



25
years **UBB**

ANNUAL REPORT

2016

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ADDRESS BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

**Dear Shareholders,
Dear Ladies and Gentlemen,**

In 2016 the Bulgarian banking sector continued to operate in a familiar environment of relatively feeble credit demand, continuing drop in interest rates and predominantly with the public's anticipation of the results from the banking system's Asset Quality Review (AQR), carried out by the Bulgarian National Bank.

As an illustration of that, at the end of 2016 the banking system's total loans amounted to BGN 54.5 billion, reporting a modest growth of 0.6 % y/y. Corporate loans, respectively, reached BGN 33.2 billion, marking a drop by 0.3 %, while those to individuals and households registered BGN 18.6 billion, or 1.4 % y/y increase.

The results from the carried out comprehensive assessment of the banking sector's asset quality (AQR), announced in August 2016, have altogether corroborated the reliability and resilience of the Bulgarian banking system. The sector-wide average Common Equity Tier 1 Ratio equals 18.9 % which is far above the regulatory minimum.

The other event of particular importance for UBB AD was the deal between KBC and National Bank of Greece, for the acquisition of 100% of the shares held by NBG in UBB AD and Interlease AD, announced at the year's mere end.

Against the backdrop of these two important events, in 2016 UBB reported good financial performance and sustainable upward trend. In implementation of its strategic objectives, the Bank continued with enhancement of its profitability, while permanently improving its asset quality and reporting sound liquidity and capital positions in the meantime. The ratio of *Liquid assets/ Customer deposits* at the end of 2016 stood at 41% and the capital adequacy one at 24.2% - both ratios displaying levels were far above the regulatory minimum and the banking sector average. These ratios are of even more impressive importance upon considering the payment of a substantial in amount shareholder dividend of BGN 260 million prior to 2016 end.

At the end of 2016, the Bank reported *profit before tax* amounting to BGN 123.6 million on individual and BGN 124.9 million on consolidated basis. As compared to the previous 2015, UBB's operating financial performance has increased by 128.7%, generated mostly by less provision, as well as by the growth in trading income. The net fees and commissions' income reports a growth of 2% and also contributes to the end financial result. Following the healthy loan provisioning levels over the year (BGN 114.7 million) and based on the effectively managed costs, UBB has achieved *net profit* of BGN 111.3 million. Upon the thus reported residual profit (after tax), the return on UBB's assets as at the 2016 end registered 1.6%, while the return on equity 10.3%. The reported at the end of 2016 *Operating Cost / Income ratio* of 39.4%, being one of the lowest for the Bulgarian banking system, stands also an apparent indicator of UBB's effective operational activity management.

On 30 December 2016, a Purchase-Sale Agreement was concluded between the National Bank of Greece (NBG), in its capacity as Seller and KBC Group as Buyer, concerning 100% of the shares held by NBG in the capital of UBB AD and Interlease AD at a price of EUR 610 million in total. Notwithstanding that this deal has not yet been closed, we cannot but proudly note this fact: here, in this country the future new owner of UBB, namely - the globally and EU-wide reputable KBC Group - has objectively assessed the merits of the institution managed by us.

Thus, over the current 2017, along with the routine banking business, the main focus before us is the final closing of the deal with the future new majority owner - the Belgian KBC Group, as well as the forthcoming merger of UBB with the other KBC-owned banking and insurance group, operating in Bulgaria - that of CIBANK.

Hence, alongside with the proactive involvement of the key UBB staff in this process, the Board of Directors and the Bank's management will be focused on ensuring the best possible conditions and prerequisites, guaranteeing not only successful banking business, but also gradual and seamless accomplishment of this new and demanding challenge on the Bulgarian banking market.

Along with all above stated, we undertake to employ our best efforts in finalizing this process in a fast and effective manner, thus forming a newly-merged institution of even higher value to both the Bulgarian banking market and our new shareholders.

Marinis Stratopoulos
Chairman of the Board of Directors



GENERAL INFORMATION

- **Established** in 1992 through the merger of 22 Bulgarian regional commercial banks, United Bulgarian Bank is the first and most comprehensive consolidation project in the Bulgarian banking sector.

- **Privatised** in 1997. The first privatisation of a large state-owned bank in Bulgaria.

- **Registered capital: BGN 75,964,082**

The Bank's authorized capital is allocated into 75,964,082 registered voting ordinary shares at BGN 1 nominal value each.

- **Main Shareholders:** Shares

- National Bank of Greece – NBG (99.9%) 75,893,450
- Other shareholders (0.1%) 70,632
- Total 75,964,082

- **Banking Licence:**

Full banking license for domestic and overseas banking and financial operations.

- **Ratings:**

FITCH

B+ Long Term Foreign Currency

Outlook Positive

Standard & Poor's

B Long Term Foreign Currency

Outlook Positive

- **Correspondent Relations:** with over 800 banks

- **Branch Network:** 190 business units across the country

- **Banking Services:**

- Lev and foreign exchange loans
- Lev and foreign exchange deposits
- Foreign exchange transactions
- Prompt and express intra-bank transfers
- Electronic banking
- Cash management
- Transactions on BGN and foreign exchange accounts and traveller's cheques
- Debit and credit card payments
- Cash operations and depositories
- Bank guarantees and letters of credit
- Securities trading
- Depository / Custodian services
- Investment services
- Western Union transfers

- **Market Position:**

- Fourth largest Bulgarian bank in terms of assets
- Third in corporate lending
- Forth in retail lending
- Leader in the card services market and in lev-denominated payments

- **Market Share** (as of 31 December 2016 calculated as a percentage of the entire banking sector according to BNB statistical data):

6% of corporate deposits

8% of corporate loans

8 % of retail deposits

11% of consumer loans

11% of mortgage loans

18% of the debit card market

20% of the credit card market

17% of ATMs

18% of POS-terminals

7% of inter-bank transactions

- **Memberships and Others:**

- Association of Commercial Banks in Bulgaria
- Bulgarian Stock Exchange
- Central Securities Depository
- Europay International
- *VISA International*
- JCB (Japan Credit Bureau)
- S.W.I.F.T.
- IIF – Institute of International Finance - The Global Association of Financial Institutions
- BIBA – Bulgarian International Business Association
- BBLF – Bulgarian Business Leaders' Forum
- Licensed primary dealer of government securities
- Licensed investment intermediary for corporate securities trading
- Western Union Agent



BUSINESS STRATEGY

Macroeconomic Assumptions

The main macroeconomic conditions for business development in Bulgaria in 2017 are driven by the impact of the following parameters:

- 2.2% economic growth, taking into account the slow exit from the recession in the countries - major trade partners from the EU;
- Expectations of very low average inflation of 1.1%, driven by the long period of deflation for the previous two years;
- Limited growth in lending on an annual basis - of 1.5% for retail loans and 0.5% for corporate loans;
- Expected growth of the deposit base in household deposits by 6% yoy and in corporate deposits by 7% yoy;
- Yield from market interest rates (in consumer loans in leva by 11%, in mortgages by 4%, in corporate loans by 4%);
- Yield on deposits of 0.4% for households and by 0.3% for corporate companies;
- A Currency Board arrangement with a regime of fixed exchange rate for BGN/ EUR: 1.95583.

Key Business Objectives

- Maintenance of the core profitability in accordance with the budget through keeping and further increasing the Bank's market share in all core activities;
- Focus on the increase in non-credit related products and services - bank assurance products payments, asset management;
- Optimal liquidity and strong capital position. Maintenance of adequate levels above those set by the regulator BNB - 20% for liquidity ratio and 13.5% capital adequacy;
- A normalization in the loans/deposits ratio;
- Business activity. Strengthening the position as one of the leading and most important banks in the sector.
- Asset quality. Further improvement of the credit quality, through the application of strict credit criteria in the underwriting and increasing the recoveries of the troubled portfolios;
- Cost optimization. A continuous process of restricting unproductive expenditure and implementation of new, targeted productive ones, including with a long-term effect;
- Improvement of the quality of services and the level of service. Sustained increase of the overall attractiveness and reputation of the Bank.



SELECTED INDICATORS

SELECTED INDICATORS IN ACCORDANCE WITH THE SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF UBB AS OF 31.12.2016

SELECTED INDICATORS IN ACCORDANCE WITH THE SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF UBB AS OF 31.12.2016

	2015	2016	2015	2016
	Separate	Separate	Consolidated	Consolidated
Performance (BGN 000)				
Operating Income	366 678	404 483	369 237	406 186
Net Interest Income	256 813	254 952	257 464	255 574
Profit for the year	48 907	111 261	51 154	112 092
Statement of Financial position (BGN 000)				
Total Assets	6 544 227	6 831 636	6 549 277	6 837 140
Capital	1 221 544	1 082 343	1 229 841	1 091 237
Due to customers	5 089 353	5 570 592	5 085 765	5 566 288
Loans and advances to customers, net	4 191 861	3 858 688	4 192 990	3 859 912
Capital Adequacy (%)				
General Capital Adequacy (BIS Tier 1 + Tier 2) /Total capital ratio	28.19	24.25	28.21	24.32
Primary Capital Adequacy / Common Equity Tier 1 Capital ratio	26.09	23.24	26.12	23.32
Capital/Total Assets	18.67	15.84	18.78	15.96
Liquidity (%)				
Total Liquidity	36.5	40.0	36.5	40.0
Total Loans / Total Deposits	82.4	69.3	82.4	69.3
Staff Number as of the end of the period	2 637	2 559	2 692	2 620
Average inflation (%)*	-0.1	-0.8	-0.1	-0.8
Exchange Rate USD/BGN (31 December)**	1.79	1.86	1.79	1.86

*Source: NSI

** Source: BNB



BOARD OF DIRECTORS

BOARD OF DIRECTORS

Marinis Stratopoulos
Chairman of the Board of Directors

Stilian Vatev
Board Member
Chief Executive Officer

Radka Toncheva
Board Member
Executive Director

Teodor Marinov
Board Member

Anastasios Lizos
Board Member

Konstantinos Bratos
Board Member

Alexandros Benos
Board Member



ECONOMIC ENVIRONMENT

In 2016 the Bulgarian economy reported growth by 3.4% yoy in real terms, as this country's *Gross Domestic Product (GDP)* reached BGN 92.635 billion at current prices. Recalculated in USD at an average annual exchange rate of BGN 1.76833 for USD 1, the GDP equaled USD 52.385 billion. This translates into BGN 12 967 per capita of the index value or USD 7 333. Recalculated in euro, the GDP is respectively EUR 47.363 billion, or EUR 6 630 per capita. The Gross Value Added amounted to BGN 79.937 billion. The indicator's value in real terms was by 2.9% higher than that, reached over 2015. The industrial sector contributed with 28.0% of the economy's added value, which was by 0.1 percentage points more, compared to 2015. The services sector generated 67.6%, while the agricultural one - 4.4% of GVA.

According to data of the Bulgarian Employment Agency (BEA) in December 2016 the level of *Bulgaria's unemployment rate* was 8%, displaying growth by 0.1 percentage point, as compared to November 2016. The seasonal rise in registered unemployment, linked to the business activity's subsiding pace at year end, was observed in nearly all Bulgarian provinces, with the exception of Sofia city, Blagoevgrad, Pernik and Vidin towns, where the number of registered unemployed persons continues to fall. The highest labour force demand in the private sector was registered by the processing industry (3 097), trade (1 554), administrative and auxiliary activities (755), transportation, warehousing and postal activities (512), hotel and restaurant keeping activities (485). At the end of 2016 the number of unemployed Bulgarians was 261 015, or by 67 906 persons less than in December 2015. Meanwhile, EUROSTAT reported that in November 2016 Bulgaria's unemployment rate had dropped to its lowest 2009 level, namely 7.9%. As at December 2016 end the EU-wide unemployment rate was 9.8%.

According to data of the National Statistics Institute (NSI) in December 2016 the reported monthly *inflation* was 0.6%, while the annual one was 0.1%. The average annual inflation for 2016 remained in the negative range, being minus 0.8%. The largest growth in December was registered by transportation prices - nearly 2%, predetermined by fuel price rise. The latter phenomenon was also manifested in fuels for household and heating use. Meanwhile, prices of clothing and services decreased - by almost 1%, concerning alcohol and tobacco articles. The Harmonized Index of Consumer Prices for December 2016, compared to November 2016 was 100.8%, i.e. accounting for a monthly inflation rate of 0.8%. The annual December 2016 inflation was minus 0.5% y/y. The average annual inflation over the period January - December 2016, as compared to January - December 2015, was minus 1.3%. According to the projections of the Ministry of Finance and the International Monetary Fund the annual inflation in 2017 is estimated to be between 0.6% and 1.1%. The expectations of the Bulgarian National Bank are for HICP rise by 1.2% at the year end.

Exchange Rate and Inflation



Base Interest Rate and Inflation



According to Ministry of Finance data the cash-based *balance under the Consolidated Fiscal Programme (CFP)* for 2016 was positive, amounting to BGN 1 472.5 million (1.6% of the projected GDP) and was formed of Central Government Budget deficit amounting to BGN 743.1 million and by EU-funds surplus, equaling BGN 2 215.7 million. For comparison in 2015 there had been a cash-based deficit under the Consolidated Fiscal Programme in the amount of BGN 2 485.2 million (2.8% of GDP), meaning that as a relative share in GDP the State Budget position was improving by 4.4 percentage points, with 2016 being the first fiscal year after 2008 with budget surplus under the CFP. The factors, contributing to the improvement of the State Budget Position are the higher revenues and the lower expenditure utilization rates, as compared to annual estimates. The received revenues and grants under the CFP for 2016 amounted to BGN 33 953.1 million, or 102.8% compared to annual estimates. 2016 CFP expenditures (incl. the Republic of Bulgaria's contribution to the EU budget) equalled BGN 32 480.5 million, accounting for 93.3% of annual estimates. For comparison, 2015 CFP expenditures had amounted to BGN 34 684.8 million. Lower expenditure utilization rates in 2016 were mostly related to a delay in capital expenditures (mainly in the accounts for EU funds), which is due to the lower payments at the initial implementation stage of projects under the new programming period 2014-2020. The fiscal reserve as of 31.12.2016 amounted to BGN 12.9 billion, incl. BGN 11.1 billion fiscal reserve deposits with the BNB and other banks and BGN 1.8 billion receivables under EU funds, concerning certified expenditures, advance payments, etc.

According to Bulgarian Ministry of Finance's data *the debt of the Central Government* sub-sector as at December 2016 amounted to EUR 13 761.9 million. Domestic government debt equaled BGN 3 489.5 million, while external one – to EUR 10 272.4 million. At the end of the reporting period the share of debt of the Central Government sub-sector to the projected GDP equaled 29.4%, with the share of domestic debt being 7.4%, while external one – 22.0%. In the debt structure of Central Government sub-sector at period end domestic debt comprised 25.4%, while external one – 74.6%. The guaranteed debt of the Central Government sub-sector in December reached EUR 226.8 million, of which EUR 33.6 million being domestic guarantees, while the state-guaranteed debt/GDP ratio stood at 0.5%.

According to BNB data in December 2016 Bulgaria's *foreign exchange reserves* amounted to BGN 46.9 billion (EUR 23.9 billion), increasing monthly by 1.8% and annually by 17.8%. Bulgaria's international liquidity position, calculated via the short-term external debt to foreign reserves ratio, according to latest data as of November 2016, stood at the level of 298.8%, compared to 256.6% as at the end of 2015.

According to preliminary BNB data as at December 2016 *the Current and Capital Account balance* was positive and equaled EUR 2 877.1 million (6.1% of GDP) upon a surplus of EUR 1 594 million (3.5% of GDP) as at the end of 2015. Over the period January – December 2016 the Current Account was positive and stood at EUR 1 809.6 million (3.9% of GDP) upon a surplus of EUR 172.4 million (0.4% of GDP) for the period January – December 2015. As at the end of December 2016 the Balance of Trade was negative, amounting to EUR 1789.9 million (3.8% of GDP) upon a deficit of EUR 2 622.4 million (5.8% of GDP) over the same period of 2015. For the period January – December 2016 export reached EUR 22 642.6 million, which figure was larger by EUR 723.2 million (3.3%) compared to the same period of 2015 (EUR 21 919.4 million). As at the end of December 2016 import was EUR 24 432.5 million, registering a reduction by EUR 109.2 million (0.4% yoy) against to EUR 24 541.8 million in 2015. Import over January – December period of 2015 grew by 3.1% yoy. The Balance of Services was positive and amounting to EUR 3 370 million (7.2% of GDP) against a positive balance of EUR 3 082.6 million (6.8% of GDP) over January – December 2015. As at the end of December 2016 the Capital Account was positive – EUR 1 067.5 million (2.3% of GDP), against a positive value of EUR 1 421.6 million (3.1% of GDP) for January – December 2015. The Financial Account balance was positive – EUR 3 098.6 million (6.6% of GDP), against a positive value of EUR 3 146.4 million (6.9% of GDP) over the same period of 2015.

According to preliminary BNB data *direct investments* in Bulgaria as at the December 2016 end, reported by applying the directional principle, totaled to EUR 682.8 million (1.5% of GDP), being lower by EUR 1 009.6 million (59.7% yoy) upon EUR 1 692.4 million, 3.7% of GDP for 2015. Share capital (transferred/withdrawn cash and non-cash contributions of non-residents into/out of the capital and reserves of Bulgarian companies, as well as proceeds/payments under real estate deals in this country) stood at EUR 222.3 million for the January – December period of 2016. It was lower by EUR 881.2 million than the share capital, attracted in the January – December period of 2015, being namely EUR 1 103.5 million. The largest net direct investments in Bulgaria over the period January – December 2016 came from Luxemburg (EUR 135.6 million, 19.9% of the total amount for the period), the Netherlands (EUR 128.1 million, 18.8%) and the United Kingdom (EUR 118.1 million, 17.3%).

