
ANNUAL REPORT 2015



**UNITED
BULGARIAN
BANK**
NBG Group

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Statement of the Chief Executive Officer

Dear shareholders, ladies and gentlemen,

The year 2015 was particularly interesting, dynamic, and all in all, a fruitful year for both the banking sector in general, and the United Bulgarian Bank in particular. The economic environment in which UBB operated, during the year, failed to manifest to a sufficient degree the long-awaited stir. Besides, both the banking sector and the behavior of banks' clients were still dominated by the slowly fading away shock from the collapse of one relatively large bank. As a result, there was a reported drop of 2% in the banking system's total loans volume as compared to 2014. Additionally, being the largest banking institution with Greek ownership among Bulgarian banks, UBB was also exposed to extra pressure, triggered by the utterly negative and alarming news in the Republic of Greece over the first half of 2015. As a consequence from the alternating political and financial events in an environment of crisis, in our southern neighbor, during this period, UBB, for no reason whatsoever, lost quite a number of small and medium clients, while a considerable volume of the traditionally stable deposit base was rerouted to other banks.

Notwithstanding the above said, during the second half of 2015, UBB succeeded in restoring the lost deposit base and maintaining its leadership position in the overall banking sector. Towards the end of 2015, the profit before provisions registered a growth of 10.4% yoy, thus, reaching BGN 199.9 million. Over the same period, the reported profit before tax equaled BGN 54.1 million, with a major contribution to the result being that of net interest income (growth of 7% yoy), as well as the net fees and commissions' income with a growth rate of 4.9 %, as compared to the previous year. On the other hand, the Bank also reported considerable increase in provisions – a total of 51.5% yoy, thus, reaching the amount of BGN 145.8 million. A substantial part of this growth is attributable to non-planned provisions, pertaining to the concluded BTC deal at the year-end, as well as the prudent allocation of provisions that safeguard the Bank in light of the *Asset Quality Review* project or *AQR*, covering Bulgaria's entire banking system.

Therefore, at the end of 2015, UBB reported a relatively modest for its capacity and potential *net profit* of BGN 48.9 million, achieving Return on Assets (ROA) of 0.9% and Return on Equity of 4.8%. At the end of 2015, the Bank reported total capital adequacy ratio of 28.2 %, with a Tier One ratio at 26.1%. Simultaneously, the Bank continued to maintain an optimum Loans/Deposits ratio of 82%, while the traditionally high liquidity ratio reached 56.5% at the end of 2015. In conclusion, the elapsed 2015 was a good and successful year for UBB, during which the Bank has once again manifested its potential to adequately behave and cope with challenges both in the Bulgarian banking market, and the adverse impact of the persisting economic crisis in the Republic of Greece.

UBB reports, to all of you, a stable capital position, good financial performance, traditionally strong and competitive presence in the Bulgarian banking market.

As you all know, during 2016, the focus has been on the *Asset Quality Review* process and the subsequent *stress testing* exercise with a completion deadline - August this year. That is why, alongside with the active involvement of UBB in this Project, the Bank's Board of Directors and its Management concentrate their efforts on dynamically developing the core banking business, thus, guaranteeing a surging market position. In parallel with that, we have been paying serious attention to the optimization of the Bank's internal processes and organization, and mostly, to the enhancement of the quality of services, rendered to our clients. It is the service quality that we have given a prominence - an ultimately responsible and serious attitude, since we believe it is going to grow into our main competitive edge in the coming years.

Stilian Vatev
Chief Executive Officer



General Information

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	<u>75,964,082</u>
- **Banking Licence:**
Full banking licence for domestic and overseas banking and financial operations.
- **Ratings:**
FITCH
 - B** Long Term Foreign Currency
 - B** Short Term Foreign Currency
 - Outlook Stable*Standard & Poor's*
 - B** Long Term Foreign Currency
 - C** Short Term Foreign Currency
 - Outlook Stable
- **Correspondent Relations:** with over 800 banks
- **Branch Network:** 198 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 in BGN and foreign exchange accounts and traveller's cheques
 - Debit and credit card payments
 - Cash operations and depositories
 - Bank guarantees and letters of credit
 - Trading securities
 - Depository / Custodian services
 - Investment services
 - Western Union transfers

GENERAL INFORMATION

- **Market Position**

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

- **Market Share** (as of 31 December 2015 calculated as a percentage of the entire banking sector, according to the Bulgarian National Bank (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 2015 are driven by the impact of the following parameters:

- 2.5% 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 0.8%, driven by the the long period of deflation for the previous two years;
- Limited growth in lending on an annual basis of 1% for retail loans and 2% for corporate loans;
- Expected growth of the deposit base in household deposits by 5% yoy and corporate deposits by 3% yoy;
- Yield from market interest rates (consumer loans by 11%, mortgages by 7%, corporate loans by 5%);
- Yield on deposits of 0.8% for households and 0.5% for corporate companies;
- A Currency Board arrangement with a regime of fixed exchange rate for BGN/EUR: 1.95583.

