

*The following document is a translation of the official Shareholders Address from Bulgarian to English language. This translation is not official and is prepared for investors' convenience only. In case of discrepancies between this translation in English and the original text of the report in Bulgarian, the Bulgarian version shall prevail.*

Dear Shareholders:

In 2016 the Bulgarian-American Credit Bank marks the twentieth anniversary from its establishment. This was a period of growth, of multiple challenges in a dynamic world in which the Bank managed to affirm as an active and compatible partner. In the past 20 years BACB has aimed to present innovative and flexible decisions for the business and individuals and has proved that is capable of managing risks and being "green" and socially-responsible bank. BACB shall continue following this policy and shall aim to become an essential partner for the development of an effective and compatible Bulgarian economy while meanwhile reaches synergy between the clients' needs, the responsible attitude towards nature and the goals set forth.

Based on the preliminary results for the first six months of 2016<sup>1</sup>, the Bulgarian-American Credit Bank (BACB or the Bank) registered net consolidated profit of BGN 3.537 million. For the first half of 2016 the Bank reports net profit, following the positive financial results accounted in 2015 confirms the reversal of the negative trend in the Bank's financial results for the previous years. The Bank registers positive operating activities result in the amount of BGN 8.96 million and this is the fifth consecutive quarter with positive operating result in the past few years.

For the past two quarters BACB continued following its strategic goals towards developing as an universal bank, offering the whole range of banking services, incl. SME financing and strengthening its retail lending presence and transactional banking. The Bank is trying to expand its clients' base through implementing contemporary banking technologies and ensuring the customers needs by providing full range of banking services and as a result to extend its clients' base.

In June 2016 BACB was awarded as the "Greenest Company" in the category "Financial, banking, accounting and legal services" on the National Contest "The greenest companies in Bulgaria" by b2b Media, which was held for sixth consecutive year. The "Green Oscar" is a recognition for the Bank's support of projects consistent with the environment, helping the green economy in Bulgaria and projects that aim to achieve stable urban environment. BACB was awarded also because the Bank organizes and structures its activities applying green policies, with the development of BACB Plus. The benefits for the environment, achieved with the Virtual Bank are in the direction of recourse-effective services, decreased energy, supplies and transport expenses with no time loss for the customers. The Virtual Bank model decreases the operating expenses which leads to better financial terms for the customers, saves the customers' time and efforts.

For the past period the Bank focused its efforts in developing its platform "Virtual Bank BACB Plus" to customers in the direction of improvement of the product with respect to speed of transaction executions and improvement of the security. In the period security tests by independent specialized consultant were performed.

In the period BACB implemented short number \*4488 for quicker, easier and more convenient way of contacting the Bank's call center. By the mobile application Star Phone and with diallig \*4488 the customers get access to the so called "Visual IVR" of BACB. It provides fast connection to the topical products, services and promotions, including to BACB Plus.

Following the plan for better positioning in the card business sector, in the end of 2015 BACB started a project for developing a bonus program for credit cardholders. In Q1 2016 BACB implemented the Cash back loyalty program for all credit cardholders - physical persons, BACB clients. After the first quarter for accumulation of funds, the first bonuses to clients were transferred. With this program the Bank aims to stimulate the credit cards payments and to attract new clients. With this program the Bank aims to strengthen the clients' loyalty, to stimulate the BACB credit cards payments and to attract new customers. BACB organizes joint campaigns with Visa and MasterCard, aiming to establish and maintain stable and profitable relations with the customers based on mutual loyalty and interests. BACB actively works on improvement of its POS terminal network changing the existing POS devices with devices that accept contactless payments. The aim is till the end of Q3 2016 all of the Bank's terminals to be "contactless". New projects for certification of new chips for contactless cards are forthcoming, in compliance with the latest requirement of the international card organizations.

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<sup>1</sup> The presented herein financial data is on consolidated basis, unless otherwise is noted.

The emphasis in the Bank's lending policy remain focused on the green economy projects, financing business endeavors in energy efficiency and renewable energy, EU projects for energy efficiency and environment protection, as well as providing innovative business solutions. The efforts are still directed towards diversification of the loan portfolio by exposures to corporate clients and economic sectors with stable performance such as renewable energy.

A special department in the Bank is responsible for the cooperation with the EU operational programs and financial institutions. The main purpose of the department is to offer the Bank's clients variety of services throughout all stages of the development of the projects based on the EU operational programs.