At the end of December 2016 *the aggregated profit of the banking sector* equaled BGN 1.262 billion, or registered 40.5% yoy growth. At the end of December 2016 the net operating income amounted to BGN 4.1 billion (against BGN 4.2 billion over the same period of 2015). The incurred impairment losses since the beginning of 2016 reached BGN 814 million, compared to BGN 1.1 billion for 2015. As at the end of December 2016 total assets of the Bulgarian banking system grew up to BGN 92.1 billion or by 5.2% yoy. Their relative share in the projected GDP was 104.3%. The share of cash resources and cash balances with central banks and other demand deposits in the banking system's assets increased up to 19.7%. The assets' debt and capital instrument portfolios enhanced up to 4.6%. The total volume of gross loans and advances from clients increased by 0.6% yoy up to BGN 54.5 billion. Compared to end-2015 loans to non-financial companies decreased by BGN 104.6 million or 0.3% y/y. Household loans grew by 0.09% yoy and their amount reached BGN 18.6 billion. Loans to the *government administration* sector grew by 4% yoy, thus reaching BGN 686 million, while those to other financial companies registered 8.6% yoy growth up to BGN 2.025 billion. At the end of 2016 client deposits within the banking system increased by 7% yoy, reaching BGN 74.1 billion. Their relative share in GDP comprised 84%. The increase was formed mainly of household funds (BGN 2.7 billion) upon an annual growth of 6.3% and of deposits of non-financial companies (BGN 1.7 billion, registering 8.4% yoy growth). Over a one-year period deposits of other financial companies grew by 18.3% up to BGN 3.9 billion. The deposits of the *government administration* sector displayed a reduction by 10.3% yoy down to BGN 1.6 billion. In 2016 the trend towards reduction of the gross amount of non-performing loans and advances in Bulgaria's banking system persisted, totalling at December end to BGN 7.975 billion (against BGN 8.313 billion at the end of 2015). Over a one-year period the relative share of non-performing loans decreased from 13.6% at the end of 2015 down to 11.1% at 2016 end, or by 2.5 percentage points. As at the end of December 2016 the Bulgarian banking system's deposits and balance sheet assets registered growth. Increased cash resources and cash balances with the BNB and in terms of debt securities had predetermined the growth in liquid assets. At the end of December the liquidity ratio, calculated as per Ordinance № 11 of the BNB, reached 38.24%. The Bulgarian banking system's Common Equity Tier One ratio, Tier One ratio and Total Capital Adequacy ratio at end December 2016 stood respectively at 20.41%, 20.88% and 22.15%.



REVIEW OF ACTIVITIES IN 2016

FINANCIAL PERFORMANCE

In 2016, the banking sector in Bulgaria operated in an environment of moderate growth with a continuing decline in interest rates and in anticipation of the results of the Comprehensive Assessment of the Banking Sector from the Bulgarian National Bank, which included an Asset Quality Review (AQR) and a Stress Test exercise. At the end of 2016, loans to enterprises in the country reached BGN 33.1 billion and reported an annual decline of 0.3%. Loans to households amounted to BGN 18.5 billion and increased by 1.4% yoy.

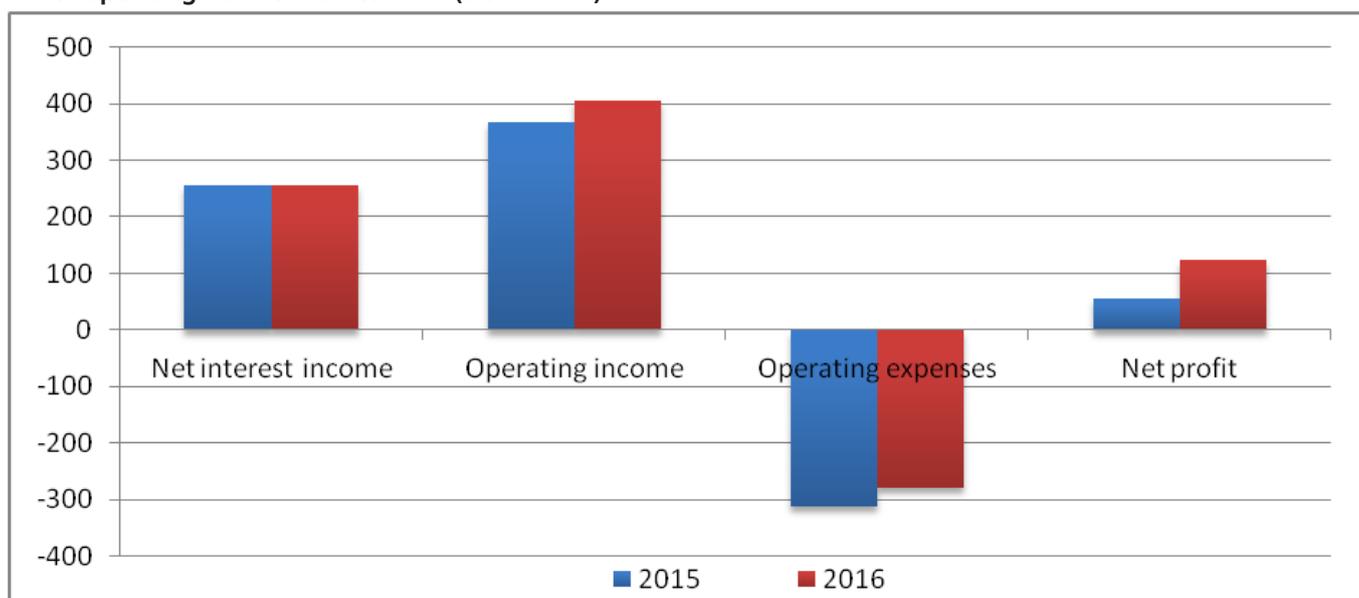
Following the outcome of the Comprehensive Assessment of the Banking Sector the credibility of the credit institutions was reconfirmed. According to the results of the AQR, the average common equity Tier 1 ratio for the sector stood at 18.9%, well above the regulatory minimum. The banking system in Bulgaria proved to be well-capitalized and resilient to potential shocks.

The announced transaction between KBC and National Bank of Greece for the acquisition of United Bulgarian Bank AD on 30 December 2016 was the highlight at the end of the year and confirmed the appetite for a consolidation in the local Banking sector.

In 2016, UBB exhibited healthy profitability despite the sustained prudent provisioning approach, on the back of its resilient Core income and its optimized and efficient cost basis. In line with the strategic priorities of the Bank, the improvement in the Loan portfolio quality continues based on a prudent risk framework. Moreover, in 2016 UBB underlined its self-funding status. The Bank enjoys a healthy liquid position (*Liquidity ratio* at 36% at the end of 2016) with a very strong deposit base leading to a Loans to Deposits ratio of 69.3% at the end of 2016. In terms of capital, UBB stands amongst the top banks in the sector and this was evidenced by the AQR. The successful outcome from the exercise is a confirmation of UBB's prudent management approach. The Bank reported excellent results in both the AQR as well as in the subsequent stress test, confirming its solid capital position and robust balance sheet. Following the AQR findings, the coefficient of Common Equity Tier (CET1) was adjusted by only 0.4 percentage points – from 26.1% to 25.7%, well above the regulatory minimum. As of 31 December 2016, UBB's Tier 1% and total capital adequacy ratio amount to 23.2% and 24.2% respectively, comfortably above the sector average, which is quite impressive taking into account the significant dividend distribution of UBB to its shareholders in December 2016, amounting to BGN 260 million.

In 2016 UBB continued to maintain its leading position in the banking sector, despite the unfavorable economic conditions in the country. During the year, UBB achieved very good profit and efficient indicators while keeping a very high level of coverage for impaired loans. At the end of 2016 UBB recorded a profit before tax of BGN 123.6 million on separate basis and BGN 124.9 million on consolidated basis. The financial result of UBB's activities increased by 128.7% yoy on a base of growth from net income from fees and commissions (2% yoy), from net trading income (66.2% yoy) and the significant net gains from financial instruments available for sale which contributed BGN 30.1 million. Following healthy levels of loan provisions for the year (BGN 114.7 million) and its cost efficient base UBB achieved a net profit of BGN 111.3 million on separate basis and BGN 112.1 million on a consolidated basis with the return of equity ratio (ROE) standing at 10.3%.

Net Operating Income and Net Profit (BGN million)



Net interest income

In 2016 UBB reported net interest income of BGN 255 million (compared to BGN 256.8 million in 2015), a decrease of 0.7% yoy. The decline of net interest income is mostly driven from the lowering loan interest rates and to a lesser effect from the reduction in the loan basis, since UBB's lending activity was influenced by weak credit demand in the country. On the other hand, the Bank, in line with the market also lowered the interest rates of its deposit products, mitigating the hit in the income side by reducing its interest expenses for the year.

	2016 BGN '000	2015 BGN '000	Change (%, y/y)
Interest income	283 437	307 046	(7.7)
Interest expense	(28 485)	(50 233)	(43.3)
Net interest income	254 952	256 813	(0.7)

In 2016, the total amount of *interest income* declined by 7.7% yoy at BGN 283.3 million. Interest income from individuals decreased by 7.3% yoy to BGN 152.8 million. Interest income from loans to companies amounted to BGN 95.8 million down 9.5% yoy. Interest income from financial institutions declined by 14.9% to BGN 5.8 million while Interest income from loans and advances to banks decreased by 89% yoy to BGN 272 thousands. Interest income arising from financial assets at fair value through profit or loss amounted to BGN 12.7 million, down 8.3% yoy while Interest income from available for sale securities, amounted to BGN 12.0 million recording a growth of 22.6%.

Interest expenses decreased significantly by 43.3% yoy amounting to BGN 28.5 million at the end of 2016, driven by the policy of reducing the cost of funding to individual and corporate customers. Interest expense on borrowings from other banks amounted to BGN 0.9 million. Interest expenses on deposits from individual customers amounted to BGN 21.1 million down by 47.3% yoy. For the same period, the interest expense on deposits from non-banking financial institutions increased by 16.1% to BGN 1.5 million, while Interest expenses on corporate deposits amounted to BGN 3.2 million, down 46.5% yoy. Interest expenses on credit lines amounted to BGN 0.9 million down 44.5% yoy. At the end of 2016, the cost of borrowed subordinated debt amounted to BGN 0.4 million and declined by 60.4% yoy.

Net fee and Commission income

In 2016 UBB's net income from fees and commissions totaled BGN 89 million compared to BGN 87.3 million at the end of 2015 and registered a growth of 2% yoy. For the same period net income from fees and commissions on a consolidated basis amounted to BGN 93.5 million compared to BGN 91.7 million at the end of 2015, growing by 2% yoy.

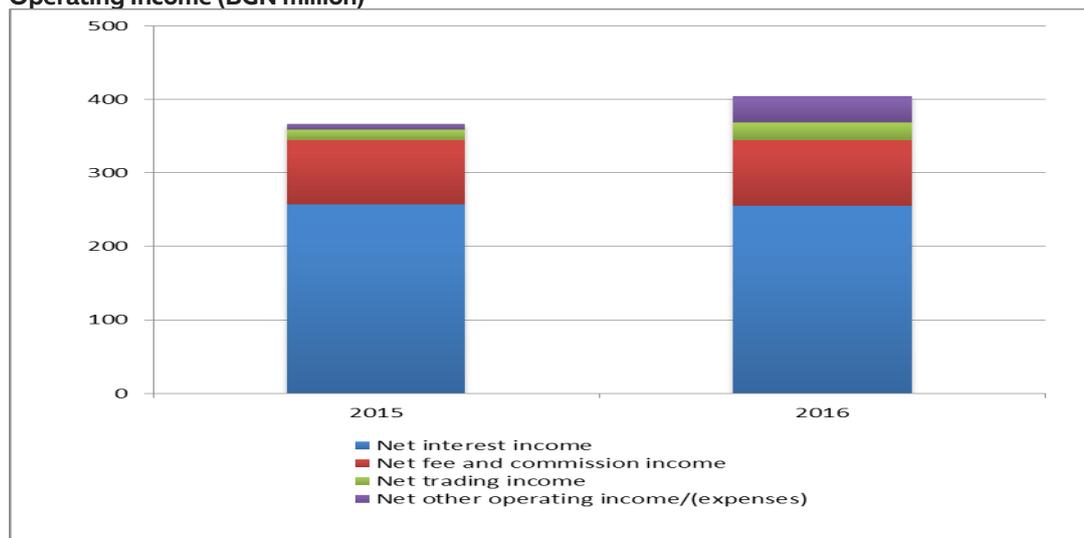
In 2016, revenue from fees for operating the transfers and cash transactions amounted to BGN 17.9 million and declined by 0.9% yoy. Income from fees for servicing deposit accounts amounted to BGN 31.6 million and increased by 3% yoy. Income from fees on debit and credit cards amounted to BGN 22.6 million, increasing by 6.4% yoy. At the end of 2016 income from fees and commissions on loans and advances to customers increased by 3.6% yoy and reached BGN 9.2 million. Revenues from commissions on guarantees and letters of credit decreased by 22.7% yoy and amounted to BGN 1.7 million. An increase in revenues from other fees and commissions is 8.9% yoy, which at the end of 2016 amounted to BGN 12.2 million. At the same time the increase of UBB's fees and commissions expenses was 24.3% yoy amounting to BGN 6.1 million.

On a consolidated basis at the end of 2016, the total revenue from fees and commissions on amounted to BGN 100 million, increased by 3% yoy, while fees and commissions expenses increased by 20.2% yoy and amounted to BGN 6.5 million.

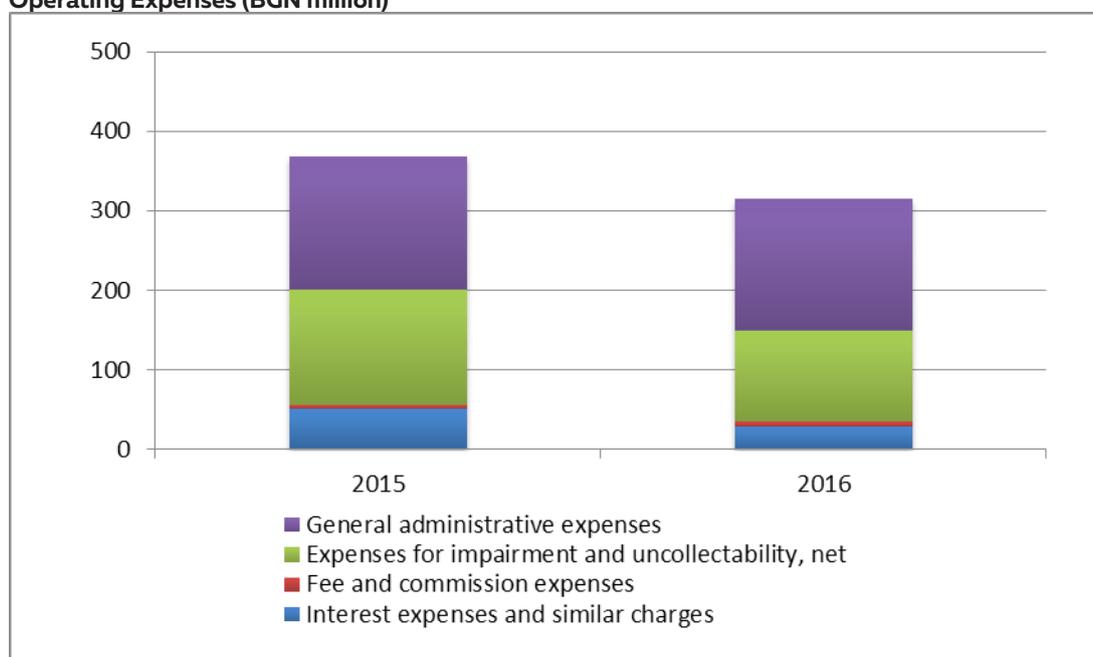
Net trading income

At the end of 2016, net trading income amounted to BGN 24.3 million and increased by 66.2% yoy. The largest contribution to this position is the interest rate instruments gain, which, at the end of the year, amounted to BGN 18.3 million, and increased by 77.5% yoy. Net income from FX trading amounted to BGN 6.1 million and increased by 39.7% yoy.

Operating Income (BGN million)



Operating Expenses (BGN million)



General and administrative expenses

In 2016, UBB's general administrative expenses decreased by 0.4% yoy continuing its cost efficient model and reached BGN 166.1 million, providing normal conditions for business development. On a consolidated basis, general administrative expenses for 2016 decreased by 0.3% yoy and reached BGN 168.8 million.

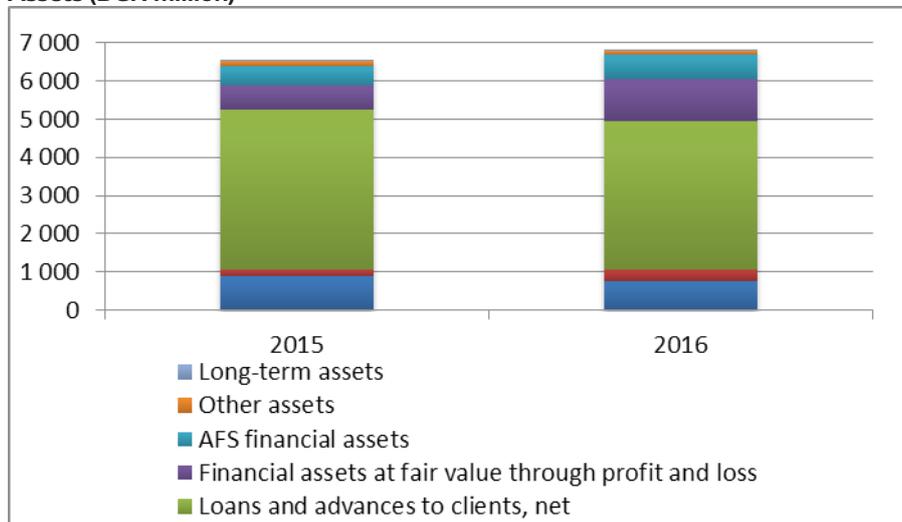
Net charge for impairment

For the year-end 2016, UBB's net impairment expenses decreased by 21.3% yoy to BGN 114.7 million compared to BGN 145.8 million in 2015. The impairment of investment securities available for sale declined by 61.9% yoy to BGN 3.8 million. On a consolidated basis, net charge for impairment decreased by 21.3% yoy to 114.9 billion compared to BGN 145.9 million in 2015.