Key Business Objectives:

1. **Optimal liquidity and strong capital position.** UBB will continue to maintain its status as a self-funding financial and credit institution with independent liquidity of the parent bank. UBB will maintain optimal liquidity and capital adequacy above the levels imposed by the Central Bank - 20% for liquidity and 13.5% for total capital adequacy, respectively. Net loans/deposits ratio continues to fall and expectation for the end of 2016 is for the ratio to be below 80%;
2. **Business activity.** UBB will continue to be active in the credit market and, thereby, strengthen its position as one of the leading banks in the sector. Our goal is to be a market maker in the credit market as well as in other basic banking products and services;
3. **Asset quality.** The quality of the asset base will continue to be one of the main UBB's priorities in 2016. The Bank will focus on improving the quality of the loan portfolio, through the efficient recovery on overdue loans and a generation of high quality new loans;
4. **Cost optimization.** An ongoing process of limiting the none productive costs;
5. **Improving the quality of services offered and the level of service.** After the business activity - a major priority.



Selected Indicators

SELECTED INDICATORS

SELECTED INDICATORS IN ACCORDANCE WITH THE SEPARATE AND CONSOLIDATED STATEMENTS OF FINANCIAL POSITION OF UBB AS OF 31.12.2015

	2014	2015	2014	2015
	Separate	Separate	Consolidated	Consolidated
Performance (BGN 000)				
Operating Income	456,513	456,513	458,153	424,802
Net Interest Income	240,004	256,813	240,682	257,464
Net Profit	76,286	48,907	77,443	51,154
Balance Sheet (BGN 000)				
Total Assets	6,570,259	6,544,227	6,574,604	6,549,277
Capital	1,164,878	1,221,544	1,171,373	1,229,841
Deposits from Companies and Individuals	5,114,045	5,089,353	5,111,691	5,085,765
Loans to Companies and Individuals, net	4,147,915	4,191,861	4,148,757	4,192,990
Capital Adequacy (%)				
General Capital Adequacy (BIS Tier 1 + Tier 2)	27,4	28,2	27,4	28,2
Primary Capital Adequacy	24,2	26,1	24,2	26,1
Capital/Total Assets	17,7	18,7	17,8	18,8
Liquidity (%)				
Total Liquidity	28,1	36,5	28,1	36,5
Total Loans / Total Deposits	81,1	82,4	81,2	82,5
Staff Number as of the end of the period	2,498	2,547	2,548	2,692
Average inflation (%)*	-1,4	-1,1	-1,4	-1,1
Exchange Rate USD/BGN (31 December)**	1,61	1,79	1,61	1,79
*Source: NSI				
** Source: BNB				



Board of Directors

Stilian Vatev
Chief Executive Officer
Chairman of the Board of Directors¹

Radka Toncheva
Board Member
Executive Director

Theodor Marinov
Board Member

Anastasios Lizos
Board Member

Konstantinos Bratos
Board Member

Marinis Stratopoulos
Board Member

Alexandros Benos
Board Member

¹ On May 2016, at a meeting of the Board of Directors (BoD) of UBB, based on a proposal from the Chief Executive Officer, Mr. Stilian Vatev, it was decided that the occupied from him, since 2013 until now, position of Chairman of the Board of Directors to be borne by Mr. Marinis Stratopoulos - non-executive member of the Board and General Manager of International Activities of the National Bank of Greece Group. The change was prompted by the BoD in March 2016 Code of Corporate Governance, according to which, the presidency position should be occupied by a non-executive member of the Board of Directors.