In October 2015 BACB executed a new agreement with NGF under the Rural Development Programme 2007-2013 for BGN 10 million guarantees covering up to 80% of the loans. As of December 31, 2015 the Bank agreed on loan transactions at the amount of BGN 2.1 million.

In the end of September 2015 the agreements with National Guarantee Fund for issuance of guarantees under projects, approved under the "Fishing" program (loans for BGN 1.4 million and guarantees issued for BGN 1.2 million) and the guarantee schemes for SME with purpose of acquisition of agricultural land and equipment (total of BGN 8 million) expired. As at June 30, 2016 there are no guarantees claimed.

BACB agreed on two new guarantee schemes with the National Guarantee Fund aiming to replace the agreements expired on September 30, 2015. The new guarantees cover up to 50%, but no more than BGN 1 million for a single borrower of the amount of the loan for working capital or investment loan. Guarantee limit of BGN 8 million has been agreed. The amount of the agreed loans under the Program as of June 30, 2016 is BGN 4.15 million.

BACB cooperates successfully with the Municipal Guarantee Fund for Small and Medium Enterprises of Municipality of Sofia. As of June 30, 2016 there are concluded loan agreements at the amount of BGN 4.2 million and guarantees issued at the amount of BGN 1.8 million.

Till the end of Q1 2016 concluded loan agreements at the amount of over BGN 16 million towards direct payments from farmers.

In the last quarter of the reported period the Bank successfully continued offering deposit products to individuals on the German market. This is another step in the efforts of the Bank to become more independent and to diversify its funding sources.

| <b>In BGN '000 (consolidated )</b>                 | <b>H1, 2016<br/>(unaudited)</b> | <b>2015<br/>(audited)</b> | <b>H1, 2015<br/>(unaudited)</b> |
|--|---------------------------------|---------------------------|---------------------------------|
| Net interest income                                | 13 089                          | 18 698                    | 8 003                           |
| Fees and commissions, net                          | 2 645                           | 4 877                     | 2 287                           |
| Total Operating income                             | 20 383                          | 25 451                    | 10 796                          |
| Total Operating expenses                           | (11 422)                        | (21 768)                  | (10 661)                        |
| Operating profit/ loss                             | 8 961                           | 3 683                     | 135                             |
| Impairment of financial assets                     | -5 163                          | -3 230                    | -3 585                          |
| Income/(Loss) before taxation                      | 3 798                           | 279                       | -3 450                          |
| Net profit/(Loss) for the period                   | 3 537                           | 725                       | -3 398                          |
| Total assets                                       | 1 021 406                       | 1 014 962                 | 948 537                         |
| Loans and advances to customers, net               | 598 155                         | 570 065                   | 571 644                         |
| Deposits from customers                            | 803 963                         | 803 941                   | 770 112                         |
| Shareholders' equity                               | 164 888                         | 163 884                   | 152 274                         |
| Capital Adequacy Ratio (Tier I) – non-consolidated | %                               | 21,91%                    | 22,09%                          |

During the reported period the Bank continued the successful generating of new business by disbursing new loans (approximately BGN 169.4 million). The net loan portfolio in the amount of BGN 598.2 million registered an increase with 4.93% compared to Y/e 2015 (BGN 570.07 million). Loans in the amount of BGN 138.4 million were repaid in the period, including acquired collaterals in the amount of BGN 204 thousand. The written-off balances are in the amount of only BGN 165 thousand. The relative share of the net loans to the total asstes as of June 30, 2016 equals 58.6%.

The Bank reported a minimal decrease of 0.74% in net loans and advances to clients compared to Y/e 2015, because of the exposures repayment in the period in total amount of BGN 83.2 million, including acquired properties on the account of loan portfolio decrease in the amount of BGN 99 thousand.

For the first six months of 2016 the Bank maintains stable deposit base, with reported minimal increase of deposits from clients by BGN 22 thousand Y/e 2015. The active deposit activities of the Bank contributes for the decrease of wholesale funding dependence. For third consecutive quarter the Bank successfully places deposit products on the German market.

In the end of July 2015 the Bank concluded a credit line from the Bulgarian Development Bank AD under the "Napred" program for BGN 25 million low-interest resource which is utilized in full as of June 30, 2016.

Loans in arrears of over 90 days (NPLs) accounted for 21.49% of gross loans at June 30, 2016 and the ratio registers a decrease compared to Q1 2016. The Bank continuously performs internal analysis and stress tests in order to evaluate the further deterioration of the business environment on the portfolio. The ratio of total provisions (accounting and regulatory specific) to NPLs reached 104.27% at June 30, 2016. This is a result of the conservative policy in evaluation of loan impairment losses.