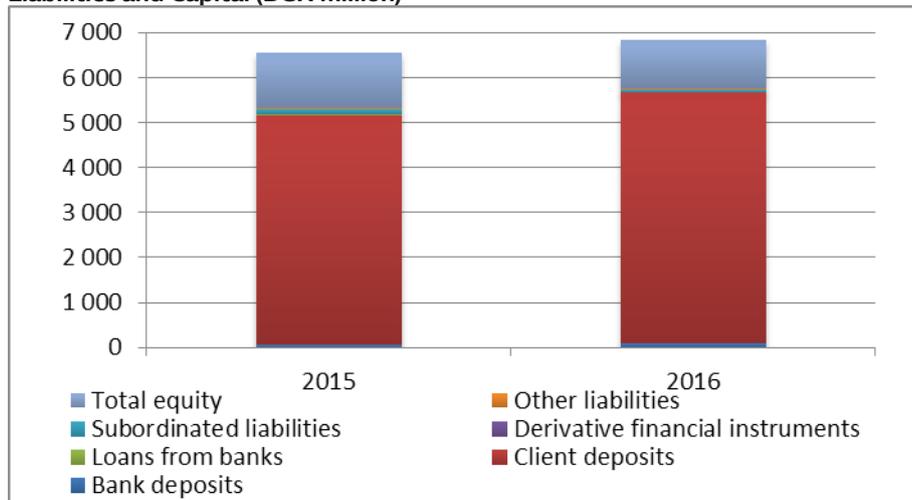
ASSETS AND LIABILITIES

At the end of 2016 the UBB's total assets increased by 4.4% yoy, reaching BGN 6,832 million compared to BGN 6,544 million in 31.12.2015. At the end of 2016, consolidated assets reached BGN 6,837 million increased by 4.4% yoy (2015: BGN 6,549 million). The main balance sheet items of the Bank are analyzed as follows:

Assets (BGN million)



Liabilities and Capital (BGN million)



Cash and cash equivalents

At the end of 2016, UBB's and consolidated cash and balances in the Central bank amounted to BGN 750.5 million, including minimum statutory reserves. The maintenance requiring minimum statutory reserves in the BNB in percentage terms were at an optimum level during the year, as follows:

BGN million	Mar-16	Jun-16	Sep-16	Dec-16
Minimum Required Reserve	379	639	869	583
Fulfillment (monthly average)	104%	130%	181%	118%

Due from banks

At the end of 2016, UBB's net amounts due from banks on separate and consolidated basis amounted to BGN 327.0 million and increased by 106.7% yoy, 9.1% represent nostro accounts, 51% interbank placements, 37.5% securities purchased under agreements to resell, 2.4% other loans and advances to banks.

Loans and advances to customers

In 2016, due to the continuing volatile macroeconomic environment, UBB continued to apply a conservative approach in lending. Thus, at the end of the year, the Bank's gross loan portfolio declined by 8.1% yoy. Restrictions were relayed on the loans related to economic sectors with high risk. The work on restructuring and improving the collection of problem exposures led to a contraction of credit activity, and the reduction in credit exposures of existing customers. At the end of 2016 the gross value of loans amounted to BGN 4,543 million compared to BGN 4,943 million at the end of 2015. The total volume of loans to individual clients amounted to BGN 1,838 million as their share in the total loan portfolio of the Bank was 40.5% (0.4% are overdrafts, 2.8% credit cards, 20.3% mortgage loans and 17% consumer loans). At the end of 2016 the total volume of corporate loans decreased by 10.2% yoy to BGN 2,705 million, while their share in the loan portfolio is 59.5%. Of these, 4.1% are loans for non-financial institutions, 55% are loans for corporate clients and 0.5% loans for budget organizations and institutions. At the end of 2016 the net amount of UBB loans amounted to BGN 3,859 million. In 2016, the loan portfolio was diversified across all industries with emphasis on retail banking, small and medium-sized businesses, small scale industry, as well as the dynamically developing sectors of the economy – industry, trade, construction, transportation and communication, etc.

On a consolidated basis, in 2016, the gross value of loans amounted to BGN 4,544 million and decreased by 8.1% yoy. For the same period, the net amount of loans on a consolidated basis valued BGN 3,860 million.

Financial assets designated at fair value through profit or loss

At the end of 2016 UBB's separate and consolidated financial assets designated at fair value through profit and loss amounted to BGN 1,102 million and increased by 75.2% yoy. They are allocated as follows: 46.7% in Bulgarian government securities, 47% debt securities from foreign issuers 10.7% in debt securities from foreign entities listed on official stock markets.

Financial assets available for sale

At the end of 2016 the Bank's and consolidated financial assets available for sale amounted to BGN 648.2 million and registered a 23.1% yoy increase. In structural aspect 92.6% of them are Bulgarian government securities, 1.3% equity securities from foreign entities and 1% equity shares in mutual funds.

Attracted resources and equity

At the end of 2016 UBB's amount of liabilities reached BGN 5,749 million, compared to BGN 5,323 million at the end of 2015, registering a nominal increase of 8% for one-year period. For the same period liabilities on consolidated base increased by 8% yoy and amounted at BGN 5,745 million.

Deposits from banks

Funds deposited by banks on separate and consolidate base increased by 38.7% yoy. At the end of 2016 the deposits from banks amounted to BGN 87.1 million, compared to BGN 62.8 million at the end of 2015. Their relative share of total liabilities presented 1.5%.

Deposits from customers

At the end of 2016 customer deposits reached BGN 5,571 million, compared to BGN 5,089 million at the end of 2015 and registered 9.5% yoy increase. During the year, the deposits of individuals increased by 5.8%. Deposits from non-bank financial institutions increased by 30.5% yoy. Corporate deposits grew up by 15.4% yoy. Deposits from government institutions and agencies accelerated by 9.8% yoy.

Deposits' Structure

Deposits from clients, BGN (000)	31.12.2016	31.12.2015	Change y/y (%)
Deposits of individuals	3 836 612	3 624 940	5.8
Deposits of non-bank institutions	405 030	310 255	30.5
Corporates deposits	1 284 566	1 112 809	15.4
Deposits from government institutions	45 384	41 349	9.8
TOTAL	5 570 592	5 089 353	9.5

The deposits of individuals continued to dominate the structure of deposits, representing 68.9% of the deposits' portfolio. The dynamics of corporate deposits followed the deflation in prices as well as the stagnation in business and their relative share in the deposits' structure stands at 23.1%. The relative share of deposits from non-bank financial institutions improved to 7.3% and the share of deposits from government institutions and agencies maintained their level at 0.8%.

Clients Deposits (BGN million)



As of December 31, 2016 UBB has key market positions by holding 8% of retail deposits and 6% of the corporate deposits on the local market.

Bank Borrowings

At the end of the 2016 Bank reports, on separate basis BGN 4.8 million credit lines from banks. These are essential credit lines under the program for "Energy efficiency" in retail banking segment.

Subordinated debt

At the end of 2016, the subordinated debt amounts to BGN 50.9 million. In October and November 2007, UBB signed two subordinated debt agreements with the National Bank of Greece, totaling EUR 130 million. The subordinated debt is used as a supplement to the capital reserves in accordance with the requirements of the BNB on capital adequacy. Original maturity of the subordinated debt is 10 years. Starting the year 2013, UBB began annual repayment of the subordinated debt in both agreements in equal installments of BGN 50,852 thousand for the period 2013-2017.

Shareholders Equity and Capital Adequacy

UBB's shareholders equity, at the end of 2016, amounts to BGN 1,082 million (2015: BGN 1,222 million) and decreased by 11.4% yoy due to the paid dividends to the shareholders at amount of BGN 260 million.

On a consolidated basis, the total amount of shareholders equity is BGN 1,092 million at the end of 2016, compared to BGN 1,230 million at the end of 2015 and reported a decline of 11.2% yoy.

Off balance sheet items

As of December 31, 2016, the off-balance sheet assets of UBB amounted to BGN 808,749 thousand on an individual basis and BGN 825,346 thousand on a consolidated basis. Included are written off loan commitments and guarantees, documentary and commercial letters of credit.

Credit related commitments. The following table represents the contractual amounts of the Bank's/Group's off-balance financial instruments that commit it to extend credit to customers:

Contingent liabilities and commitments	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	Separate	Separate	Consolidated	Consolidated
Undrawn credit commitments	625 249	613 177	641 846	632 312
Guarantees, documentary and commercial letters of credit	183 500	165 282	183 500	165 282
TOTAL	808 749	778 459	825 346	797 594

Agreements related to trade finance operations

The Bank has entered in agreements to support its trade finance activity. As of December 31, 2016 the Bank has the following active contracts:

Counterparty	Description	Currency and amount of the facility	Date of the agreement	Utilization as of 31.12.2016	Utilization as of 31.12.2015
EBRD	<i>Non-committed Trade Finance Guarantee Facility Agreement between UBB and EBRD under the Trade Facilitation Programme ("TFP").</i> Under the facility, the issued by UBB AD trade related instruments (guarantees and letters of credit), may be secured by EBRD, by providing banks partial or full guarantees covering our payment risk.	EUR 15 millions	29.07.2013	BGN 1.154 thousands	BGN 9.779 thousands
	<i>Non-committed Loan Facility on a Revolving basis between UBB and EBRD under the TFP.</i> Under the facilities UBB can obtain short-term loans to fund trade-related advances to local companies for pre-shipment finance, post-shipment finance and other financing necessary for the performance of foreign trade contracts.				
IFC	<i>Non-committed Trade Finance Guarantee Facility Agreement between UBB and IFC under the Global Trade Finance Programme ("GTFP").</i> Under the facility, the issued by UBB AD trade related instruments (guarantees and letters of credit), may be secured by IFC, by providing banks partial or full guarantees covering our payment risk.	USD 10 millions	04.08.2014	BGN 3.488 thousands	Not utilized

BUSINESS DEVELOPMENT

RETAIL BANKING

In 2016, UBB sustained its strong market position in the banking sector for retail loans and deposits. With regard to retail deposits, it was a year focused on adjusting the deposit rates while keeping the non-interest related income at sustainable level. The Bank's retail deposits portfolio grew by BGN 211 million, further enhancing the liquidity and reaching BGN 3.836 billion at the end of 2016. Since 2010, the overall retail lending market in Bulgaria has recorded decrease compared to the previous base year with 2016 being the first year with net increase of the balances in mortgage lending. In terms of new lending volumes, UBB had 16% growth in mortgage lending and 13% growth in the consumer lending disbursements, where the total retail loans year-end portfolio reached BGN 1.838 billion.

The wide distribution of contactless cards and terminals on the market paved the way to purchase volume growth and customers that are more active. UBB continues to be one of the top issuers of international credit and debit cards under the brands of Mastercard and VISA. The process of upgrade of the debit product Maestro to Debit Mastercard completed together with the launch of World Debit Mastercard – a new debit product for upper-mass customers. In 2016, the Bank finalized and the project for migrating the whole card portfolio to contactless. Throughout the year, the number of transactions from the card portfolio reached 17.9 million while the volume surpassed BGN 2.3 billion. The card purchases registered 12.2% yoy growth. In 2016 UBB retained its position of one of the main market players on the Bulgarian market in the field of acquiring business. The Bank continued with the execution of the strategy for optimization and efficiency improvement of its POS and ATM devices network. During the year the Bank increased the number of active ATM terminals to 707. The number of transactions and volumes realized at ATM in 2016 were slightly above the levels from 2015. In the field of card payment acceptance UBB reduced the number of active POS terminals with 3% but meanwhile increased the POS transactions volume with 15% and the gross income from POS transactions with 11%.

In 2016, UBB's Retail banking continued the sustainable development of innovative products and promotional campaigns in all retail product categories in a highly competitive market environment characterized by aggressive pricing, personalized discretionary offers and massive ATL presence. Digital sales channels were opened to complement

the existing sales network, in line with the recent market developments. As a leader on the Bulgarian retail market, UBB has always been dedicated to implementing competitive products and providing high quality service to its customers. In order to keep pace with the developing fin-tech environment, UBB started offering to its customer's online opening of deposit products via E-banking – current, saving and time deposits. As a part of the Bank's strategy to strengthen the segmented approach to its retail customers, the Bank has launched new package programs which include basic products and services, addressing the different needs of the segments – Mass, Payroll, Pensioners and Affluent. The Bank continues to provide professional and inclusive banking services to its affluent customers. The access to premium banking products and services increased the number of customers altogether with growth in the deposit base of the segment.

In mortgage lending, the Bank further improved the promotional parameters for the most demanded products remaining highly focused on the area by enhancing the service model moreover, expanding the capacity of its Direct Sales force. In consumer lending the Bank introduced the new "Energy efficiency" consumer loan under the European Bank for Reconstruction and Development REECL 3 credit line of EUR 5 million with EUR 0.8 million grants paid to the customers. The new initiative targets mainly the mass segment for energy saving home improvements. To enrich the proposal for the mass segment the Bank extended the fixed interest rate consumer loan with attractive pricing especially for the walk-in customers.

Throughout the year, the initiatives of the Bank were supported by constant promotional activities for both existing and new customers. Through 2016, UBB successfully launched the online Channel for application for consumer loans and Line of credit. Its further development is focused on improving the results of both product categories. In 2016 the growing UBB bancassurance business stood out as one of the main sources for non-interest income again.

The life insurance company of the Bank, UBB – MetLife generated almost 20% growth with more than BGN 44 million premium income and is permanently ranked among the Top 5 largest life insurance companies in Bulgaria with a market share above 10%. The sales of the new medical insurance product "Your Health", which guarantees the bank's clients unique care and treatment abroad in case of serious illness, were successfully launched. The successful joint partnership with general insurance companies of Vienna Insurance Group has created new opportunities for UBB for insurance protection to bank clients in the field of property and automobile insurance.

PAYMENT PRODUCTS AND SERVICES

2016 was very successful for the development of electronic banking channels. In May 2016 UBB launched its application for mobile banking – UMobile, which offers execution of the most popular banking transactions and enjoys high user rating. Internet banking has further enhanced its already rich functionality, aiming at following the technological developments and satisfying the customers' expectations for efficient, friendly and safe digital channels. The Bank's customers, through online signing an electronic banking agreement, are granted secure access to a considerable number of services without the need to visit a branch of the Bank. Those who are not UBB clients, but would like to become, could do so entirely online after passing through a special procedure for customer verification. Thanks to the regular marketing campaigns and successful pricing policy, UPAY payment gateway has successfully revolved and marks quadrupled in 2016 the transactions compared to 2015. Furthermore, 11% of all Western Union payments in Bulgaria for 2016 were performed through the UBB network. With its 60 ATMs offering deposit function, the Bank continues lead the market and reported 5% increase of transactions over the previous year. UBB Call Center meets the highest industry standards and may start focusing on post and new sale activities.

CORPORATE BANKING

In 2016 UBB's Corporate banking activities were focused on stabilizing the profitability of the corporate business in an environment characterized by high liquidity and falling interest rate margins. At the same time, it was particularly important to continue with the efforts on improving the quality of the corporate portfolio, as the progress in this respect was essential in view of the Asset Quality Review exercise through which the Bulgarian banking system underwent during the year, as well as due to the ongoing commitment to demonstrate the long-term viability of the Bank's Corporate and SME business lines. Throughout 2016 the volume of non-performing corporate loans decreased by 15% (BGN 154 million) to BGN 849 million and in the end of the year the gross volume of the loan portfolio amounted to BGN 2673 million (excluding small business loans). As a result of the improved lending conditions to our customers, the average effective interest income of the Bank corporate portfolio decreased by 64bps compared to 2015 (calculated to the average of interest yielding credit balances), as compared to a corresponding reduction of the effective interest expense on corporate deposits amounting to 30bps.

In 2016 UBB was the first bank among the Bulgarian financial institutions selected to lend business loans guaranteed by the European Investment Fund (EIF) under the "SME Initiative" operating program. Through the contract signed between UBB and EIF, the fund guarantees granted loans by the Bank at a cumulative amount of EUR 65 million. Under the Initiative UBB provides loan products for working capital and investment needs of Micro, Small and Medium businesses in Bulgaria. In this way the Bulgarian companies receive financing under even lower interest rates, fees and collateral requirements – a process aimed at providing financing under globally competitive terms, with a goal of achieving a dynamic and sustainable development focused on fostering growth and job creation.

TREASURY ACTIVITIES

In 2016 UBB's Treasury continued to provide optimal liquidity through participation in government securities market, forex trading and products in the interbank market. During the year the Treasury also provided various deposit instruments and investment solutions for UBB's large corporate clients and business. Furthermore, the Treasury ended 2016 with a significant contribution to UBB's financial results, generating more than EUR 31.5 million net profit from overall activity. Additionally, UBB continued to maintain optimal *Loans/Deposits Ratio* at 69.3% as of end of 2016. For a fourth consecutive year, UBB has kept its status as a self-financing financial credit institution, with independent liquidity from the parent Bank.