Economic Environment

ECONOMIC ENVIRONMENT

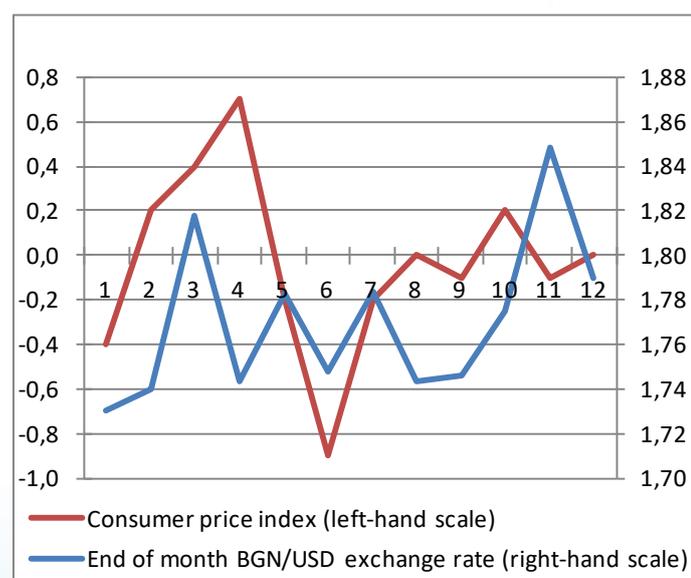
In 2015, the Bulgarian economy reported a growth of 3.0% in real terms yoy as the country's *Gross Domestic Product* (GDP) reached BGN 86.4 billion at current prices. Converted to EUR, the GDP respectively equaled EUR 44.2 billion, translated into EUR 6,136 per capita. The preliminary data shows that the GDP, generated over the Q4 of 2015, amounted to BGN 25.7 billion at current prices. This translates into BGN 3,300 per capita. At a quarterly average exchange rate of BGN 1.78638:USD 1, the GDP amounted to USD 13.3 billion and USD 1,847 per capita, respectively. Converted to EUR, the GDP value equals EUR 12.1 billion as this translates into EUR 1,687 per capita. During the Q4 of 2015, the Gross Value Added (GVA) amounted to BGN 23.7 billion at current prices. The relative share of the Agricultural sector in the economy's GVA decreased by 0.1% yoy, down to 3.7% in Q4. The industrial sector increased its relative share in the economy's GVA by 1.4% and reached 25.0%. The service sector decreased its relative share into the economy's Gross Value Added down to 71.3%, compared to 72.6% for the respective period of the previous year. 79.5% of the produced GDP was spent for end consumption during the Q4 of 2015. Investments (gross fixed capital formation) accounted for 23.2% of the generated GDP. The foreign trade balance of goods and services was negative. In the Q4 of 2015 the GVA increased by 1.1%, as compared to the same period of the previous year. The GVA dynamics was determined by the registered growth in the following sectors: *Professional, scientific and technical activities; administrative and support service activities* – by 3.6%, *Industry* – by 3.4%, *Creating and distributing information and creative products; telecommunications* – by 2.8%, *Financial and Insurance activities* – by 1.7%, *Real estate operations* – by 1.4%, *Trade and repair of motor vehicles, motorcycles; Transport, storage and communication; hotel-keeping and restaurant-keeping activities* along with *Construction* – by 1.2% each, and *Public administration; Education; human healthcare and social work* – by 0.7%. With regard to the final consumption components, contributors to the GDP growth are the increased collective consumption - by 2.1%, and the individual consumption - by 1.0%. The gross fixed capital formation registered growth by 1.7%. Import and export of goods and services increased by 3.4% and 4.2% yoy, respectively.

Based on the EUROSTAT data, the *unemployment rate* in Bulgaria in December 2015 stabilized at the level of 8.8% and stayed far below the recorded level of 10.2% at the end of 2014. A total of 295,000 Bulgarians were unemployed during the last month of the previous year, compared to 294,000 in November 2014 and 339,000 at the end of 2014. This constitutes a stable decrease in the unemployment rate in Bulgaria, below the psychological level of 300,000 for a fifth consecutive month. In December 2015, the youth unemployment rate in Bulgaria increased slightly up to 21.0%, compared to 20.9% in November, but was still far below the level of 22.4% at the end of 2014. In December 2015, a total of 37,000 Bulgarian youths, aged below 25, were unemployed, compared to the same number of unemployed youths during the previous three months, and 43,000 at the end of 2014. Women's unemployment rate at the end of 2015 stayed at the level of 8.0% for a third consecutive month, and far below 9.2% at the year-end, while men's unemployment was stabilized at its November level of 9.5% and below the level of 11% in the previous year. According to the European statistical data, a total of 21.9 million Europeans were unemployed during the last month of the previous year, as a decrease was registered (in comparison to the November data) in the number of the unemployed