The ratio of accounting provisions to gross loans amounted to 17.10% (of the entire loan portfolio) and 40.68% (of the classified loans only). The accounting provisions to gross loans ratio significantly exceeded the average level for the banking system due to hitherto prevailing focus of the Bank on financing higher risk projects in construction and real estates area. The new strategy of the Bank includes diversification of the loan portfolio in order to reduce the concentration in certain economical sectors and improve the parameters. For the reported period upon Management resolution receivables in the amount of BGN 337 thousand were written-off balance on the account of accrued impairment.

In order to protect the asset quality of BACB the Management continues to perform intense supervision over problem loans and implements work-out procedures.

For the reported period the Group sold real estate properties classified as "Investment properties" with gross account value of BGN 1.25 million and amortisation accrued in the amount of BNG 234 thousand. In the period the Management decided investment properties with balance value of BNG 2.42 million to be reclassified as "Assets held for sale". The balance value of the Investment properties as of June 30, 2016 equals BGN 40.71 million (2015: BGN 44.60 million), while the balance value of the assets held for sale equals BGN 86.14 million (2015: BGN 86.71 million). New assets in the amount of BGN 211 thousand are acquired while assets with balance value of BGN 3.2 million were sold.

Despite the accumulated provisions (accounting and regulatory), the ratio of the total capital adequacy of the Bank on non-consolidated basis report high levels at 20.66% as of June 30, 2016. This exceeds significantly the regulatory requirement of 8% of BNB. The strong increase of the ratio compared to 17.50% at Y/e 2013 is mainly because of the changes of the methodology for calculating of the ratio as per the new capital requirements of BNB.

For the reported period the Bank registers another stable increase of the net interest income on an annual basis or total amount of BGN 13.09 million at the end of June 2016 (increase by 63.55% compared to H1 2015). This is a result of the increase by BGN 0.96 million (5.27%) of the interest income and the decreased by BGN 4.13 million interest costs (-40.37%) compared to the reported data at June 30, 2015. During the quarter the factors influencing the net interest income are still the income generated by the credit activity. Profitability, gained on the interbanking money markets, remains low and the tendency deepens because of the decisions of the European Central Bank for additional decrease of the interest rate on the deposit facility of ECB with -0.30% and -0.40% respectively. In addition BNB also introduced negative interest rate on the excess reserves of the commercial banks. The interest income of debt securities for the period January 1 – June 30, 2016 equals BGN 624 thousand. In accordance with the trend for decrease of the interest levels on deposit products, in 2015 and in 2016 BACB also repeatedly decreased the interest rates which still remain attractive for the Bank's clients. Despite the serious increase of the deposit base at Y/e 2014 a decrease of the resources costs on an annual basis is reported.

For the six months of 2016 the Bank reported net fees and commissions income in the amount of BGN 2.65 million. This result exceeds with BGN 358 thousand the reported data for H1 2015 (15.65%). The main reason for that is the focused efforts for widening of the range of the products and services provided by the Bank.

The operating expense on consolidated basis increased with BGN 671 thousand or 7,14% on annual basis. The administrative costs remain almost unchanged, increasing by 8.13% to BGN 10.21 million as a result of the wider

range of the products and services provided by the Bank. The personnel costs increased with BGN 461 thousand compared with the second quarter of 2015 and represent 39.76% of the administrative costs.

The expenses for installments to the Deposit Insurance Fund and to the Fund for Restructuring of Banks are in total amount of BGN 1.53 million. The total expenses for the two funds decreased by 5.47% on an annual basis compared to the expenses to the Deposit Insurance Fund in H1 2015. The total share of the installments to the two funds forms 21.33% of the total administrative costs for Q1 2016.

The depreciation expenses are down with 0.74% compared to H1 2015, while the depreciation in the investments properties decreased by 9.26% compared to H1 2015, while in the long-term assets increase by 5.16%.

The impairment costs decreased and equal BGN 5.163 million as at June 30, 2016 in comparison with BGN 3.585 million reported at June 30, 2015.

The liquidity position of the Bank remained strong with total liquid assets (*Cash and balances with the Central Bank, short-term loans and advances to banks and marketable securities*) of BGN 240.45 million. The liquid assets to total deposits ratio was 29.42% at June 30, 2016.