INVESTMENT BANKING

In 2016, UBB Investment banking was striving to meet the needs of the bank's current and potential clients through rendering of investment intermediation and depository services. The bank's successful performance and high quality customer service, its considerable experience, knowledge and expertise have led to the establishment of UBB as a major player and provider of trustee services on the bond market. In 2016, UBB was elected trustee of the bondholders in the largest to date corporate bond issued on Bulgarian market with a nominal value of EUR 130 million. UBB performed the trustee function in 19 bond issues being a market leader, and in its capacity of a bondholders' trustee was actively involved in consulting the issuance of new bonds, restructuring of existing bonds as well as in protecting the rights and interests of the bondholders by providing financial and economic analysis and legal advice. Stock indexes traded on the Bulgarian Stock Exchange registered positive results in 2016 as SOFIX, its main index grew by 27.2% reaching 586.43 points at yearend. A successful listing of the first exchange-traded fund (ETF) in Bulgaria, which tracks the performance of SOFIX stock index revived foreign and local interest in Bulgarian stock market. Under those new circumstances UBB maintained its client base in brokerage services and booked 70 new customers. UBB offers all depository services allowed under Bulgarian law to customers from all segments of Bulgarian capital market. Currently the bank holds a portfolio of 85 long term contracts for depository services and its client base includes financial institutions and corporate customers, management and investment companies, mutual funds, real estate investment trusts (REIT), insurance and life-insurance companies and licensed investment intermediaries. UBB maintains foreign securities custody accounts for its clients through *Clearstream Banking SA, Luxembourg*. UBB performs the services of a custodian bank for the pension funds managed by the Pension Insurance Company "Doverie" which has a leading market position among Bulgarian pension fund management companies. Total assets of the three pension funds under management amount to BGN 2.8 billion as at the end of 2016. The structure of the pension insurance market remains unchanged in terms of number of licensed pension management companies and total number of pension funds.

INFORMATION TECHNOLOGIES

In 2016 UBB's Information Technologies Department (IT) successfully completed several significant projects. IT successfully finalized the deployment of U-Mobile – the mobile banking application and the E-bank redesign. Additionally, Server and Storage Consolidation was achieved. This allows, within the next years the Bank to shift to a technologically new, centralized and highly reliable technical infrastructure. As a result, UBB will achieve better manageability of the technical resources and flexibility in customer service in the branch network of the Bank. Moreover, the Microsoft PKI was successfully upgraded.

HUMAN RESOURCES MANAGEMENT

In 2016 Human Resources Management (HRM) Department continued to take care for the development and retention of employees through providing the necessary professional training and adjusting remunerations to their duties, responsibilities and performance. In line with the Bank's strategy of ensuring internal succession, in 2016 the following activities were performed:

- Programmes for internal succession for higher positions in the Head Office (HO) were developed;
- A project for career development of managers in the Branch Network (BN) was initiated. The aim of the project is to ensure succession through exchange of experience from the previous manager to the new one (the successor). Nine employees were included in the project as at the end of 2016. Four of them were reappointed to the new positions and the rest continue their participation in 2017.

Emphasis was given to the development of knowledge and competencies to work with corporate clients for employees from the corporate segment in BN through:

- individual programme for self-education in the corporate banking;
- training to improve the skills and attitudes necessary for building long-term relationships with corporate clients; mutual trust; dealing with objections to achieve results in a competitive environment; closing sales in a competitive environment; dealing with attitudes to increase motivation, confidence and competence.

To increase the competence in the corporate business and in relation to the micro business segment a two-month distance course "Financial analysis" was organized by the International Banking Institute for Branch Managers type 1. In line with the Bank's strategy for business development and service quality improvement specialized trainings for employees from SME, Retail and Micro business segments, for reappointed Branch Managers and Retail Team

Managers as well as specialized seminars and trainings for different teams and employees from the HO were organized. As a main channel for self-education and testing their knowledge the employees in the Bank use the e-learning platform more and more actively. In 2016, 2 858 participations in different types of trainings were organized (incl. induction trainings, internal trainings, external advanced trainings) and 2 445 participations in tests took place to check their knowledge in different areas. The practice of attracting young unexperienced professionals to positions in the Bank that provide opportunity for on-the-job training and high standard of attitude towards the work and responsibilities continued.

COMPLIANCE

Compliance Department's 2016 activity has demonstrated effective management of non-compliance risk at UBB. With the existing regulation in the banking sector and the persisting statutory and regulatory intervention in its work, the compliance mechanism, established within the Bank has manifested its resilience and efficiency.

As a result of the measures, initiated during the year, the negative consequences for UBB are negligible – imposed sanctions amounting to BGN 16 000, of which only BGN 4 000 have been paid, the remaining amount is being appealed against.

During 2016, UBB successfully introduced the new regulation on mortgage loans for consumers, in compliance with the adopted new *Consumer Residential Loans Act*. The amended regulatory framework imposed review and revision of all agreements and internal rules, pertaining to mortgage lending, drafting of new documents, compliant with the requirements of the law – general info and pre-contractual information on the offered mortgage loans – as well as reconfiguring of the Bank's systems.

In line with the establishment of a *Single Register of Accounts* at the Bulgarian National Bank systematic changes were implemented, to guarantee the information's structuring, thus enabling its submission to the register with all needed requisites. Jointly with the *Association of Banks in Bulgaria (ABB)* procedures and document templates concerning payment accounts' transfer were elaborated

Also in 2016, the new product – Payment Account with Basic Features – was successfully launched, in line with which main documents were amended, regulating the offering of payment services.

Compliance Department was also at the basis of the preparation for the successful delivery of data to the National Revenue Agency, required by virtue of the specialized legislation for exchange of taxation-related information.

In 2016, the process of imposing new standards on personal data protection evolved further, in conformity with the trends in legislation and good practices.

In accordance with the Department's approved plan, 20 audits in the branch network were performed, whose subject was the observance of the requirements on prevention of money laundering and financing of terrorism, consumer and personal data protection, client complaints' administration and observance of UBB's Code of Conduct.

The Department continued its proactive involvement in the approval of new products and advertising materials, thus contributing to the preventive protection of the Bank from the risk of legal non-compliance as regards to the protection of consumers and competition.

While following international trends and driven by the understanding that the effective management of each and every bank is of key importance for the well-functioning not only of the institution itself, but also of the overall banking system, 2016 also marked the adoption of the *Corporate Governance Code of United Bulgarian Bank AD*. This code is an underlying document for the Bank, introducing the most essential and internationally acknowledged principles and standards for corporate governance. The idea behind its acceptance is, via transparent management and an objective and open decision-making process, to ensure efficient protection of the rights and interests of the Bank's clients, shareholders, investors and employees. Also, the work on the already launched project for *Improvement of UBB's Corporate Governance* continued, within which a review was made of internal acts of systemic importance, as well as the work rules of the more important committees at the Bank. With a decision of the Board of Directors in 2016, UBB's *Anti-Bribery Policy* was approved, which aimed at delineating clear principles and rules for prevention and combating bribery and ensuring high standard for ethical conduct of the Bank's officials and partners.

Over 2016, UBB also employed considerable efforts and resources, to ensure the effective management of each potential or real conflict of interest. The circumstances, deemed by the Bank a conflict generator, the means for their management and their prevention methods, were stipulated in the *Code of Ethics* and in the policies for conflicts of interests' disclosure and prevention. In 2016, major revisions were made on the *Policy for Avoiding Conflicts of Interest for UBB Executives* and the overall process for managing the conflict of interests, concerning the Bank's administrators. The declared circumstances during the year are entered with a Register.

Priority was also given to the activity on prevention of money laundering and financing of terrorism. The monitoring

of suspicious operations and clients is an ongoing process, allowing for timely reaction on the part of the Bank upon occurrence of suspicious transactions and individuals.

In 2016, client complaints were considered promptly by an independent unit within the department, while seeking solutions to clients' problems and cohesion between the positions of the Bank and those of clients.



**IMPORTANT EVENTS DURING THE PERIOD BETWEEN THE DATES OF THE
FINAL BALANCE SHEET AND THE ANNUAL REPORT APPROVAL**

On December 30, 2016, National Bank of Greece S.A. entered into an agreement with KBC Group for the disposal of its 99.91% stake in the share capital of UBB. Closing of the transaction is subject to regulatory approvals from Bulgarian and European authorities. As at this date, the transfer of the ownership of the shares of UBB has not been finalized.

There are no other significant events after the end of the reporting period which require additional adjustments and/or disclosures in the financial statements of the Bank on separate or on consolidate basis.



SPONSORSHIP AND CORPORATE SOCIAL RESPONSIBILITY

In 2016, UBB persistently developed further its policy in the sphere of sponsorship and corporate social responsibility, focusing on the encouragement and support of culture and arts, science and sports, as well as on aiding vulnerable social groups. UBB also deployed a regional sponsorship programme. The total sponsorship and corporate social responsibility (CSR) expense for 2016 amounted to BGN 320 000. The main CSR activities throughout the year were carried out along the following lines:

- **Cultural Projects**

- **March Music Days International Festival, Ruse town** – UBB marked 14 years as a partner to one of the oldest festivals in Bulgaria, held annually since 1961. The event was once again welcomed with great anticipation and significant interest by connoisseurs of classical and modern music. Traditionally the Festival has been a focal point for artists from all over the world.

- **Partnership with Sofia Opera and Ballet via Opera in the Park and Opera under the Stars – Nabucco at the Alexander Nevski square, and the first Opera of the Peaks festival in the Magura cave and at the Belogradchik Rocks** – in 2016 UBB continued to expand its cultural initiatives with Sofia Opera and Ballet, as a result of which three significant summer events of exceptional cultural value were realized – *Opera in the Park Summer Festival*, held for a 7th consecutive year, the first night of the *Nabucco* opera under Sofia's starlit sky and with Alexander Nevski Cathedral as a signature landmark at the background, as well as the premiere of a number of unseen before performances under the Magura cave stalactites; which, together with the opera and ballet art, made a worthy match to the Belogradchik Rocks natural phenomenon.

- **Varna Summer International Theater Festival** – in 2016 UBB gave a helping hand to the festival for 11th consecutive year. The Festival promoted classical productions, as well as modern artistic interpretations, staged by Bulgarian and foreign theater companies. With its versatile programme Varna Summer transformed once again the Bulgaria's seaside capital into a festivity town for the event's duration.

- **Apollonia Festival** – UBB was again a general partner of the Festival of Arts in Sozopol town through a special highlight in the festival's programme – Apollonia/UBB Stage Club – a favorite venue for the fans of young Bulgarian musicians every summer. In addition to this, – UBB again bestowed its traditional award for an outstanding Bulgarian artist, this time to Poli Genova, as voted by the fans on the UBB's Facebook page.

- **NATFA** – UBB once again supported the young actors from the National Academy for Theater and Film Arts as in 2016 the Bank sponsored for a third time the realization of the *First Steps in Cinema Arts* educational workshop, organized exclusively for the newly-enrolled students of the Academy.

- **Scene at Crossroads International Festival** – UBB was again part of the "sponsor société" of the festival, held for a 20th anniversary year in Plovdiv town. The Bank once again supported the realization and promotion of the international event, while bestowing a prize to one of the productions in its programme – *Atelier* – a performance by the young talents from NATFA.

- **NIGHT/Plovdiv** – in 2016, UBB supported for the first time a symbolic event not only for Plovdiv, but for the Bulgarian art as a whole – Night of Museums and Galleries in Plovdiv (*NIGHT/Plovdiv*). The *Night of Museums and Galleries* in Plovdiv was first organized in 2005 and soon became one of the most recognizable cultural events, anticipated and visited by spectators from all around the country. This year's twelfth *NIGHT* in Plovdiv and first for UBB as its partner welcomed over 40 000 people during the two festival nights (September 23 and 24) under the town's hills. The *NIGHT's* highlight was the first public display of the **UN/NOTED exhibition – part of UBB's Gold Fund collection in Plovdiv's Art Gallery**, which was seen by more than 7 000 people during just the first festival night. The city's Art Gallery was the *NIGHT* event's venue No1.

- **Sports**

- **Children's Tennis Tournaments** – UBB once again actively focused its attention on the support for the realization of two children tennis tournaments – one of the private schools and another of *Masters* rank for all kids – champions at regional competitions. The competitions were traditionally held under the moto "For the awards of UBB" and were widely covered by the national media, while the children who demonstrated sporting excellence were awarded by the Bank's representatives.

- **Stoychev – Kaziyski Children's Volleyball Academy** – as a dependable member of the society, promoting children's healthy growth and the need of practicing active sports, it was for the first time that UBB supported a children's team sport – volleyball – by providing equipment for more than 300 kids, some of them with autism, were entrusted to the academy's professional coaches.

- **Support for Science**

- **National Museum of Natural History** – in 2016, the National Museum of Natural History realized three projects with the financial support of UBB – continuation of the excavation works at Azmaka archaeological site

in search of the last pre-human hominids in Europe; excavation works and research in the Mishin Kamak cave, and update of the paleontological exposition through display of dinosaur finds and a newly gathered collection of leaves and fossils of ancient fauna, dating back 15 million years ago. With the aim to promote both the effort and success of the research teams, UBB signed a sponsorship project with *Eight Magazine*, where 8 articles on the museum's activity were published.

- **Regional Sponsorships**

- In 2016, UBB supported financially 48 (4 more, compared to the previous year) regional signature events of high prominence for the local community and culture. Among them there were anniversary celebrations in a number of towns, cultural events such as dance competitions, folklore and musical festivals, exhibitions, sports competitions, etc.



**INFORMATION REQUIRED PURSUANT TO
ART. 187D AND ART. 247 OF THE COMMERCE ACT**

Information under Art. 187 "d"

1. Number and nominal value of the acquired and transferred during the year own shares, part of the equity they represent, as well as the price at which the acquisition or transfer was made:

As of 31.12.2016, no ordinary registered voting shares had been transferred according to the Central Depository.

2. Grounds for the acquisitions made during the year: there is no buy out of shares from minority shareholders.

3. Number and nominal value of the possessed own shares and part of the equity that they represent.

As of 31.12.2016, the shareholders capital is allocated into 75,964,082 ordinary registered voting shares, with nominal value of BGN 1 each.

Main shareholders: Shares

- National Bank of Greece - NBG, (99.9%) 75,893,450
- Other shareholders (0.1%) 70,632
- Total 75,964,082

Information under Art. 247

1. Total remunerations received by Board of directors members during the year:

The remuneration of the executives – members of the Board of Directors during the year consists of short-term labor remuneration such as salaries and payments, related to social and health insurance contributions, paid annual leave, paid sick-leave. The total amount of remuneration for 2016 was BGN 668 thousands.

2. The acquired, possessed and transferred by the members of the Board of Directors shares and bonds of the company:

Owned by the members of the Board of Directors shares BGN 1 (one) each (nominal value)

Names of the Directors	31.12.2016	31.12.2015
Stilian Petkov Vatev	290 shares	290 shares
Total:	290 shares	290 shares

No shares were acquired or transferred by the members of the Board of Directors during the year.

3. The rights of the Board members to acquire shares and bonds of the Bank;

Board members have no rights related to acquisition of shares and bonds of the Bank.

4. The Board members participation in companies as unlimited liability partners, the possession of more than 25 per cent of another company' capital, as well as their participation in the management of other companies or co-operations as procurators, managers or board members;

Stilian Petkov Vatev

Borica Bankservice AD Board of Directors' member
Interlease EAD Board of Directors' Chairman
Interlease Auto EAD Board of Directors' Chairman
UBB – Metlife Life Insurance Company AD, Chairman of the Board of Directors
Insurance Broker AD Board of Directors' member
Representative of the Association of Banks in Bulgaria in European Payment Council

Radka Ivanova Toncheva

Druzhestvo za Kasovi Uslugi AD Board member
Member of the Board of Foundation "Atanas Burov"
Chairman of Board of Directors of Association "United in Charity"

Agreements under Art. 240 "b", signed during the year:

The members of the Board of Directors and related to them parties have not signed agreements with the Bank that go beyond the usual activity or significantly deviate from market conditions.

Payment of dividends and interest

The Extraordinary General Meeting of the Shareholders of United Bulgarian Bank AD (UBB or the Bank) held on 5.12.2016, decided the following: Allocation as shareholders' dividend of the Bank's the entire net profit for 2015, amounting to BGN 48 906 580.65 and a portion of the retained earnings from previous periods, equaling BGN 210 890 579.79. Thus, as per the made decision, the total amount of the dividend, to be paid to the Bank's shareholders, equals BGN 259 797 160.44, or BGN 3.42 per share. The Extraordinary General Meeting of Shareholders also decided to allocate the amount of BGN 840 035.44, representing earnings from previous periods into Retained Earnings reserve.



FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Risk management principles and policies of the Bank

UBB actively manages the risks, inherent to its activity, aiming to achieve optimal profitability from operations, while keeping all risks under control. The Bank applies the approved by UBB BoD Risk Management Principles and Policy and Risk Appetite Statement and Metrics, developed in accordance with the NBG Group risk strategy, the requirements of all applicable laws, BNB regulations and European Authorities' standards and framework.

UBB Risk Management Principles and Policy describe the Bank's fundamental attitude towards risk, the risk governance and key risk management capabilities.

UBB Risk Appetite Statement and Metrics describe the Bank's current and target risk profile and appetite. There are two steps in setting UBB's risk appetite: the definition of Risk-bearing Capacity (RBC) and of Risk Appetite (RA).

The Risk-Bearing Capacity (RBC) represents the level of overall risk beyond which the solvency and liquidity of the Bank are at risk. RBC is a maximum measure and is not ever intended to be reached.

The Risk Appetite (RA) is the level of risk exposure or potential adverse impact from an event that the Bank is willing to accept or retain over a 12-month period.