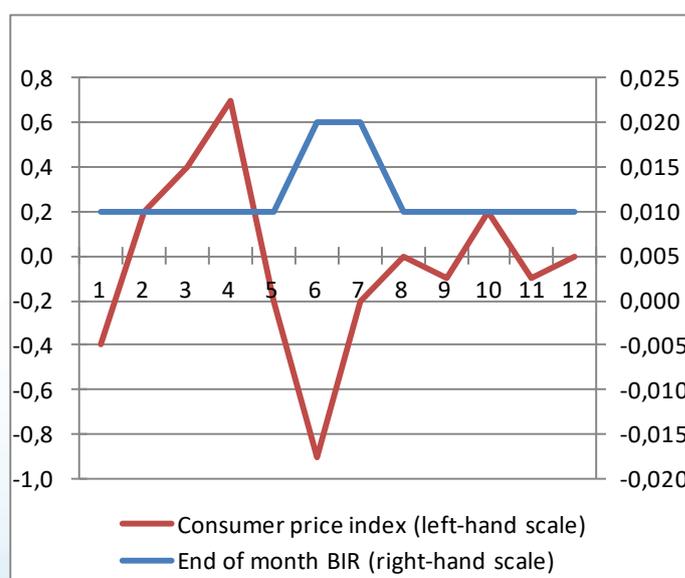
people in the EU by 52,000, and as much as 2.0 million, compared to December 2014. The lowest unemployment rate in December was registered in Germany and the Czech Republic (4.5%), followed by Malta (5.1%), while the highest unemployment rate remained in Greece (24.5%, however, this is according to data as of October 2015) and Spain (20.8%, according to December 2015's data). In December 2015, a total of 4.5 million youths (aged below 25) were unemployed in the EU (youth unemployment rate of 19.7%), which constituted a decrease of youth unemployment by 426,000, compared to December 2014 (when the youth unemployment rate was 21.2%).

According to the National Statistical Institute, the *Consumer Price Index* in Bulgaria in December 2015, compared to November 2015, was 100%, i.e. the monthly inflation was 0.0%. The annual inflation in December 2015, compared to December 2014, was -0.4%. The annual average inflation over the January-December period of 2015, compared to the previous 12 months (January - December 2014) was 0.1%. Throughout 2015, the *Consumer Price Index* (CPI) in Bulgaria was influenced by oil and commodities' price fluctuations in the international markets. The most significant surges were marked in the excisable goods segment (alcohol, tobacco products) – 0.8%, shoes and clothing - 0.5%, food products – 0.5%. The highest growth in prices was registered in educational services (by 2.3%), culture and entertainment (by 0.8%) and restaurants and hotels – 1.8%. The Harmonized Index of Consumer Prices in December 2015, compared to November 2015, was 100.4%, i.e. the monthly inflation rate was 0.4%. The annual inflation in December 2015, compared to December 2014, was - 0.9%. The annual average inflation over the period January - December 2015, compared to the previous 12 months, was -1.1%. The Ministry of Finance's projection, regarding the average annual inflation, for 2016 is – 0.8%.

Exchange Rate and Inflation



Base Interest Rate and Inflation



According to the Ministry of Finance's data, the cash-based deficit, under the *Consolidated Fiscal Program* (CFP) for 2015, amounted to BGN 2,472.9 million (2.9% of the projected GDP). It was formed by the government budget deficit, equaling BGN 2,195.1 million and the European funds' deficit in the amount of BGN 277.8 million. For comparison purposes