For the period from Y/e 2015 to June 30, 2016 the Bulgarian government bonds portfolio of the Bank reports an increase by 22.81% while the cash and balances decreased by 14.79%. The new purchases for the period aim to improve the profitability and the structure of the liquid assets. Since the end of 2015 the new investments in Bulgarian government bonds amounts BGN 16.59 million (including reappraisals). As of June 30, 2016 the Bulgarian government bonds portfolio of the Bank is with balance value of BGN 85.6 million (2015: BGN 69.67 million). By the end of H1 2016 net income in the amount of BGN 3.82 thousand is reported. The non-realised profits and losses of the revaluation of the financial assets held for sale are deferred to equity account, net of taxes.

On September 25, 2014 BACB issued its eighth mortgage bond in the amount of EUR 5 million. The initial offering was performed under the conditions of private offering to limited parties pursuant to art. 205 (2) of the Commercial Act (not under the conditions of public offering). The issue was fully subscribed. In March 2015 the bond issue was registered for public trading on Bulgarian Stock Exchange – Sofia AD. As a result of the issuance of this debt security and the disbursed and fully utilized credit line under the “Napred” programme of BDB in the amount of BGN 25 million, the share of the deposits in the attracted resource of the Bank decreased and as of June 30, 2016 represents 93.86% (Y/e 2015 - 94.46%),. The share of the bond decreases - from 1.03% at Y/e 2015 to 0.94% as of June 30, 2016, because of the serial payment of principal and interest performed on March 25, 2016 pursuant to the terms and conditions of the bond.

In the past 2015 the Bulgarian economy reports stable development in the conditions of external insecurity reflecting the political and economical instability. The national economy increased its actual growth trend to 3.0% (2014 - 1.6%), driven mainly by the net export, investment activity with major share of the public investments, helped by the accelerated utilization of EU funds. The final consumption (including households and government) remains close to the levels reported for 2014, with slight increase of 0.7% on an annual basis, reflecting the slowly recovering internal demand and modest increase of the earnings. In 2015 the long-term credit rating of Bulgaria in foreign currency was confirmed with stable perspective by the leading international rating agencies, as follows Fitch Ratings (BBB-), Standard & Poor's (BB+) and Moody's (Baa2). The good position for overcoming internal and external shocks and the high credit trust in Bulgaria are prerequisites for better stability when dealing with the challenges of the external environment. Because of the close connections between the markets, the slow recovery of the Eurozone as well as the ineffective actions for dealing with the refugee crisis have significant impact on the economy of the country.

As a confirmation of the good positioning of the country in economic aspects, in March 2016 the government successfully issued new debt in the amount of BGN 2 billion with high interest and low profitability (2.13% and 3.15% for 7-year and 12-year bonds respectively)

In the end of the first half of 2016 the Great Britain's membership in the EU referendum took place. The vote was the country to leave the Union. This decision additionally strengthen the global insecurity and puts many obscurities in front of the economic future not only of Europe. As a result of the vote and the expected start of the procedure for leaving of the Union, in the end of June 2016 S&P downgraded the rating of the EU from “AA+” to “AA” with stable perspective. The agency's experts stipulate the main reasons - decrease of the financial flexibility on transnational level and weakening of the political convergence, as well as putting the key EU financial buffers under stronger insecurity. The stable perspective is related to the S&P forecast that no other countries will leave the EU. Some anxiety emerged for the peripheral countries of the Eurozone - Spain, Portugal and Italy. The European Commission started penalty procedures against Spain and Portugal for high budget deficits.

The weakness of China, the continuous fluctuations in the raw materials, the increased tension NATO - Russia, the continuous war actions in the Middle East and the possibility of new terrorist acts. The influence of all of these factors contributes to the slowing down of the growth trends and the increase of the vulnerability of the world economy.

According to the Ministry of Finance (MF) as per the State Budget and the mid-term economic forecast (2016-2018) in 2016 the GDP growth will slightly slow down to 2.1% (compared to the reported growth of 3% in 2015), driven mainly by the lower amount of net export and downgrade of the investments because of a decrease of the public capital expenses. By the end of 2019 the economy growth will slightly speed up to 2.7%. The Ministry of Finance expects lower contribution of the net export because of the mild increase of the export because of the high amount in 2015. The import will also slow down in the aspect of raw materials, necessary for the export-oriented sectors. On the other hand the downgrade of the export will be limited by the increased household consumption.