The Board of Directors, advised and supported by its Risk Management Committee, has the responsibility for approving and periodically reviewing the Bank's risk profile and appetite, as well as its risk management strategy and policies, ensuring that Senior Management takes all steps necessary to monitor and control risks in accordance with the approved strategies and policies.

The Bank's Executive and Senior Management has the responsibility for implementing the risk management principles and risk appetite statements approved by the Board of Directors and for developing the policies, methodologies and procedures for identifying, measuring, monitoring and controlling all types of risk, consistent with the nature and complexity of the relevant activities.

A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Risk Management Division, forming the basis for consistent definition of strategies, policies and procedures across all risk-taking units within the Bank. The Bank risk management framework is reviewed periodically and adjusted in accordance with the Bank's overall risk appetite and profile, as well as with internal and external norms and best banking practices. The Bank Risk Management function is capturing all material risk sources across all portfolios and operations.

The Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally and compliance with internal and external rules. In doing so, the Management ensures the direct or indirect involvement of at least two employees in each material activity or control function until its completion (four eyes principle).

The Bank's risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. Risk exposures are directly reported to Senior Management and the Board of Directors. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks. In particular the functions that undertake transactions (front line) are administratively and operationally separate from the functions of confirmation, accounting and settlement of transactions, as well as the safekeeping of the assets of the Bank or its customers.

The Bank's risk governance model includes three lines of defense consisting of:

- The risk taking units (lines of business) at the first level, responsible for assessing and minimizing risks for a given level of return;
- The Bank Risk Management function, at the second level, identifies, monitors, controls, quantifies risk, provides appropriate tools and methodologies, coordination and assistance; reports to appropriate levels and proposes mitigation measures;
- Bank Internal Audit – provides the independent review function.

The Bank Compliance function ensures, through proper procedures, that the requirements and deadlines provided for by the regulatory framework in force are observed. This includes in particular anti-money laundering and terrorist financing regulation. In doing so, the Compliance function informs all Bank employees on the relevant changes to the regulatory framework and provides guidance on the required changes to internal rules and processes.

The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken. The Risk Management Division has an active participation in the development and pricing of new products, the design of new procedures, in

issues relating to business decision-making, as well as the assessment of the risk that may arise in cases of important changes (mergers, acquisitions etc.), with a view to adopt the proper risk management and control mechanisms.

Adequate risk management process-related internal controls are maintained for all types of risks, involving regular independent reviews and evaluations of their effectiveness by the Internal Audit function. The results of such reviews are reported by the Audit Committee to the Board of Directors and are available to the relevant supervisory Authorities.

The Bank acknowledges and manages with higher priority the following major types of banking risks arising from its activities – credit risk, liquidity risk, market risk, interest rate risk in the banking book and operational risk.

b) The Bank exposure to credit, liquidity, market and operational risk

The UBB's risk exposures and respectively risk metrics and risk management methodologies used are stated below in a sequence according to their significance for the Bank's activity.

Credit risk

The credit risk is related to possible unfavorable impact to the profit and capital of the Bank from an obligor's failure to meet the terms of any contract with the institution or to perform as agreed.

The main source of credit risk for the Bank is the loans to customers, which, as of 31.12.2016 amounted to BGN 4,542 million (BGN 4,544 million on consolidated basis). As of the same date, the total amount of impairment (IFRS provisions) was BGN 684 million. Additionally, the specific provisions (considered as Capital Buffer by the Central Bank), under the canceled BNB Ordinance № 9 amounted to BGN 214 million.

Credit risk management decisions are made in compliance with the approved risk management principles and risk appetite framework and respective credit policies, which are regularly reviewed. UBB has adopted and implements Corporate Credit Policy, Retail Credit Risk Policy and SBL Credit Risk Policy, three master documents which regulate the lending business, the approval process, the principles of credit administration and the credit risk monitoring.

The Corporate Credit Policy sets the framework for corporate credit risk management, including approval levels and bodies, rating system, early warning system, classification and remedial management. Responsible unit for Corporate rating system and model is the Risk Modeling Unit, part of Risk Management Division.

Early warning system (EWS) is an assessment process of the corporate clients designed to detect the problem exposures at an early stage, so as recovery actions to be taken on time. An application has been developed, which significantly facilitates the whole process.

The Bank rates the corporate obligors by using an internal rating system, which provides probabilities of default according to a 22-level rating scale.

Retail Credit Risk Policy sets the criteria for approval of all types of credit products for individuals, approval levels, scoring models in use and their application, and portfolios' monitoring. Strong retail scorecards are internally developed and maintained by Risk Modeling Unit.

The Credit Policy for the Small Business Lending Segment determines the approval and monitoring processes for the products in the respective business area. The decision making takes into consideration ratings produced by internally developed rating model.

Moreover, the Bank possesses and applies numerous detailed procedures, relevant to the lending activity, regulating the acceptance and management of collaterals, credit analysis, credit administration, etc.

For the decision making in the corporate lending activity, there is an escalation of approving bodies, depending on the size and the status of the loans under consideration. Risk Management Division is directly involved in the credit review and approval process, where it participates vested with veto right. The approval process for the retail portfolio is fully integrated within the Risk Management Division, with multi-level committees, clear determination and monitoring of limited overrides.

In compliance with its risk strategy, the Bank targets the maintaining of low level of credit risk concentration at obligor level and by industries. The Bank regularly monitors and reports the large exposures at obligor level and by industries. The largest sectors in corporate portfolio are wholesale and retail trade, real estate, crop and animal production, food production, manufacture of refined petroleum products and electricity supply.

The Bank makes assessment of the risk exposure, evolving from the loan portfolio by internally classifying and provisioning loans in compliance with the requirements of the IFRS on a monthly basis.

Asset quality continuously improves, as the Bank focus on maximizing the recoveries from the legacy NPL portfolio (mainly loans granted in the booming years of 2007-2008) and on the maintenance at very low levels of the new defaults, thanks to a robust and prudent credit risk management framework BGN 104 million corporate and BGN 62 million retail loans were written-off in 2016, with a positive effect on the NPL ratios. The Bank continues to put emphasis on generating new and healthy lending business, in order to further improve the profitability and credit quality.

UBB actively operates in the financial markets. In order to manage the country and counterparty credit risk, the Bank has approved a conservative limits' framework. The Bank has no appetite for risk exposures towards bank counterparties with rating less favorable than Ba3 (Moody's) or BB- (S&P/ Fitch). The counterparty risk originated from investments in bonds (issuer risk) is managed by position limits for securities per credit quality of the issuer, country of the issuer, type and maturity of bonds. As a general rule, the Bank invests in securities with investment-grade issuer rating – "Baa3" or higher according to Moody's and "BBB-" or higher according to S&P or Fitch. Exceptions have to be approved ad-hoc by NBB Group Risk Management and Risk Management Committee after a relevant proposal. The above restrictions for selection of counterparties ensure undertaking of acceptable credit risk arising from transactions on the interbank market.

Credit Risk Models

UBB has internal team which is responsible for credit risk models. Risk Modeling Unit developed retail application scorecards and retail behavioral scorecards, currently in use. Regular monitoring and validation is performed by the internal team and supervised by the respective unit in NBB. An internal Risk Modeling document is designed (pending approval) which consists of the scorecard development methodology with respective statistical tests and thresholds.

Existing corporate rating model is developed internally by Risk Modeling Unit which is also responsible for PD calculations derived by the rating model. Meanwhile MRA system is installed and it is planned to be used for corporate rating system.

Liquidity risk

The liquidity risk is related to possible unfavorable impact to the profit and capital of the Bank arising from the institution's inability to meet its obligations when they come due without incurring unacceptable losses.

UBB manages its assets and liabilities in a manner, guaranteeing that it is able to fulfill its day-to-day obligations regularly and without delay, both in a normal environment and under stress conditions. The Bank invests mainly in liquid assets and maintains an average of 40% ratio of liquid assets to total liabilities and 41% ratio of liquid assets to customer deposits.

UBB have a solid funding structure as its loan portfolio is largely funded by customers' deposits. Additionally the Bank maintains (in repayment mode) a subordinated debt from the parent bank. UBB's funding strategy is to develop a diversified funding base by depositor type and have access to a variety of alternative funding sources, in order to be protected against unexpected fluctuations and minimize the cost of funding.

The UBB's liquidity risk management framework includes the following elements:

- appropriate risk governance, including Assets and Liabilities Committee (ALCO);
- operating standards, including *Liquidity Risk Policy* and *Contingency Funding Plan*;
- liquidity risk limits taking into account the existing regulatory limits;
- appropriate Management Information System.

Liquidity Risk Policy and *Contingency Funding Plan* are aligned with the Bank's risk strategy and meet all regulatory requirements.

The liquidity management is centralized and includes evaluation of the mismatches between cash flows of assets, liabilities and off-balance sheet positions. The liquidity is evaluated for all major currencies, in which the Bank operates actively.

In view of precisely monitoring and managing liquidity, the Asset and Liability Management Committee (ALCO) has approved and controls internal limits as Loans/Deposits ratio, Quick Liquidity Ratios and Internal Liquidity Ratios by each major currency.

UBB applies regular stress-tests in order to evaluate the liquidity risk for the Bank under unfavorable economic and market scenarios. The stress-tests are based on assumptions with different parameters of shock and on their impact on the inflow and outflow of funds.

Market risk

The market risk is related to possible unfavorable impact to the profit and capital of the Bank from adverse movements in bond, equity, currency and derivative prices. It includes equity risk, interest rate risk and foreign exchange risk.

The Bank's total exposure to market risk is relatively small and the daily total VaR as of 31.12.2016 amounted to BGN 4,276 million or 0.43% of the regulatory capital. The largest market risk exposure is related to interest rate risk resulting from positions in bonds.

UBB has adopted and follows *Market Risk Management Policy*. This Policy determines the key principles characterizing the operations of UBB in international money and capital markets, and the UBB's approach for the management of market risk, resulting from these operations. *The Market Risk Policy* applies to all financial instruments included in UBB's Trading and Available for Sale (AFS) portfolio.

In order to implement the targets set in its business plans, with a view of maximizing performance within acceptable risk levels, UBB invests its available funds in authorized financial instruments, maintaining satisfactory liquidity levels in compliance, at all times, with the regulatory requirements.

Market risk is hedged by the Treasury Division when deemed expedient (i.e. in case of an expected potential adverse change in the product price) or to avoid exceeding authorized limits in risk taking. Market risk is hedged either by transferring the position to another counterparty (back-to-back) or by hedging each sensitivity factor separately mainly through appropriate derivatives.

UBB manages the market risk by using the internationally accepted variance/covariance methodology developed by Risk Metrics/J.P. Morgan. This approach is used to calculate the VaR of UBB's Trading and AFS portfolio positions retained for one-day at a 99% confidence level.

VaR (daily value)	30.12.2016	2016		
		min	max	average
Equity Risk VaR	47	18	666	121
FX Risk VaR	2	0	13	4
Interest Rate Risk VaR	4 266	3,470	7,651	4,800
Total VaR	4 276	3,490	7,631	4,790

VaR (daily value)	30.12.2015	2015		
		min	max	average
Equity Risk VaR	376	224	609	347
FX Risk VaR	3	0	41	6
Interest Rate Risk VaR	6 254	2 304	10 475	5 023
Total VaR	6 112	2 323	10 387	5 032

For the effective management of market risk, in line with UBB's strategic objectives, the Bank has established a framework of VaR limits – total and by risk factors.

The Bank increased its securities portfolio during 2016 by BGN 561 million (nominal value), by investing in Bulgarian government debt (internal and external) and commercial papers within the approved limit framework for such exposures.

Currency risk

This is the risk for the profit and capital of the Bank arising from adverse movements in foreign currency exchange rates in the Banking and Trading books.

UBB balance sheet structure includes assets and liabilities, denominated in different currencies, mostly in BGN and EUR. Taking into consideration the existence of Currency Board in Bulgaria, the currency risk undertaken by the Bank, mainly, evolves from changes in the EUR/USD exchange rate and, to a smaller extent, from the exchange rates of other currencies to the Euro.

The Bank manages the risk of the other than EUR open FX positions aiming to minimize the possibility of loss in case of unfavorable exchange rates' fluctuations and thus maintains the FX risk exposure under 2% of the regulatory capital.

UBB additionally limits the FX risk by setting daily limits on the maximum potential loss from FX transactions on the financial markets. For defining and monitoring the above limits, the „Value at Risk“ method is used and in addition different stress-test scenarios are applied.

Interest rate risk in the banking book (IRRBB)

The interest rate risk in the banking book is related to possible unfavorable impact to the profit and capital of the Bank from adverse movements in interest rates affecting the Bank's non-trading positions.

UBB recognizes the importance of IRRBB management in effectively managing its balance-sheet, its capital and its earnings stream and has adopted and follows the *Policy for the Management of Interest Rate Risk in the Banking Book*.

The interest rate risk assessment methods include analysis of interest rate mismatches, duration analysis and the economic value of equity (EVE) sensitivity to a change in the interest rates. The Bank has identified the interest rate sensitive assets and liabilities. They are allocated in a maturity table, as floating rate instruments are allocated according to the remaining maturity till the next re-pricing date, while fixed-rate instruments are treated according to their remaining maturity till the maturity date.

The Bank measures the EVE sensitivity to unfavorable changes in interest rates separately for any of the main currencies in which the Bank operates and the results are used for making management decisions. The used scenarios are +/- 100 bps and +/- 200 bps parallel shift in interest rates.

As of December 31, 2016

Separate/Consolidated

Interest rate mismatch	up to 3m	3m - 1y	1y - 5y	up to 5y	Total
BGN	(1,226,046)	(308,028)	1,872	35,907	(1,496,295)
EUR	(79,675)	(234,772)	(28,426)	618,238	275,365
USD	(219,270)	(88,261)	(24,880)	-	(332,411)
Total	(1,524,991)	(631,061)	(51,434)	654,145	(1,553,341)

Interest rate mismatch	up to 3m	3m - 1y	1y - 5y	up to 5y	Total
BGN	3,445	3,498	(3,072)	(5,027)	(1,156)
EUR	1,791	3,246	(431)	(86,553)	(81,947)
USD	605	1,104	826	-	(2,535)
Total	5,841	7,848	(2,677)	(91,580)	(80,568)

As of December 31, 2015

Separate/Consolidated

Interest rate mismatch	up to 3m	3m - 1y	1y - 5y	up to 5y	Total
BGN	(772,524)	(351,964)	(89,750)	35,991	(1,178,247)
EUR	85,624	(377,139)	(70,847)	495,735	133,373
USD	(78,512)	(86,823)	(34,681)	-	(200,016)
Total	(765,412)	(815,926)	(195,278)	531,726	(1,244,890)

Interest rate mismatch	up to 3m	3m - 1y	1y - 5y	up to 5y	Total
BGN	(444)	3,981	424	(5,039)	(1,078)
EUR	271	4,519	728	(69,403)	(63,885)
USD	132	1,056	1,123	-	2 311
Total	(41)	9,556	2,275	(74,442)	(62,652)

EVE sensitivity of IRRBB exposure (200 bps parallel shift of the yield curve) is about BGN 80.6 million (8% of own funds) as of December 2016. UBB's exposure to IRRBB increased in 2016 in absolute amount due to the increase of the classified in AFS portfolio investment in Bulgarian sovereign bonds, but it is yet below of the approved internal limit (maximum 10% of the regulatory capital).

An important part of the interest rate risk management process is stress testing. Additionally, the following stress tests scenarios are applied and results are submitted to the Executive Management:

IRRBB Stress Test Scenario 1	BGN	0-3 M +/- 300 bp	3 M-12 M +/- 300 bp	>12 M +/- 300 bp
	Other CCY	+/- 200 bp	+/- 200 bp	+/- 200 bp
IRRBB Stress Test Scenario 2	BGN	0-3 M +/- 100 bp	3 M-12 M +/- 200 bp	>12 M +/- 300 bp
	Other CCY	+/- 50 bp	+/- 100 bp	+/- 200 bp
IRRBB Stress Test Scenario 3	BGN	0-3 M +/- 300 bp	3 M-12 M +/- 200 bp	>12 M +/- 100 bp
	Other CCY	+/- 200 bp	+/- 100 bp	+/- 50 bp

The techniques for managing interest rate risk, generated by the positions in the banking book, are: change in the administered interest rates on loans and deposits, change in the maturity of the offered credit and deposit products, change in the amount of fees and commissions, interest rate derivatives, etc.

The Bank applies appropriate measures for the interest rate risk restriction and maintenance within acceptable parameters, by maintaining an adequate structure of its interest-sensitive assets and liabilities and minimizing their mismatch.

Operational risk

This is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal and compliance risk, but excludes strategic and reputation risk.

The operational risk management in UBB is based on the approved Operational Risk Management Framework (ORMF). The ORMF is compatible with the best practices and complies with the regulatory requirements and is an integral part of the overall risk management framework. The entire operational risk management process is fully automated by implementation of specialized software.

An annual risk self-assessment by activities and processes is performed in all of the Bank's units. The main operational risks, to which the Bank is exposed according to the documented activities and processes, are identified and categorized annually according to the UBB's risk typology. The identified risks are assessed and on this base Action plans are being developed in the respective areas, where the risk should be reduced, according to the group standards of NBG.

An adequate system of Key Risk Indicators and thresholds for them is developed, their trends are analyzed on a monthly basis and in case a threshold is breached a procedure for development of an Action plan is triggered in order to reduce or eliminate the identified negative trends. The KRIs system is also a subject of annual review and refinement.

The Bank maintains an operational events database. The data is used for analysis purposes and for prognosis of the required capital for operational risk.

Stress tests are being conducted at the end of each quarter, based on the predicted data for the Bank's gross income and its allocation by business lines.