– the 2014 budget balance, under CFP, was negative and amounted to BGN 3,072.9 million (3.7% of the GDP). According to data from the monthly reports of the first-level state budget spending entities for 2015, the revenues and grants, under CFP, amounted to BGN 32,205.1 million, or 101.8%, compared to the updated annual estimates. Juxtaposed to 2014, the revenues and grants increased by BGN 2,796.0 million (9.5%). In structural aspect, tax revenues increased by BGN 1,828.6 million (7.9%); non-tax revenues by BGN 245.1 million (7.1%), while grants (mostly funds reimbursed by the European Commission) grew by BGN 722.3 million (24.7%). While correlated to the GDP, CFP revenues and grants increased from 35.2% of the GDP for 2014, up to 37.5% of the GDP for 2015, representing an increase of 2.3%. The total tax revenues (incl. health insurance contributions) under CFP amounted to BGN 24,856.4 million, or 100.5% as per the updated accounts, while compared to the preliminary estimates, set in the 2015 Republic of Bulgaria's State Budget Act, the performance was 103.5%. As regards tax revenues, growth was registered in all basic taxes and insurance contributions, the rise being most significant for indirect tax revenues, as well as social security, health insurance contributions, etc. The revenues from direct taxes amounted to BGN 4,591.7 million, which was by BGN 315.8 million (7.4%) higher yoy. This was mainly due to the corporate tax revenues, as well as taxes on personal income. Indirect tax revenues amounted to BGN 12,450.5 million, constituting a BGN 969.7 million (8.4%) increase yoy. VAT revenues equaled BGN 7,740.0 million, thus, registering growth of BGN 475.6 million (6.5%) yoy. Unreimbursed input/output tax to companies as of 31.12.2015 amounted to BGN 128.5 million. Excise duty revenues amounted to BGN 4,525.0 million, or a 12.0% increase yoy. Customs duty revenues amounted to BGN 159.0 million and marked a 3.8% growth yoy. Other tax revenues (including property tax and other taxes under the Corporate Income Tax Act) reached BGN 867.7 million, marking an increase of 5.5% yoy. Social security and health insurance contributions were BGN 6,946.5 million, which, compared to the previous year, reported a 7.7% increase. Non-tax revenues amounted to BGN 3,705.0 million, which accounted for 102.4% of the annual estimates. Proceeds from grants received domestically or abroad (including grants under EU funds) amounted to BGN 3,643.7 million, or 110.2% of the annual estimates. The Consolidated Fiscal Programme expenditures, (including the contribution of the Republic of Bulgaria to the EU budget), totaled to BGN 34,678.0 million for 2015, or 100.4% of the annual estimates. For comparison purposes, the CFP general expenditures increased by BGN 2,196.0 million (6.8%). In structural aspect, the most significant growth is that of the capital expenditures - they increased by BGN 1.9 billion in nominal terms. This was mainly due to the higher investment expenditures for finalization of the spending under projects, co-funded by the EU for the 2007-2013 programming period - under operational programs, *Rural Development Programme* and *Fisheries Development Programme*, throughout last year. Non-interest expenditures amounted to BGN 33,033.0 million, which accounted for 101.1% of the annual estimates. The non-interest current expenditures for 2015 equaled BGN 126,190.4 million (99.8% of the annual estimates), capital expenditures (including net increment of the state reserve) amounted to BGN 6,842.7 million (106.6% of the estimates in *2015 Republic of Bulgaria's State Budget Act*). Interest payments reached BGN 698.6 million, or 80.1% of those planned for 2015. The part of Bulgaria's contribution to the EU budget, paid for 2015 by the central government budget, amounted to BGN 946.4 million, which complies with the effective legislation in the area of EU own resources, Council Decision

2007/436/EC, Euratom on the system of the EU Communities' own resources and Council Regulation № 1150/2000, as amended with Regulation № 2018/2004, Council Regulation No 105/2009 and Regulation № 1377/2014, implementing Council Decision 2007/436/EC. As of 31.12.2015, the fiscal reserve amounted to BGN 7.9 billion, including BGN 6.8 billion of fiscal reserve deposits in the BNB and banks, and BGN 1.1 billion of receivables under EU Funds, concerning certified expenditures, advance payments, etc.

According to the Ministry of Finance data, at end of December 2015, the nominal amount of Bulgaria's *sovereign debt* totaled to EUR 11,613.5 million, of which EUR 3,723.9 million domestic and EUR 7,889.7 million foreign debts, respectively. At the end of 2015, the government debt/gross domestic product (GDP) ratio was 26.4%, with the share of domestic government debt being 8.5%, and that of external government debt - 17.9%. In the government debt structure, domestic debt at the period end, amounted to 32.1%, while external debt - to 67.9%. The government guaranteed debt reached EUR 299.7 million, of which EUR 29.7 million domestic government guarantees, with the government guaranteed debt/GDP ratio being 0.7%.

According to BNB data in 2015, Bulgaria's *foreign exchange reserves* amounted to BGN 39.7 billion (EUR 20.2 billion), which was a 22.7% increase yoy. The forex reserve contracted by 1.9% mom, as a result of the immense decline in the government deposit by more than BGN 2.6 billion or 30.8% mom. This is a direct consequence of the measures, taken by the Ministry of Finance, in December 2015, for paying the amounts due from European Funds under approved projects for the Bulgarian economy, accumulated due to the reporting of the previous programming period. The liabilities towards other depositors decreased further by BGN 274 million or 26% mom. At the end of 2015, the money in circulation increased by 5.9% mom and reached BGN 12.7 billion. The liabilities to banks grew by 12.1% up to BGN 14.7 billion. Bulgaria's international liquidity position, in terms of forex reserves to short-term external debt ratio, was high – 256.6% at the end of 2015, compared to 163.2% at the end of 2014, and 148.7% at the end of 2013.