In its latest report for Central, Eastern and Southeastern Europe, the International Monetary Fund keeps its forecast for the Bulgarian economy unchanged - real growth of the GDP in Bulgaria for 2016 and 2017 of 2.3%. The value however is lower than the average value for the region of Southeastern Europe of 3.1%. The Fund's forecast stipulates that the contribution of the private consumption to the Bulgarian GDP will increase, driven mainly by the low fuel prices and the increase of the real earnings, as well as the export of goods and services, although the annual growth for 2016 and 2017 will be significantly lower than 2015 - 7.6%. The latest forecast for the two years are slightly above 4%. The Fund's analysts point out that the lack of foreign investments is the main problem for the growth, not only for Bulgaria, but for the region as a whole. The IMF forecast for the average annual inflation in Bulgaria is 0.2% and 1.2% for 2016 and 2017 respectively, while for the unemployment - 8.6% in 2016 and 7.9% in 2017.

The economy growth of Bulgaria will reach 2.2% in 2016 according to the forecast in the last regular report of the World Bank for the countries in the European Union, while the expectations for 2017 are for GDP growth of 2.7%.

The European Commission increased its expectations for the Bulgarian economy 2016 and 2017, forecasting 2% growth for 2016 compared to previously forecasted 1.5%. In its spring forecast the growth for 2016 will depend on the export and the low fuel prices. However, they will not be able to fully compensate the withdrawal of EU funds and the continuous stagnation of the foreign investments. In 2016 the good performance of the export companies is expected to continue. The Commission experts expect the export to increase by 4.6%. The expectations are the growth of the general export to exceed the growth of the income in the next two years, which means that for the first time in many years the export will have positive contribution to the GDP. In addition the export industry will be supported by the weak Euro compared to the US dollar.

In 2017 the trend is expected to turn around. The growth will depend more and more on the internal demand. One of the reasons is that the forecasts of the growth in the currency union to be in the direction of slowing down, while the consumption (private and public) will be supported by the expected strengthening of the financial flows from EU. The expected improvement of the employment market and the increase of the production sector will also contribute to the increased demand.

According to the last data published by BNB for the condition of the banking system in Bulgaria<sup>2</sup> at the end of May 2016 an increase of the assets, liquid assets and profit of the system are reported. The liquid assets increased by 2.5% up to BGN 28.3 billion with higher growth of the funds on current accounts in other banks and interbank deposits up to 7 days. The liquidity ratio calculated under Ordinance 11 of BNB is equal to 37.02%. As of May 31, 2016 the profit of the banking system equals BGN 502 million, reporting BGN 55 million increase compared to the same period of the previous year. The impairments accrued on loans and advances as the end of May equals BGN 276 million - BGN 45 million less than May 31, 2015. The system assets increased by 0.4% and is equal to BGN 87.7 billion. The position Cash and advances in central banks and other deposits on demand is 19.0%. The investments in debt securities increased with 2.2% (BGN 265 million) with main contribution of the debt securities held for sale and held for trade. The share of the securities portfolios increased to 14.2% in the total amount of the assets. The loan portfolio of the system (without sectors central banks and credit institutions) reported slight decrease (0.1%) or BGN 79 million at the end of April 2016. The dynamics is influenced mainly by the decrease of the loans to non-financial companies (0.5%) and the increase of loans to households (0.4%). An increase is reported also for the sectors government (0.1%) and "other financial companies" (0.2%). The deposits in the system reported an increase by 0.7% and reach BGN 74.4 billion at the end of May. The deposits from non-financial companies increased by BGN 179 million (0.9%), while the deposits from other financial companies - by BGN 182 million (5.1%). The resource from households increased by BGN 9 million (0.02%) and equals BGN 45 billion at the end of May. Meanwhile the attracted funds from the sector "government" reported a decrease. The

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<sup>2</sup>. BNB data for the banking system (on individual basis) in Bulgaria at 29.02.2016 ([www.bnb.bg](http://www.bnb.bg))

balance position "equity" is BGN 11.6 billion. The amount of the position is 0.9% smaller than the previous month, mainly because of the decrease of the non-distributed profit.

Management keeps its anticipations for 2016 to be a year of challenges, but also one of new opportunities. Management believes that given the Bank's conservative provisioning policy and high capital adequacy ratio BACB remains adequately positioned to face the economic difficulties of the Bulgarian SMEs and to present flexible solutions corresponding the needs of its corporate, SMEs and retail, potential and existing customers. The stable deposit base combined with prudent risk management and the Bank's fast and versatile business model remain the Bank's main strengths that will allow it to take advantage of the opportunities offered by the changing market environment.