Based on the developed framework and BNB's approval regarding operational risk management, the Bank has implemented and applies the standardized approach for determining the capital requirements for operational risk. In parallel, the transition to the advanced approach for calculation of operational risk required capital is being considered.

With regard to determining the effect of more serious operational events on the Bank's activity, in coordination with the main business units, many stress-tests and scenario analyses are being made on an on-going basis, with regard to the relatedness of operational risk to the other risk types. Most important in this direction is the approved *Business Continuity Plan (BCP)*.

Business Continuity Plan

UBB is operating in a fast growing and changing environment, and acknowledges its exposure to different risks (reputational, strategic, financial, operational, legal and technology) which may influence the business continuity.

The Bank has developed a *Business Continuity Plan (BCP)* in order to minimize the reputational, financial, operational, legal and other material consequences arising from a disruption of the business processes.

The BCP is developed in compliance with the regulatory requirements and best practices, taking into consideration the organizational structure and UBB's business functions. UBB BCP also covers UBB Insurance Broker, UBB Asset Management and UBB Factoring.

The BCP maintenance is implemented through planned and ad hoc update activities. The BCP management is realized by the Business Continuity Committee (BCCommittee). The main goal of the BCCommittee is the organization and business continuity management in UBB, including ensuring of effective actions, directed to restoring of the interrupted functions of the business processes and systems.

Capital and capital adequacy

Solo basis

The capital owned by UBB Group shareholders by the end of 2016 amounts to BGN 1,082 million (2015: BGN 1,222 million) and in spite of the dividends' distribution at the end of 2016 of BGN 260 million, suffices for maintaining capital adequacy ratio well above the regulatory requirements.

The Bank's capital position stands strong, as also confirmed by the successful results of the AQR. The total capital adequacy as of December 31st 2016, as per CRD IV regulatory framework amounts to 24.25% (based on total Regulatory Capital on solo basis at BGN 990 million) and Tier 1 capital adequacy amounts to 23.24%.

Consolidated basis

The capital owned by UBB Group shareholders by the end of 2016 amounts to BGN 1,092 million (2015: BGN 1,229 million) and in spite of the dividends' distribution at the end of 2016 of BGN 260 million, allows the maintenance of the capital adequacy ratio well above the regulatory requirements.

The Bank's capital position stands strong, as also confirmed by the successful results of the AQR. The total capital adequacy as of December 31st 2016, as per CRD IV regulatory framework amounts to 24.32% (based on total Regulatory Capital on consolidated basis at BGN 998 million) and Tier 1 capital adequacy amounts to 23.32%.



**REVIEW OF THE ACTIVITY OF THE SUBSIDIARIES
AND ASSOCIATES OF UBB AS OF 31.12.2016**

1. Review of the activity of the subsidiaries and associates of UBB and main risks for the activity

Transactions between UBB, *its subsidiaries* (UBB Factoring EOOD, UBB Asset Management AD and UBB Insurance Broker AD), associated companies (UBB Metlife Life Insurance Company AD and Druzhestvo za Kasovi Uslugi AD) and mutual funds managed by UBB Asset Management (UBB Balanced Fund, UBB Premium Shares Fund and UBB Platinum Bonds Fund) are related mainly to fees and commissions for the main activity of the entities and to maintaining of deposits and current accounts.

Transactions between UBB, *its associated companies* (UBB Metlife Life Insurance Company AD and Druzhestvo za Kasovi Uslugi AD) and mutual funds managed by UBB Asset Management AD (UBB Balanced Fund, UBB Premium Shares Fund and UBB Platinum Bonds Fund) are related mainly to fees and commissions for the main activity of the entities and to maintaining of deposits and current accounts.

The Bank participates on separate and consolidated basis in mutual funds managed by its subsidiary UBB Asset Management AD as follows:

Shares in mutual funds, managed by subsidiary UBB Asset Management	31.12.2016	31.12.2015
UBB Balanced Fund	2 441	2 401
UBB Premium Shares Fund	2 687	2 021
UBB Platinum Bond Fund	1 546	1 523

2. Important events occurred after the date of the financial statements:

There are no important events between the dates of the final balance sheet and the UBB's Annual Report approval that require disclosure or adjustment in the Financial Statements on separate or consolidate basis.

3. Number and par value of the shares or stakes owned by UBB, by a subsidiary or associate company, of its or by an individual, acting on his/her behalf, but at the expense of the company

Name: UBB Asset Management AD

Location: Sofia

Head Office address: Sofia, 5 "St. Sofia" Str., "Vazrazhdane" municipality

Number and batch of entry in the commercial register: № 83704, v. 1021, reg. I, p. 44, under company file № 4098 of Sofia City Court according to the inventory of 2004

Capital: BGN 700,000, including:

UBB participation in the company: 90.86%, or BGN 636,000 nominal value of participation.

Name: UBB – Metlife Life Insurance Company AD

Location: Sofia

Head Office address: Bulgaria, Sofia, "Triaditza" region, postal code 1404, 75 "Bulgaria" Blvd.

Number and batch of entry in the commercial register: №108941 v. 1469, reg. I, p.143, under company file № 10677 of Sofia City Court according to the inventory dated 29.09.2006.

Capital: BGN 12,400,000

Participation in the company: 30% or BGN 3,720,000 nominal value of participation

Name: UBB Insurance Broker AD

Location: Sofia

Head Office address: Bulgaria, Sofia 1000, region "Vazrajidane", 9 "T. Aleksandrov" Blvd.

Number and batch of entry in the commercial register: company file № 5346 of Sofia City Court according to the inventory of 03.05.2007, reg.16-29, page 212.

Capital: BGN 500,000

Participation in the company: 80% or BGN 400,000 nominal value of participation

Name: Druzhestvo za Kasovi Uslugi AD

Location: Bulgaria, area Sofia (capital), municipality Sofia,

1632 Sofia, region „Ovcha kupel”, "Ovcha Kupel" 2 district, 16 "Ivan Hadjiiski" Str. tel: 02/ 9560419, fax: 02/ 9560419, office@dku.bg, www.dku.bg

Number and batch of entry in the commercial register:

№1 from 10.07.2007 Sofia City Court under №122002, regulation 1680, page 104, company file № 9568/2007 EIC 175327305

Capital: BGN 12,500,000

Participation in the company: 20% or BGN 2,500,523 nominal value of participation.

Name: UBB Factoring EOOD

Location: Bulgaria, area Sofia (capital), municipality Sofia, Sofia 1040, 5 "Sveta Sofia" Str.

Number and batch of entry in the commercial register:

№ 20091016151609/16.10.2009

Capital: BGN 1,000,000

Participation in the company: 100% or BGN 1,000,000 nominal value of participation.

Used financial instruments

a) The aims and policy of the company on financial risk management, incl. hedging policy.

In 2016 the subsidiaries UBB Asset Management AD, UBB Factoring EOOD and UBB Insurance Broker AD, and the associates – UBB Metlife Life Insurance Company AD and Druzhestvo za Kasovi Uslugi AD, used no derivatives for hedging purposes.

b) Exposure of the company with regard to price, credit, liquidity and cash flow risks

The capital exposures of the subsidiaries UBB Asset Management AD, UBB Factoring EOOD and UBB Insurance Broker AD, and the associates – UBB Metlife Life Insurance Company AD and Druzhestvo za Kasovi Uslugi AD are reported in compliance with regulations, evolving from the requirements of the capital adequacy.



CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT OF UNITED BULGARIAN BANK AD

**For the period ending on 31.12.2016
(in accordance with Accountancy act)**

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- 2.2. ELECTIONS AND TERM OF OFFICE
- 2.3. PROFESSIONAL BACKGROUND AND OTHER ACTIVITIES AND FUNCTIONS
- 2.4. INTERNAL ORGANIZATIONAL STRUCTURE
- 2.5. BOARD OF DIRECTORS' ANNUAL REPORT

3. EXECUTIVE MANAGEMENT COMMITTEE

- 3.1. MEMBERS OF THE EXECUTIVE MANAGEMENT COMMITTEE
- 3.2. EXECUTIVE MANAGEMENT COMMITTEE REPORT

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- 4.1. AUDIT COMMITTEE
 - 4.1.1. AUDIT COMMITTEE MEMBERS & PROFESSIONAL BACKGROUND
 - 4.1.2. AUDIT COMMITTEE REPORT
- 4.2. RISK MANAGEMENT COMMITTEE
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- 4.3. REMUNERATION COMMITTEE
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- 5.1. BOARD MEMBERS REMUNERATION FOR THE YEAR 2016
- 5.2. EXECUTIVE MANAGEMENT AND EXECUTIVE COMMITTEE MEMBERS CONTRACTS

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- 6.1. COMPETENCIES
- 6.2. CONVENING A GENERAL MEETING OF THE SHAREHOLDERS
- 6.3. QUORUM
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7. ASSESSMENT OF INTERNAL CONTROLS ON FINANCIAL REPORTING

- 7.1. REPORTING OF OPERATIONAL PERFORMANCE
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- 7.3. INTERNAL CONTROL AND RISK MANAGEMENT UPON PREPARING THE FINANCIAL STATEMENTS

CORPORATE GOVERNANCE OVERVIEW

The present Corporate Governance Statement has been made by virtue of Art. 40, Para.1 of the Accountancy Act in relation to Art.100 n, Para. 9 of the *Public Offering of Securities' Act* and *UBB Corporate Governance Code*. The provided information takes into account the circumstance that UBB has neither issued securities, admitted to trade on a regulated market, nor shares, traded at a multilateral trading facility.

Over the recent years regulatory authorities and various international organizations have focused their attention on financial institutions' corporate governance since an expert assessment has qualified the weaknesses and the poor practices in the sphere as a significant factor, contributing to the aggravation of the financial crisis. While striving to enhance the financial stability, the volume of legislative and regulatory acts, imposing increasingly stricter requirements as regards banks' corporate governance, has grown. In an attempt to respond to the public's expectations, in 2016 the Board of Directors approved *UBB AD's Corporate Governance Code*. This document is based on the regulatory requirements, applicable to the Bank and established in the Bulgarian and international legal and regulatory frameworks, while embedding the best international practices, laid down in a number of European Codes and Guidelines of the European Commission. By adopting the said Code, the Bank and its higher governing body – the Board of Directors – aim at thorough harmonization with the philosophy of these practices and state, definitely and clearly, how this philosophy is going to be applied in everyday practice. The document has been published on UBB's official website in the *About UBB* section (<https://www.ubb.bg/about/general-information/about-ubb>).

Management Structure

UBB is a joint-stock company with a one-tier system of management.

Board of Directors (BoD)

The Board of Directors is UBB's higher governing body, responsible for determining the strategy, operational steering and for exerting reliable control on the Bank's manner of functioning. The Board of Directors bears the ultimate responsibility for the Bank's activity and warrants that it is being managed with the main goal to enhance its value in long-term perspective and encourage corporate interest. The Board of Directors' specific powers are stipulated in detail in UBB's *Statutes* and *Corporate Governance Code*.

As part of the bank's higher governing body, the BoD members play a significant role in the institution's strategic decision-making, due to which UBB takes special care in selecting them. While building on the requirements of the applicable legislation, the *Corporate Governance Code* introduces additional professional and personal criteria with regard to the Board of Directors' members – ethical behavior, insight for balancing between the interests of various stakeholders, team-playing, determination and intellectual potential for constructive criticism, etc. These requirements aim at ensuring the necessary BoD profile in its capacity as the bank's higher collective body – extensive financial expertise, considerable professional experience; ability to make important and sensitive business decisions; understanding for the structure and dynamics of UBB's client base. The procedure for appointment and replacement of BoD members is regulated by UBB's *Statutes* and *Corporate Governance Code*.

There were no changes in the Board of Directors' members over 2016, however there was a change in its structure. Since May 31 the position of BoD Chairman is being held by the non-executive member Mr. Marinis Stratopoulos, who has taken the post over from Mr. Stilian Vatev, UBB's Chief Executive Officer. The change has been necessitated by a limitation in the *Corporate Governance Code*, provisioning that the chairman position should be occupied by a non-executive member of the Board of Directors.

Committees to the Board of Directors

The following committees have been established to the Board of Directors for supporting its work: Risk Management Committee, Remuneration Committee, Audit Committee.

- The Risk Management Committee advises the Board of Directors as to the overall current and future strategy regarding risk and the Bank's risk appetite. It submits the Bank's Risk Management Principles and Policy, Risk Appetite Statement and Metrics and risk management policies to the BoD for approval and exerts supervision on their application by the Bank's senior management. The Risk Management Committee comprises non-executive BoD members, elected by the Board of Directors. Meetings are held once per quarter.
- The Remuneration Committee is responsible for drafting and proposing decisions, related to staff remuneration practices and policies, impacting the assumed risks and their management at the Bank. The Committee assists the Board of Directors in the preparation, review and control with regard to the observance of the Bank's Remuneration Policy. The Remuneration Committee comprises non-executive BoD members, elected by the BoD. The Committee holds its meetings at least once a year.
- The Audit Committee ensures the effective functioning of the internal control systems, financial reporting, internal audit, compliance and risk management with regard to the application of the principles of stable corporate governance

and the Bank's strategic objectives. Its members are independent experts in the sphere of finance, banking and law, elected by the General Meeting of Shareholders in accordance with the procedure of the Independent Financial Audit Act. The committee holds its meetings at least once every two months.

The Corporate Governance Code envisages that a Corporate Governance and Nomination Committee should also function to the Board of Directors, which committee represents a specialized body as regards the issues of BoD membership and structure and is responsible for the selection of appropriate candidates, in accordance with the specific needs of knowledge, skills and experience. Establishment of such committee is forthcoming.

Communication with shareholders

UBB commits itself to the principle of impartiality towards all its shareholders, including minority and foreign ones, while guaranteeing them equal access to information. Shareholders are provided with full accounting information for the year, in order to be kept updated about UBB's performance and development. The annual General Meeting provides the shareholders with the opportunity to pose questions to the BoD members.

The bank believes that the ultimate disclosure and transparency of its operations are in the interest not only of its sound governance, but also are to the benefit of a robust and stable banking sector.

Shareholding structure

As of 31.12.2016 the share capital was allocated into 75 964 082 registered shares, each of them with a face value of BGN 1. Each share gives entitlement to one vote at the General Meeting of Shareholders, right to dividend and proportionate share upon liquidation of the Bank's property. UBB has neither issued securities with special control rights, nor have restrictions been envisaged with regard to exercising of the rights, materialized in the shares, issued by the institution.

The main shareholder of United Bulgarian Bank is the National Bank of Greece (NBG) with share participation equaling 99.9% of UBB's capital.

The Board of Directors' members have not been provided with special rights for acquisition of UBB shares.

2. BOARD OF DIRECTORS

2.1. Members of the Board of Directors

Name	Education/ Qualifications	First Election	Expires
Marinis Stratopoulos Chairman of BoD	Master's degree in Finance	2015	2018
Stilian Vatev CEO	Master's degree in Finance and Credit	1997	2018
Radka Toncheva Executive Director	Master's degree in Finance and Credit	1997	2018
Teodor Marinov Executive Manager Corporate Banking	Master's degree in Systems' Control	2010	2019
Anastasios Lizos Non-executive Member of the BoD	Master's degree in Finance and Banking	2011	2017
Alexandros Benos Non-executive Member of the BoD	Master's degree in Economics	2015	2018
Konstantinos Bratos Non-executive Member of the BoD	Master's degree in Economic Management	2012	2018

2.2. Elections and term of office

United Bulgarian Bank AD is managed and represented by a Board of Directors, comprising of three to nine members, elected by the General Meeting of Shareholders for three-year term of office. Currently, the Board of Directors consists of 7 members – 3 executive and 4 non-executive members. During 2016 only one Board Member was re-elected for a three-year term of office – Mr. Teodor Marinov.

Responsibilities of the Board of Directors as per UBB's Statutes

The Board is responsible for making decisions on:

- adopting Working Rules of the Board of Directors;
- electing Chairman, Deputy Chairman of the Board of Directors and Executive Directors among the BoD's members;
- adopting the strategy, the plans on the activity and the budget of the Bank;
- approving the Bank's organizational structure, considerable organizational changes and any material change in the Bank's activity;
- opening and closing of branches (of a merchant within the meaning of the Commerce Act), of representative offices of the Bank abroad and of subsidiaries;
- equity participations in companies in this country and abroad and termination of such participations;
- establishing long-term cooperation of substantial importance to the Bank or termination of such cooperation;
- adopting the risk management and control policy, the internal rules and procedures for risk monitoring and control systems' efficiency and operating control organization;
- establishing committees and ancillary bodies for risk management and control, for operating control, the Bank's Credit Committee. Defining their members and authorities. The rules, procedures on credit activity and the loans' decision-making procedure are adopted by the Bank's Credit Committee;
- approving the annual financial statements, a report on the activity and a proposal for the allocation of profit and proposing it for approval to the General Meeting of Shareholders;
- acquiring of fixed assets, when costs exceed EUR 100 000 (one hundred thousand) euro per annum, except for costs, approved by the Board of Directors in the annual budget and of the costs for acquiring fixed assets for loan repayment purposes in the process of collecting the Bank's receivables;
- renting of property and movables outside the renting of offices, cars and office equipment for the Bank's normal course of business;
- undertaking encumbrances on the Bank's property in amount exceeding EUR 500 000 (five hundred thousand);
- selling or leasing out fixed assets, property of the Bank, with balance sheet value exceeding EUR 250 000 (two hundred and fifty thousand), except for sales of fixed assets, acquired in exchange of loans in the process of collecting the Bank's receivables;
- granting of loans to one person/entity or to related parties, which amount exceeds 10 % of the Bank's equity;
- defining the remuneration of the Executive Directors.

