POSA; and (3) the power of attorneys and the accompanying constitutive documents of shareholders, presented at the General Meeting of the Shareholders, at December 31, 2008 the persons having direct or indirect shareholding (as per art. 146 of POSA) of 5 or more than 5% of the voting shares of the Bank are as follows:

Shareholder	Address	Number of shares owned at December 31, 2008	Per cent of the voting shares at December 31, 2008	Number of shares owned at September 30, 2008	Per cent of the voting shares at September 30, 2008
ALLIED IRISH BANKS, p.l.c.	Bankcentre, Ballsbridge, Dublin 4, Ireland	6,311,100	49.99%	6,311,100	49.990%
TOTAL GRAMERCY EMERGING MARKETS FUND (GEMF) (directly and indirectly)	W.S WALKER&CO. CALEDONIA HOUSE GEORGETOWN GRAND CAYMAN CAYMAN ISL	3,903,399	30.92%	3,505,723	27.769%
GEMF (directly)	W.S WALKER&CO. CALEDONIA HOUSE GEORGETOWN GRAND CAYMAN CAYMAN ISL	2,150,355	17.033%	1,752,679	13.883%
BALKAN VENTURES LLC (indirectly: managed by GRAMERCY ADVISERS LLC, 100% owned by GEMF)	20 DAYTON AVENUE GREENWICH, CT 06830 USA	1,262,042	9.997%	1,262,042	9.997%
RILA VENTURES LLC (indirectly: managed by GRAMERCY ADVISERS LLC, 100% owned by GEMF)	1209 ORANGE STREET, WILMINGTON, USA	491,002	3.889%	491,002	3.889%

6. Information on the shares held by members of the Management Board and the Supervisory Board of the Bank at December 31, 2008 and for changes occurred after September 30, 2008.

The following table contains information about the members of the Management Board and the Supervisory Board of the Bank who own shares of the Bank. No other current members of the Management Board and the Supervisory Board of the Bank have possessed or have traded with BACB shares and therefore currently they do not own any shares.

Name	Member of a governing body	Number of shares owned (directly and indirectly) at December 31, 2008	Per cent of the voting shares owned at December 31, 2008	Number of shares owned (directly and indirectly) at September 30, 2008	Per cent of the voting shares owned at September 30, 2008
Dimiter Voutchev	Management Board	14,291	0.113%	14,291	0.113%
Maria Sheytanova	Management Board	4,159	0.033%	4,159	0.033%
Frank Bauer	Management Board	1,000	0.008%	-	0.000%

7. The Bank and Kapital Direct EAD are not parties to any pending court, administrative or arbitrary proceedings concerning liabilities or obligation amounting to 10 or more than 10% of their own equity.

8. Data on loans, guarantees or any engagements extended by the Bank or Kapital Direct EAD to a single person or their subsidiary, including related parties.

BACB is a bank and the main business of its subsidiary Kapital Direct EAD is also extending loans. The interim reports of BACB, the annual reports and its prospectus contain detailed information on the loan portfolio, large exposures and assets quality of the Group.

TRANSACTIONS WITH RELATED PARTIES

Pursuant to the applicable accounting standards related parties are parties where one of the parties can control or exercise significant influence on the other when making financial decisions and decisions on the activity of the company.

1. Transactions between related parties concluded during the reporting period that had significant effect on the financial condition or the results of operation during the period.

The Bank executes transactions with related parties only in the regular course of its business.


These transactions are executed at an arms length basis and include extension of loans, accepting of deposits and transactions with securities.

2. Changes in the transactions executed with related parties disclosed in the annual report that have significant effect on the financial condition or the results of operation of the Bank for the fourth quarter of 2008.

There were no significant changes in the transactions executed with related parties reported in the annual report for 2007 that have a significant effect on the financial condition and the results of operation of the Group during the fourth quarter of 2008.



Dimiter Voutchev
Executive Director



Maria Sheytanova
Executive Director