According to preliminary data by the Bulgarian National Bank, in December 2015, Bulgaria's Current and Capital Account balance was negative, having reached EUR 16.7 million, compared to deficit of EUR 203.8 million in December 2014. For the period January – December 2015, the Current and Capital Account balance was positive and amounted to EUR 1 960.1 million (4.4% of GDP), compared a surplus of EUR 1,454.8 million (3.4% of the GDP) over the January – December 2014 period. Only for December 2015, the Current Account balance was negative and amounted to EUR 227.1 million (compared a deficit of EUR 353.8 million in December 2014). For January – December 2015, the Current Account balance was positive and amounted to EUR 541.6 million (1.2% of the GDP), compared a surplus of EUR 495.2 million (1.2% of the GDP) over the period January – December 2014. The Balance of Trade for December 2015 was negative and amounted to EUR 244.4 million compared to a deficit of EUR 369.6 million in December 2014. For January-December 2015, the Balance of Trade was negative and amounted to EUR 1,885 million (4.2% of GDP), compared to a deficit of EUR 2,734.6 million (6.4% of GDP) yoy. In December 2015, export reached EUR 1,830.8 million, marking an increase of 9.7% yoy. For the period

January – December 2015, export equaled EUR 22,264.8 million, growing by 5.9% yoy. The import for December 2015 amounted to EUR 2,075.2 million, growing by 1.8% yoy. For January – December 2015 import equaled EUR 24,149.8 million, marking an increase of 1.7% yoy. In December 2015, the Balance of Services was positive, equaling EUR 12.6 million, against a negative balance of EUR 8.9 million for December 2014. Over January – December 2015, the balance was positive, equaling EUR 2,550.2 million (5.7% of GDP), compared to a positive balance of EUR 2,530 million (5.9% of GDP) for January – December 2014. The Balance under Primary Income Item, integrating income related to the factors of production (workforce, capital or land), taxes over production, import and subsidies) for December 2015 was negative value, equaling EUR 103.2 million, compared to a negative balance of EUR 57.5 million yoy. For January – December 2015, the balance was negative, equaling EUR 1,712.7 million (3.8% of GDP), compared to a negative balance of EUR 915.7 million (2.1% of GDP) yoy. The Balance under Secondary Income Item (covering income redistribution) was positive, equaling EUR 108 million, against a positive balance of EUR 82.2 million in December 2014. Over January – December 2015, the balance was positive, being EUR 1,589 million (3.6% of GDP), compared a positive balance of EUR 1,615.6 million (3.8% of GDP) yoy. In December 2015, the Capital Account sustained positive value, equaling EUR 210.4 million, compared to a positive value of EUR 150 million as of December 2014. For January – December 2015, the Capital Account was positive, amounting to EUR 1,418.5 million (3.2% of GDP), compared to a positive value of EUR 959.6 million (2.2% of GDP) yoy. The Financial Account for December 2015 sustained positive value, equaling EUR 78.1 million, versus the negative value of EUR 192 million yoy. For January – December 2015, the Financial Account was positive, amounting to EUR 2,758.2 million (6.2% of GDP), against a positive value of EUR 183 million (0.4% of GDP) yoy. Reserve assets of the Bulgarian National Bank decreased by EUR 318.5 million, upon an increase of EUR 387.4 million in December 2014. For January – December 2015 these assets surged by EUR 3,729.7 million (8.4% of GDP), against an increase of EUR 1,810.4 million (4.2% of GDP) over the same period of 2014.

According to preliminary data by the Bulgarian National Bank, *direct investments in Bulgaria*, over the January – December 2015 period, reported by applying the directional principle, equaled EUR 1,575.1 million (3.6% of GDP), registering growth of EUR 289.8 million (22.5%), compared to January-December 2014, when these amounted to EUR 1,285.4 million, or 3% of the GDP. In December 2015, these investments reached EUR 6.9 million, according to preliminary data, due to the significant excess of repaid intercompany loans (EUR 130.8 million) over the loans obtained. 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) equaled EUR 1,133.6 million over January-December 2015, reporting an increase of EUR 556.3 million (96.4%) versus the share capital, attracted over the same period of 2014, and equaling EUR 577.2 million. Proceeds from investments of foreign persons/entities in real estates equaled EUR 72.5 million, compared to EUR 119.9 million for January – December 2014. By countries, the largest share of real estate investments is attributed to Russia – EUR 27.1 million (37.5% of the total amount for the period) and Liechtenstein with EUR 14.9 million (20.6%). *Profit Reinvestment* sub item shows the share of foreign investors

into the current profit or loss of a company, less the dividends paid and equals EUR 644.1 million for the period January – December 2015, compared to EUR 167.1 million yoy. For January – December 2015, the balance of *Debt Instruments* sub item, covering the change in the net liabilities between companies with foreign capital participation, and direct foreign investments under bond issues, financial and business loans, was a negative value, equaling EUR 202.5 million, versus the positive value of EUR 541 million yoy. The largest direct investments in this country over 2015 came from the Netherlands and equaled EUR 696.9 million.