The Board of Directors is responsible for ensuring the long-term strategy and the strategic direction, management, supervision and adequate control of the Bank. It oversees the Bank's overall economic, social and environmental sustainability. It ensures increasing of the Bank's value for the shareholders and protects corporate interests in compliance with applicable legislation and regulatory framework.

2.3. Professional background and other activities and functions

Mr. Marinis Stratopoulos

General Manager, International Activities, NBG

Mr. Stratopoulos obtained his Master's degree in Finance at Lancaster University, UK. Mr. Stratopoulos started his career as a Senior Relationship Officer at XiosBank S.A., where he worked during the period 1993-1999, leaving as Head of Middle Market Corporate Clients' Dept. Mr. Stratopoulos joined Piraeus Prime Bank S.A. for the period 1999 – 2001 as Head of Business Development group. For the period 2001 – 2005 he was CEO and BoD Chairman of Egnatia Bank Romania S.A. In 2005 he became Deputy General Manager of Egnatia Bank. As of 2005 he joined NBG Group and from 2005 to 2007 he was General Manager of National Bank of Greece a.d. Beograd. For the period 2007 – 2010 he worked as CEO of Vojvodjanska Banka a.d. Novi Sad. Since 2010 he is BoD Chairman of Banca Romaneasca S.A.; He is also Chairman of NBG Leasing IFN, Romania and Vojvodjanska Banka A.D. He is Chairman of the Supervisory Board of Stopanska Banka AD – Skopje and Deputy Chairman of NBG Cyprus Ltd. He is also Deputy Chairman of the Hellenic – Romania Bilateral Chamber of Commerce. Currently he is General Manager International Activities at NBG S.A. and Chairman of UBB Board of Directors.

Mr. Stilian Vatev

Member of Board of Directors and CEO

Mr. Vatev obtained his Master's degree in Finance and Credit in the University of National and World Economy, Sofia. He is a graduate of Macroeconomics, Money Markets and Monetary Policy course at the National Bank of Switzerland.

Mr. Vatev started his career at the Bulgarian National Bank where he worked as Assistant Manager and Manager at Domestic Trade and Tourism Dept., Senior Manager at Private Lending Dept. and Head of the International Relations Division. He then joined United Bulgarian Bank AD as General Manager Investments Division in charge of managing UBB's institutional strengthening and privatization. In 1997 he was elected Chief Executive Officer. He is a member of MasterCard Europe CEE Regional Advisory Board and a member of the Board of Directors of Borica Bankservice and UBB Insurance Broker. He is Chairman of the Board of Directors of Interlease and Interlease Auto, UBB MetLife Insurance Company and UBB Asset Management.

Mrs. Radka Toncheva

Executive Director

Mrs. Toncheva obtained her Master's degree in Finance and Credit at the University of National and World Economy, Sofia, where she also completed post-graduate studies in Bank Servicing of Industry. Mrs. Toncheva started her career as a Cashier and Accountant at the Sofia Branch of Petrol OOD Company and continued at the Sofia Branch of the Bulgarian National Bank, where she worked as a Credit Officer, Senior Manager and Chief Accountant. For the period 1990 – 1993 Mrs. Toncheva worked at Commercial Bank Sofia as Chief Accountant and a Member of the Management Board. Then she joined United Bulgarian Bank AD as Chief Controller, later becoming a Member of the Management Board and Executive Director of United Bulgarian Bank AD. She is a Board Member of Druzhestvo za Kasovi Uslugi AD and Burov Foundation. After the Bank's privatization in 1997 she was elected Member of the Board of Directors and Executive Director – positions which she continues to hold.

Mr. Teodor Marinov

Executive Manager Corporate Banking

Mr. Marinov obtained his Master's degree in Systems Control at the Technical University, Sofia. He holds an MBA from London Business School. He is also a Chartered Financial Analyst. Mr. Marinov started his career as a Financial Analyst at the Bulgarian Stock Exchange and then worked as a Customer Relationship Manager at Bulgarian Investment Bank AD before being promoted to Credit Analysis Unit Manager. In 1997, Mr. Marinov was recruited as Investments Manager in Balkan Regional Division of NBG. Mr. Marinov held the position of Executive Director of Interlease EAD during the period 2001 –2010 and currently he is a Member of the Board of Directors of Interlease and Interlease Auto. Also, he is presently a member of the Board of Directors of NBG Leasing DOO, Serbia and NBG Leasing – Romania. He is a member of CFA Institute since 2001, member of the Bulgarian CFA Association and the Bulgarian Turnaround Management Association.

Mr. Anastasios Lizos

Head of Sector A of International Activities Division, NBG

Mr. Lizos obtained his Bachelor's degree in Business Administration at the University of Piraeus and his Master's degree in Finance and Banking at Athens University of Economics and Business. Mr. Lizos started his career in NBG Angelopolou Branch and later on worked in NBG Panepistimiou Branch's Imports Department and Loan Department and as Head Teller in the same Branch. Then he was recruited as Internal Auditor at NBG Audit Division. During the period 2002 –2009 Mr. Lizos was Deputy Manager of NBG International Network Division A. In 2009 he became Manager of NBG International Network Division B. Currently he is Head of Sector A of NBG International Activities Division and a Member of the Board of Directors of United Bulgarian Bank AD.

Mr. Konstantinos Bratos

Assistant General Manager, Corporate Workout & Remedial Management, NBG

Mr. Bratos obtained his Bachelor's degree in Economics at the University of Piraeus and his Master's degree in Economic Management at Burgas University. Mr. Bratos started his career as a Commercial Lending Assistant at NBG Kaminia Branch and then worked in NBG Audit Division. In 1995 Mr. Bratos was recruited firstly as a Senior Credit Officer and later on as Deputy Manager of NBG Boston Branch. During the period 1998–2002 he consecutively became Manager of NBG Branches in Belgrade, Sofia and Bucharest. After that he held the position of Second General Manager of Stopanska Banka AD – Skopje. In 2005 Mr. Bratos was appointed Manager of NBG International Network Division A and after that in 2010 he joined United Bulgarian Bank AD as Executive Manager Corporate & Business Banking. Currently he is Assistant General Manager of Corporate Workout & Remedial Management in NBG and a Member of the Board of Directors of United Bulgarian Bank AD.

Mr. Alexandros Benos

Assistant General Manager, NBG Group Risk Management, CRO

Mr. Benos obtained his Bachelor's and Master's degrees in Economics at the University of Cambridge, UK and his Ph.D. in Finance at Stanford University, USA. Mr. Benos firstly launched an academic career as an Assistant and Associate

Professor, Finance and Economics Dept., HEC School of Management and Finance. Since 2001 he is a Visiting Professor at the same school. From 2001 to 2006 he was an Assistant Professor, Banking and Financial Management Dept. at the University of Piraeus. He joined NBG Group in 2000 as Senior Credit Risk Manager, NBG. From 2010 to 2013 he was Director, Group Risk Control and Architecture Division, NBG. Since 2013 he is Assistant General Manager for Group Risk Management, NBG. Mr. Benos is also a Member of Econometric Society, American Financial Association (AFA), American Institute of Financial Management (AIFM), and the Association Française de Finance (AFFI). He is a Member of UBB Board of Directors.

2.4. Internal organizational structure

Allocation of tasks between the Board of Directors' Members.

Board Members	Executive Management Committee	Risk Management Committee	Remuneration Committee
Marinis Stratopoulos			
Stilian Vatev			
Radka Toncheva			
Teodor Marinov			
Anastasios Lizos			
Alexandros Benos			
Konstantinos Bratos			

2.5. Board of Directors' Annual Report

In 2016 the Board of Directors of United Bulgarian Bank held 14 meetings of which 8 meetings with 100% attendance rate and 6 meetings with 85% attendance rate, respectively. UBB Board of Directors has complied with Art. 41 (1) of the Bank's Statutes, stipulating regular meetings to be held at least on a quarterly basis, as during 2016 BoD meeting were held monthly, of average duration 1.5 hours. The high attendance rate at the Board meetings ensured all Board Members' maximum contribution for the successful management of the Bank's business. The average Board meetings' duration is considered adequate and optimal for comprehensively discussing the items on the agenda, in view of prior approval practices.

In summary, the main reviewed, discussed and approved topics were, as follows: a) administrative – approval of Minutes from the last Board meeting, convening of a General Meeting of Shareholders, election of Chairman of UBB Board of Directors, appointment of Remuneration Committee Secretary, convening of an Extraordinary Meeting of Shareholders, election of a new BoD Secretary b) financial reporting -- UBB financial and business performance by months, approval of UBB Budget 2016, approval of UBB 2015 annual financial statements c) Board Committees' reporting – quarterly and annual reports on the activity of the Specialized Internal Audit Department, Audit Committee's self-evaluation reports, quarterly and annual reports, UBB Risk Management Committee's quarterly and annual reports d) policies and rules – amended Risk Management Committee Working Rules, Remuneration Policy Update, Corporate Governance Code, Retail Banking Credit Risk Policy Manual, Annual Report on compliance and control of investment services, provided by UBB, Remuneration Committee Working Rules, Code of Ethics for Financial Professionals, Anti-Bribery Policy, Amended version of Liquidity Risk Policy, Amended version of Market Risk Policy, Revision of UBB Recovery Plan e) Corporate Banking loans, credit lines, programs and agreements within the Board's discretion to more than 30 companies, groups, funds and institutions.

The Board of Director's activity during 2016 aimed at ensuring resilient but sustainable development and budget fulfillment, defining the long-term strategy, thus enhancing its management, supervision and control. In 2016 the Board of Directors succeeded in meeting all its managerial obligations, plans and targets, while steering the Bank in the right strategic direction.

3. EXECUTIVE MANAGEMENT COMMITTEE

3.1. Members of the Executive Management Committee

Name	Position	Education/ Qualifications
Stilian Vatev Chairman	Chief Executive Officer	Master's degree in Finance and Credit
Radka Toncheva Member	Executive Director	Master's degree in Finance and Credit
Teodor Marinov Member	Executive Manager Corporate Banking	Master's degree in Systems Control
Dimitrios Vafeiadis Member	Country Risk Manager	Bachelor's degree in Economics
Christodoulos Christodoulou Member	Chief Financial Officer	Fellow Chartered Accountant, Bachelor's degree in Economics
Alexander Georgiev Member	General Manager Retail Banking	Master's degree in Management of Commerce
Ivan Koutlov Member	General Manager Treasury	Master's degree in Finance
Ivaylo Mateev Member	Chief Operating Officer	Master's degree in Management of Commerce

Mr. Stilian Vatev, Executive Management Committee Chairman

Member of Board of Directors and CEO

[For further reference, please see a detailed CV in section 2.3.](#)

Members:

Mrs. Radka Toncheva

Executive Director

[For further reference, please see a detailed CV in section 2.3.](#)

Mr. Teodor Marinov

Executive Manager Corporate Banking

[For further reference, please see a detailed CV in section 2.3.](#)

Mr. Dimitrios Vafeiadis

Country Risk Manager

Mr. Vafeiadis holds a BSc from Athens University of Economics and Business and has attended numerous seminars and conferences and INSEAD Inter Alpha Banking Program. Dimitrios Vafeiadis was appointed Country Risk Manager (Chief Risk and Chief Credit Officer) of UBB in June 2010. He is a member of the Executive Management Committee, ALCO and of various Credit Committees. From May 2007 till June 2010 he was Country Risk Manager in the NBG subsidiary in Serbia, Vojvodjanska Banka. He joined NBG in 1984 and until 2007 he served in different, mainly credit and corporate related positions, in Greece and in Germany, primarily connected to NBG international activities. He participated in several due-diligence tasks for acquisitions of banks in the years 2004 to 2006.

Mr. Alexander Georgiev

General Manager Retail Banking

Mr. Georgiev obtained his Master's degree in Management of commerce at the University of National and World Economy, Sofia. Mr. Georgiev started his career in 1992 as a Foreign Exchange Dealer at Commercial Bank Doverie, later part of UBB. In 1993 he was appointed Deputy Head Strategic Planning Division of UBB and in 1995 – Head of Planning Department. During the period 2001 – 2009 he held the positions of: Head of Sales Retail Banking Department, Head

of Retail Banking Department, Head of Retail Credit & Risk and Head of Retail Banking & Card Center. Mr. Georgiev is Chairman of the Board of VISA Bulgaria and a member of the Board of Directors of UBB MetLife Insurance Company, UBB Insurance Broker and UBB Asset Management. Currently he is General Manager Retail Banking.

Mr. Christodoulos Christodoulou

Chief Financial Officer

Mr. Christodoulou holds a BSc (Hons) degree in Economics from the University College London (UCL) and the professional qualification of Fellow Chartered Accountant (FCA) with the Institute of Chartered Accountants of England and Wales (ICAEW). Mr. Christos Christodoulou was appointed Chief Financial Officer of United Bulgarian Bank AD in February 2015. He is a member of the Executive Management Committee, ALCO and of various other committees at the Bank. During the years 2007 to 2015 he worked for National Bank of Greece SA as the Financial Controller of the Group's South East Europe and African subsidiaries. From 2003 to 2007 he worked for Eurobank SA in Greece in the Finance Division as a manager, responsible for Financial Reporting and as Financial Controller for the South East Europe subsidiaries. Before Eurobank he worked in consulting for a period of four years with Hacker Young Chartered Accountants in London, UK. During his career both in banking and consulting he participated in several M&A, Due-diligence and Valuation projects.

Mr. Ivan Koutlov

General Manager, Head of Treasury

Mr. Koutlov obtained his Master's degree in Finance in the University of National and World Economy, Sofia. He has Major in: Advanced study in Financial Management and Capital Markets from University of Strathclyde Business School, UK. He holds an Executive MBA from the American University in Bulgaria, Sofia. Mr. Koutlov started his career in 1991 as Chief Dealer International Money Markets and Treasury at Stroybank AD, Sofia, later part of UBB. For the period 1995 – 1997 he worked at the Bank Consolidation Company and from 1997 to 1999 at Shell Bulgaria, Sofia. In 1999 he was appointed Director Money Markets and Treasury Debt Instruments at UBB. For the period 2001 – 2003 he was Head of Large Corporate Customers Banking of UBB. Since 2003 he has been General Manager, Head of Treasury of UBB, Procurator – BoD Member of UBB Asset Management Company AD. He is currently also President of the Bulgarian Chapter of ACI Financial Markets Association-ACI BDA, Board Member of SOFIBOR committee. He was Board Member of the Bulgarian Stock Exchange and Board Member of the Reserve Guarantee Fund of the Bulgarian National Bank.

Mr. Ivaylo Mateev

Chief Operating Officer

Mr. Mateev obtained his Master's degree in Management of Commerce at the University of National and World Economy, Sofia. He started his career in 1992 in the Bank Policy Unit, United Bulgarian Bank. From 1993 to 1995 he worked at Strategic Planning Unit of UBB. In 1996 he was appointed Manager Management Accounting Unit of UBB and in 1998 as Project Manager – EQUATION. During the period 2000-2008 he held the following UBB positions: Project Manager – GLOBUS Implementation project, Director Business Processes and Organization Department, Director Branch Network Division. In 2008 he had a long-term assignment in Implementation of T24 core banking system, Centralization project management at Vojvodjanska Banka Novi Sad. Since 2009 he has been Chief Operating Officer of UBB.

3.2. Executive Management Committee Report

The Executive Management Committee (EMC) ensures the performance of the Bank's current activity, within the limits of the duties of the Executive Directors according to the Statutes of United Bulgarian Bank, as well as of other authorities given by the Board of Directors, insofar as this does not contradict to imperative provisions of the law and the Statutes. The Committee has at least the following roles and responsibilities: a) analyzes and endorses the Bank's strategy and policies, which are to be submitted for the Board of Directors' approval and ensures their implementation; b) approves and/or endorses the conclusion of all transactions with movable and immovable property, acquired within the limits of the authorities of the Executive Directors; c) approves the policies and codes according to the Bank's internal rules, except for the cases when Board of Directors' or other Bank body's approval is mandatory; d) analyzes the market evolution and the competition within the financial – banking field; e) decides on the Bank's Business Plan and the related Budget before being approved by the competent bodies; monitors and analyzes periodically their implementation and takes the necessary corrective actions if the case. Analyzes the financial performance of the Bank and the related ratios; f) approves and prioritizes the bank's Projects Portfolio together with all subsequent modifications; Analyzes the status of the major projects, performed within the Bank and makes decisions, related to these; g) proposes to the Board of Directors opening and closing of branches; h) proposes to the Board of Directors equity participations in companies in this country and abroad and termination of such participations; i) proposes to the Board of Directors establishing long-term cooperation of substantial importance to the Bank or termination of

such cooperation; j) approves the establishment of correspondent counterparty relations with banks in this country and abroad; k) analyzes the main risk issues brought in attention by the Risk Management of the bank, together with the Risk Management Committee; l) periodically assesses the progress of implementing the main recommendations

included in the Audit Reports; m) decides on the main plans of the bank such as: Training Plan, Marketing Plan, Branch Network Development Plan, etc. n) analyzes the opportunity for major outsourcing of certain Bank activities; o) makes decisions for purchase-sales of financial instruments, traded on a regulated market, as well as underwriting or subscribing of financial instruments for the purpose the Bank to sell those proprietary or in its capacity as an investment intermediary, within the authorities of the Executive Directors and within a limit, specified by the Board of Directors; p) approves the investment expenses and other expenses within the global value limits, established in the budget and according to the applicable internal regulations; q) approves the investment expenses and operating expenses in excess of the budget and within the limits, established by the Board of Directors; r) establishes the signatures regime, the empowerment regime within the Bank, as well as the authority limits, except for those being under the exclusive competence of the Board of Directors, according to the law and special regulations; s) reviews and decides upon major legal issues (litigations with third parties in which the bank is involved, litigations with personnel); t) analyses and decides on issues, related to customers in the high-risk category.

The EMC makes decisions with the unanimity of all its members. EMC consists of 8 voting members. In 2016 the EMC held 22 meetings of which 6 attended and 16 – on signing. In summary, the main topics were: a) financial matters – draft budget review and approval, UBB financial and business performance reviews; b) acquisition of assets/property; c) internal policies – UBB Corporate Governance Code, UBB Chart of Authorities; d) review of the AQR progress. All decisions were made unanimously and no member exercised one's veto power.

4. BOARD COMMITTEES

4.1. Audit Committee

4.1.1. Audit Committee Members & professional background

Mr. Dimitar Bazlyankov

UBB Audit Committee Chairman

Mr. Bazlyankov obtained his Master's degree in Accountancy and Audit in the University of Economics, Varna, Bulgaria. In 1992 he became Certified Public Accountant and Member of the Institute of Certified Public Accountants in Bulgaria. In 2005 he became Licensed Statutory Auditor of insurance companies, certified by Insurance Supervision Directorate with the Financial Supervision Commission. For the period 2005 –2007 Mr. Bazlyankov was a Member of the Quality Assurance Committee with the Audit Office of the Republic of Bulgaria and from 2008–2011 he was Chairman of the Quality Assurance Committee with the Bulgarian Institute of Certified Public Accountants. For 7 years he had been an Assistant Professor in Accounting at the University of Economics, Varna. Currently Mr. Bazlyankov is an Audit Partner in Anda Consulting Ltd. Before joining Anda Consulting in 2008 he had worked for 17 years with Deloitte Bulgaria. He has been Chairman of UBB Audit Committee since 2011.

Mr. Dinko Yordanov

UBB Audit Committee Member

Mr. Yordanov obtained his Master's degree in Law at Sofia University St. Kliment Ohridski, Sofia, Bulgaria. He became a Member of the Bar Association in Bulgaria in 2004 and a Member of the Bulgarian branch of the International Fiscal Association in 2014. For the period 1991 –1994, Mr. Yordanov worked as a Legal Advisor in the Ministry of Finance, Sofia Tax Directorate. Since 2005 Mr. Yordanov is an Attorney at Law and Partner at Yordanova, Rizova & Partners Law Office, Sofia, Bulgaria. Before joining Yordanova, Rizova & Partners Law Office he worked for 12 years with Deloitte Bulgaria.

Mrs. Boyka Brezoeva

UBB Audit Committee Member

Mrs. Brezoeva obtained her Master's degree in Accountancy in the University of National and World Economy (UNWE), Sofia, Bulgaria. In 1999, she became a Certified Public Accountant and Member of the Institute of Certified Public Accountants in Bulgaria. In 1998, she became Chief Assistant Professor in Accounting, and in 2012 – Associate Professor in Accounting at UNWE, Sofia, after obtaining a Ph.D. degree in 2010. Currently, Mrs. Brezoeva is both a lecturer at the UNWE and an auditor as a sole practitioner. She has been a member of UBB Audit Committee since 2008.

4.1.2. Audit Committee Report

Audit Committee is an independent body, responsible for oversight over application of corporate governance principles in UBB with respect to financial reporting, internal audit and risk management. Effective since January

1, 2008, UBB Audit Committee consists of three independent members with combined expertise and experience in accounting, external and internal audit and law in the area of financial markets and financial institutions. All members have 3-year mandates, elected by the General Meeting of shareholders. Members of the Audit Committee are Mr.

Dimitar Bazlyankov, Chairman, and members – Mr. Dinko Yordanov and Mrs. Boika Brezoeva, whereas Mr. Yordanov and Mrs. Brezoeva were re-elected by GMS in 2016 for a 3-year period and Mr. Bazlyankov – in 2014.

In 2016 the Committee held 10 regular meetings, all fully attended by the Committee members, as well as 2 non-present meetings. A number of senior management representatives were invited, including Executive Directors, Chief Financial Officer, Head of Compliance, etc. In addition, there were regular meetings with the Head of the Specialized Internal Audit Department, including such for monthly presentations and formal Quarterly Reports of Internal Audit. During the year the Committee met on several occasions with the external auditors from Deloitte to discuss financial reporting and external audit matters, as well as terms of engagement of external auditors. These meetings provided the Committee with the necessary information to assess and support the independence and effectiveness of external auditors and internal audit function of the Bank respectively, and an opportunity for the external and internal auditors to raise matters of concern in confidence manner.

In summary, discussed topics focused on, as follows: a) financial reporting – market and industry analysis, policies, financial plans and statements, IFRS implementation and reporting; b) internal controls and compliance – functioning the internal controls, supervisory authorities' reports, annual compliance plan 2016 and report 2015; c) internal audit monitoring – audit plan 2016, monitoring of SIAD effectiveness; d) external auditors review – recommendation of reappointment of the external auditors (Deloitte) to perform independent financial audit of 2016 financial statements, permanent relationships with the external auditors from Deloitte, assessment of the independence of the external auditors; e) policies reviews; f) collaboration with NBG Group – provided information to the NBG Group Audit Committee for the Audit Committee work plan, goals and objectives and its performance throughout the year.

4.2. Risk Management Committee

4.2.1. Risk Management Committee Members

Mr. Alexandros Benos

UBB Risk Management Committee Chairman
Non-executive BoD Member

Mr. Konstantinos Bratos

UBB Risk Management Committee Member
Non-executive BoD Member

Mr. Anastasios Lizos

UBB Risk Management Committee Member
Non-executive BoD Member

4.2.2. Risk Management Committee Report

The Board of Directors (BoD) Risk Management Committee (RMC) assists the Bank's BoD in its role and responsibility concerning the establishment and maintenance of an integral and adequate framework for the management of all risks to which the Bank is exposed. It ensures the existence of an adequate risk management framework, which at minimum should fulfill the requirements set by the Bulgarian National Bank (BNB) and NBG Group. The Committee defines the Bank's Risk Strategy and reviews annually the bank's Risk Appetite framework. It determines the principles which should govern the risk management function, with regard to the recognition, forecast, measurement, monitoring, control and management of the risks, in accordance with the business strategy and the adequacy of available resources at any point of time. RMC members are non-executive members of the Bank's BoD, appointed by the Board of Directors.

In 2016 UBB Risk Management Committee convened five meetings, of which four regular on a quarterly basis and one extraordinary meeting, all fully attended by the Committee members.

In summary, the main topics were: review of the quarterly risk reports of UBB Risk Management Division (RMD); supervision of UBB RMD's priorities throughout the year; monitoring and approval of changes in the operational risk limits; the Committee reviewed and submitted to UBB BoD for approval relevant risk management documents in need of approval/update – Risk Management Principles and Policy and Risk Appetite Statement and Metrics of UBB, Retail Risk Credit Policy Manual, Market Risk Policy, Liquidity Risk Policy, BoD Risk Management Committee Working Rules and Procedures. The Risk Management Committee succeeded in meeting all its managerial obligations, plans and targets.

4.3. Remuneration Committee

4.3.1. Remuneration Committee Members

Mr. Marinis Stratopoulos

UBB Remuneration Committee Chairman
Non-executive BoD Member

Mr. Anastasios Lizos

UBB Remuneration Committee Member
Non-executive BoD Member

Mr. Konstantinos Bratos

UBB Remuneration Committee Member
Non-executive BoD Member

4.3.2. Remuneration Committee Report

UBB Remuneration Committee performs its activities in conformity with the objectives, principles and scope of UBB Remuneration Policy.

It is subordinated to the Board and consists of three non-executive Board members. There are elected Chairman and Secretary and the Committee operates effectively according to its work rules, approved by the Board of Directors.

The Remuneration Committee's main responsibilities are related to rendering a competent and independent judgment on remuneration policies and practices, providing support to the non-executive members of the Board with regard to preparing, reviewing and monitoring the Remuneration Policy's implementation, proposing decisions to the Board of Directors on the relevant staff-related policies and practices within the scope of UBB Remuneration Policy.

In 2016 the Committee held 2 meetings, attended by all Committee members. The main issues on the agenda and the made decisions were focused on reviewing the remuneration of the Senior Management Staff as compared to market levels and internal grading. All proposals of the Committee were approved by UBB Board of Directors.

5. REMUNERATION OF BOARD MEMBERS**5.1. Board Members remuneration for the year 2016**

The total annual remuneration paid to Board Members during 2016 amounts to BGN 668 thousand.

5.2. Executive Management and Executive Committee Members contracts

No	Names	Positions	Expiry date of contract with UBB
1	Stilian Vatev	Chief Executive Officer, Member of BoD	MSA* - indefinite period of time
2	Radka Toncheva	Executive Director, Member of BoD	MSA* - indefinite period of time
3	Teodor Marinov	Executive Manager Corporate Banking, Member of BoD	LC** - indefinite period of time
4	Christodoulos Christodoulou	Chief Financial Officer	LC** - fixed term until 04.01.2018
5	Ivaylo Mateev	Chief Operating Officer	LC** - indefinite period of time
6	Dimitrios Vafeiadis	Country Risk Manager	LC** - fixed term until 31.12.2017
7	Alexander Georgiev	General Manager Retail Banking Division	LC** - indefinite period of time
8	Ivan Kutlov	General Manager Treasury Division	LC** - indefinite period of time

* MSA – Management Services Agreement

** LC – Labour contract

6. GENERAL MEETING OF SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

The General Meeting of Shareholders is UBB's superior management body. It delineates the major trends of the Bank's activities and involves all shareholders who either personally or through their authorized representatives participate in its sessions.

The members of the Board of Directors attend the General Meeting but are not entitled to vote, unless being shareholders.

6.1. Competencies

- a. Amends and complements the Bank's Statutes;
- b. Adopts resolutions on capital increase or decrease;
- c. Adopts resolutions as regards the bank's transformation (through merger, acquisition, joining, disjoining and

otherwise as legally allowed) and liquidation;

- d. Elects and releases the members of the Board of Directors;
- e. Determines the management commitment fee and the remuneration of the Board of Directors' members to whom the management will not be assigned, including their right to receive part of the Bank's profit as well as acquire Bank shares and bonds;
- f. Elects and releases the specialized auditing company upon recommendation of the Audit Committee as well as the Audit Committee itself;
- g. Approves the annual financial statements, following their certification by the appointed certified auditing company; Makes a decision on the allocation of profit, contributions to the Reserve fund and payment of dividends;
- h. Decides on the issuing of bonds;
- i. Appoints liquidators upon the Bank's liquidation, except in case of bankruptcy;
- j. Releases the members of the Board of Directors from liability;
- k. Makes decisions on transfer of the Bank's commercial enterprise;
- l. Decides on disposal of assets, which total value during the current year exceeds half of the value of the Bank's assets in accordance with the latest certified annual financial statements;
- m. Decides on the undertaking of commitments or providing of collateral to one person/entity or related parties, which commitments' amount during the current year exceeds half of the value of the Bank's assets in accordance with the latest certified annual financial statements;
- n. Resolves any other issues within its competence as stipulated by the law and the Bank's Statutes.

6.2. Convening a General Meeting of the Shareholders

The General Meeting of Shareholders has to be called at least once every year, but no later than 6 months after the end of the reporting year.

The General Meeting of Shareholders may be convened by the Board of Directors, as well as upon the request of shareholders who have been holding shares which represent at least 5% of the capital for at least three months..

The General Meeting of Shareholders is convened with an invitation, announced in the Commercial Register. Also, the Board of Directors may call a GMS through sending written invitations to all shareholders of the Bank.

Each shareholder is entitled to receive on request the written materials, concerning the General Meeting's agenda.

In general, the materials for the General Meeting are made available to the shareholders by the date of announcing the notice in the Commercial Register at the latest or by the date of mailing of the invitations for the General Meeting's convening.

6.3. Quorum

The General Meeting has the needed quorum if more than half of the shares are represented.

A simple majority vote of the capital represented at the General Meeting is required, except for decisions under indents "a", "b", "l" and "m" of point 6.1 above – where a qualified majority of 2/3 of the capital is needed, and under indents "c" and "k" – where the required qualified majority of capital is 3/4.

In case of absence of quorum, a new General Meeting may be called not earlier than after a fourteen-day period has elapsed and is deemed legitimate regardless of the capital, represented at it. The notice for the first meeting may also indicate the date of the new meeting.

Each shareholder has the right to authorize in writing a person to represent him/her at the General Meeting. However, a shareholder cannot be represented by a Board member.

There are Minutes kept of the General Meeting which are signed by the Chairman, the Secretary, the Recorder and the Tellers of the meeting.

6.4. General Meetings of Shareholders in 2016

UBB's regular General Meeting of Shareholders in 2016 was held on 21.06.2016. The GMS was presented with the Board of Directors' Report on the Bank's 2015 Performance and was informed of the net profit as at end Y2015. UBB Audit Committee Report for the year 2015 was approved and the General Meeting heard and accepted the report of the specialized auditing company Deloitte Audit OOD on UBB 2015 Annual Financial Statements audit, certified in compliance with the applicable Financial Reporting Standards – IFRS.

The GMS also released from responsibility all members of UBB AD Board of Directors as regards their activity for managing the bank over the period 1.I.2015 – 31.XII.2015, pursuant to Art.221, Item 10 of the Commerce Act and Art.29, Para.1, indent "κ" of UBB AD Statutes. One BoD member, namely Mr. Teodor Marinov, was re-elected by the General

Meeting for a 3-year mandate pursuant to Art.221, Para.4 of the Commerce Act and Art.37 of UBB AD Statutes.

The General Meeting of UBB AD Shareholders, by recommendation of the Audit Committee, re-elected Deloitte Audit OOD for performing an audit and certification of the Y2016 Annual Financial Statements of the Bank in compliance with the applicable Financial Reporting Standards – IFRS.

The GMS also re-elected Mr. Dinko Petrov Yordanov and Ms. Boyka Nikolova Brezoeva – members of UBB AD Audit Committee – for a mandate of three years pursuant to Art.40 e), Para.2 of the Independent Financial Audit Act in relation to Art.52 a) of UBB AD Statutes.

In 2016 there was also an extraordinary General Meeting of the Bank's shareholders, held on 05.12.2016 and attended by two shareholders, holding 75 907 318 shares or 99.93% of UBB's registered capital. The EGMS had only one item on the agenda: Proposal for allocation as dividend of the bank's 2015 net profit, portion of the retained profit of the Bank for previous periods, included in the Reserve Fund and allocation into Retained Earnings reserve of the unallocated retained earnings from previous periods, now eligible for allocation. The total amount of the dividend to be paid to the Bank's shareholders equaled BGN 259 797 160.44.

7. ASSESSMENT OF INTERNAL CONTROLS ON FINANCIAL REPORTING

7.1. Reporting of operational performance

The Bank ensures the prompt and timely disclosure of information on all issues, concerning UBB's financial performance, operating results, ownership, internal structure and corporate governance. The efficiency and reliability of the accounting systems and the implemented financial control mechanisms in UBB are paramount responsibility of the Board of Directors, in its capacity as the Bank's higher governing body. This obligation aims at ensuring the following:

- Outlining and management of the main business risks;
- Protection of assets against abuse by unauthorized persons;
- Maintaining of accurate accounting data and reliability of the published financial information;
- Compliance with statutory requirements and regulations.

7.2. Statement of management responsibilities

The Bulgarian National Bank encourages the management to prepare the financial statements in compliance with the International Financial Reporting Standards.

Upon the financial statements' preparation, the management has to ensure the following:

- Proper selection and consistent implementation of the accounting policies;
- Justified and prudent judgments and assessment;
- Adherence to the *International Financial Reporting Standards* as regards the substantial circumstances, which are to be disclosed and clarified in the financial statements.

The management affirms its compliance with the above requirements when preparing the financial statements.

The Bank's management is responsible for maintaining accurate accounting data, correctly reflecting at any moment UBB's financial performance. The management also bears responsibility for maintaining the Bank's assets on both individual and consolidated basis, as well as for initiating prudent actions upon ascertained attempted or actual frauds and other irregularities.

7.3. Internal control and risk management upon preparing the financial statements

The Bank operates with preliminary defined financial and other limits on authorities, as well as capital expenditures' approval procedures. The BoD approves strategic plans and detailed annual budgets and reviews on a monthly basis the Bank's operational performance against those.

All individuals, involved in preparing, elaboration and submission of financial statements and disclosure of other financial information, concerning UBB („financial professionals“), strictly abide by the ethical requirements and conduct standards, as provided for the *Code of Ethics for Financial Professionals*.

The bank draws up and submits regular reports to the *Bulgarian National Bank* (pursuant to the *Credit Institutions' Act*) and to the *Financial Supervision Commission* (pursuant to the *Markets in Financial Instruments Act*), and, when required by virtue of either statutory or regulatory acts – also to other external institutions and entities.

UBB ensures the performance of independent financial audit of its annual financial statements. Independent financial audit represents an expression of independent auditors' opinion as to the reliable presentation in the financial statements of all stated facts and data, as well as their conformity with the applicable accounting standards and with the *International Financial Reporting Standards*. In order to ensure transparency and opportunity for familiarizing all

interested persons/entities with the Bank's results, the audited financial statements are published in Bulgarian and in English language on the Bank's official website: www.ubb.bg.

The Specialized Internal Audit Department exerts ongoing control on the internal financial control systems in all branches, divisions and departments of the Bank and reports to the Board of Directors through the Audit Committee. The Head of the Specialized Internal Audit Department also reports to the General Meeting of the Bank's Shareholders.

There is a procedure at the Bank, providing all UBB employees with the opportunity to alert about cases, relating to untrue or inaccurate presentation of accounting information or of data, based on which the independent financial audit is being performed or reports are being prepared to supervisory institutions.



ADDITIONAL INFORMATION

GENERAL CUSTOMER INFORMATION

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25
years **UBB**

ANNUAL REPORT

2016