According to data by the Bulgarian National Bank, by end-December 2015, the aggregated profit of *the banking system in Bulgaria* equaled BGN 898.4 million, representing an increase of 20.4% yoy. The financial result, achieved as of 31 December 2015, secured 1.03% Return on Assets (ROA). By end-December 2015, the banking system reported net general operating income of BGN 4.2 billion (upon BGN 3.9 billion yoy). The accumulated impairment under loans and receivables was reduced down to BGN 1.1 billion (BGN 1.2 billion by end-2014). Only within December 2015, banks reported a loss – the first one for the year - BGN 32.6 million, due to significant impairment and larger administrative costs, associated with stress tests preparation. The above loss is also partially affected by BGN 82 million summed contribution into the new Bank Restructuring Fund. Despite dropping interest rates over the year, banks managed to preserve and even to slightly increase their net interest income. Data on banking system level shows surge of 5.3%, up to BGN 2.8 billion. The net income, generated from fees and commissions, also registered an annual increase of some 8%, reaching BGN 890 million. Thus, the better performance over the year was largely due to the income, generated by the banking business. Impairment costs decreased by 4.5% yoy. In contrast, administrative expenses grew by 6.5%, largely due to the contribution to the new Bank Restructuring Fund. By end-December 2015, the assets of the Bulgarian banking system equaled BGN 87.5 billion, which was a growth of 2.8% yoy. Their relative share in the GDP was 101.8%. In December 2015, the banking system reported sharp decline in lending of 1.9% on a monthly basis and 2.6% yoy. In absolute value, the amount of loans within the banking system decreased by over BGN 1.5 billion, resulting from large-scale debt-equity swaps, or sales of entire portfolios, as well as direct write-off of bad loans. In the Q4 of 2015, banks were actively involved in the preparation for the forthcoming Asset Quality Review process. This was also supported by the data on non-performing loans that had shrank by BGN 1.1 billion over a one-year period. Obviously, the banking institutions have finally written off portions of their bad portfolios that would have anyway, and most probably – have been identified as such during the AQR process. Business lending contracted by 3% yoy in December and as an absolute value, business loans amounted to BGN 33.3 billion, or less by BGN 1.0 billion yoy. Household loans increased by 0.12%, compared to December 2014, reaching BGN 18.3 billion, or registering a growth of BGN 21.6 million over a one-year period. This was basically due to micro lending and other household loans, which, by end-2015, reached BGN 830 million. Over a one-year period, mortgage loans, offered by the banking system, had shrunk by 5.8% down to BGN 8.8 billion. Consumer loans contracted by 3% yoy, down to BGN 8.7 billion. In 2015, household savings equaled BGN 3.4 billion in banks, as by the end-December 2015 their total amount grew up to BGN 44.1 billion, which showed an increase of 2% mom and 8.3%

yoy, respectively. Non-financial companies reported a decline of BGN 3.0 billion in their deposit base, which, by end-2015, amounted to BGN 19.7 billion, reflecting the difficult recovery process of the banking system's corporate deposits, following the bankruptcy of Corporate Commercial Bank. For comparison, as of 31 December 2014, non-financial companies had BGN 22.7 billion deposit in bank accounts. Only for December corporate deposits grew by 2.5%, or BGN 489 million. Despite the interest rates' hitting record-low values, households continued with their saving efforts. As regards companies, saving with banks could be driven by the lack of profitable investments and perspective projects, rather than a desire to generate profit, which is, anyway, non-present since many banks neither charge interest on business clients' demand deposits, nor their short-term funds. The Bulgarian National Bank also makes a breakdown by deposits of financial companies, encompassing pension funds, investment intermediaries, insurance companies, and other non-banking financial institutions. 2015 year-end statistics show that these companies have reported deposits of BGN 3.3 billion. Only in December, financial companies saved BGN 35.3 million. By the end of 2015, the General Government sector saved BGN 1.8 billion, thus, reporting a monthly drop of 16.5%. Hence, the total amount of savings of the banking system's clients equaled BGN 69.3 billion by end-2015. Two thirds of savings belonged to individuals (66.8%) while the rest - to non-financial and financial companies (28.6% and 4.6%, correspondingly). The relative share of bank deposits, compared to the GDP forecast for year 2015, was 80.6%. Only the share of household deposits reached 51.7% of the GDP over 2015. By end-December 2015, the gross amount of non-performing loans and advance payments in the banking system was BGN 8.3 billion, registering a decline of BGN 1.1 billion yoy. Simultaneously, in the Q4 of 2015, marked an increase in the impairment expenses for loans and receivables, as their growth had outrun that of non-performing loans. As result, the share of non-performing loans slightly shrank down to 13.6%. With company loans this ratio declined down to 17.5%, versus 20.03% by end-2014. The relative share of non-performing loans with households was reduced down to 12.9%, versus 13.2% by end-2014. As of end-December 2015, the amount of liquid assets in the banking system reached BGN 27.7 billion. And yet, the crucial role is that of the growth in the liquid assets' most significant component – cash resources and cash balances of the Bulgarian National Bank, surging up to BGN 16.6 billion. As a result of this dynamics, the liquid assets ratio, calculated under Ordinance 11 of the Bulgarian National Bank, improved up to 36.71%. The total capital adequacy ratio of the Bulgarian banking system was 22.18% by end-2015. Data indicates preservation of capital buffers, whilst, by end-2015, the total amount of banks' equity reached BGN 10.96 billion, versus BGN 10.8 billion by end-2014. The overall risk position is estimated at BGN 49.4 billion, compared to BGN 49.3 billion in 2014. The Tier 1 capital ratio peaked at 20.46%, compared to 19.97% for the same period last year, while the share of the Primary Equity Tier I registered a level of 19.98% by the year-end.



**Review of UBB's
Activities in 2015**

I. REVIEW OF 2015 UBB's ACTIVITIES

1.1. FINANCIAL PERFORMANCE

In 2015, the economic instability impacted negatively the banking business in Bulgaria. Uncertainty, regarding the taxation regime of customs and excise duties on electricity prices and the level of contributions, further suppress the activity of companies in this country. Creditworthy companies remained conservative about taking new loans, which led to the contraction of credit business by 2% yoy, including zero growth in retail banking and a decline of 3% yoy in corporate loans. Thus, the commercial banks deprived of their main source of income - loans. High liquidity increase the stability of the sector, but it put a great challenge in front of the commercial banks - to operate on profit by their business. Demand for wealthy clients and the need for profitable asset management forced banks to drastically drop the interest rates on the deposits and slightly decrease those of the loans. For the revival of the business lending, crucial is the improvement of the economic situation and the restore of confidence in the Bulgarian banking system. As regards the second, decisive role is expected to play the verification of the assets (*Asset Quality Review, or AQR*) and stress tests, which must be completed by August 2016. Concerning the economy growth, the prospects are positive because of the accelerating consumption and good expectations for exports. In 2015, UBB continued to maintain its leading position in the banking sector, despite the unfavorable economic situation in this country and the negative events in Greece. During the year, UBB achieved very good profit and efficient indicators while keeping a very high level of coverage of loans with impairment. At the end of 2015, UBB increased its profit before impairment by 10.4% yoy to BGN 199.9 million. For the same period, the Bank recorded a profit before tax of BGN 54.1 million on separate basis and BGN 56.8 million on consolidated basis. UBB's financial result was formed on a base of the growth in net interest income (by 7% yoy), the rose of net income from fees and commissions (by 4.9% yoy) and the significant increase of net trading income of 39.8% yoy. On another hand, during the year, the Bank increased the impairment by 51.5% yoy to BGN 145.8 million. Furthermore, at the end of 2015, UBB formed a net profit of BGN 48.9 million on separate basis, and BGN 51.2 million on a consolidated basis. For a period of one year, UBB achieved a return on assets (ROA) of 0.9%. In 2015, the Bank continued to maintain one of the lowest *Cost to Income Ratio* of 34.9% within Bulgaria's banking sector. Generally, in 2015, UBB managed to report significant improvement in the Loan portfolio quality, create serious liquidity buffer, and maintain the before crises self-financing status. UBB's total capital adequacy ratio as of 31 December 2015 amounts to 28.19% and Tier 1 capital adequacy amounts to 26.09%. At the same time, the Bank continued to maintain its *Loans/Deposits ratio* at 82% at the end of 2015 and improved its *Liquidity ratio* to 36.5%.

Net Operating Income and Net Profit (BGN million)

Net interest income

In 2015, UBB reported net interest income of BGN 256.8 million (compared to BGN 240.0 million in 2014), or an increase of 7.0% yoy. The dynamics of net interest income is due to the lower interest rates on deposits and lower interest income from loans. On the one hand, UBB's lending activity was influenced by weak credit demand, and on the other, the Bank drastically reduced the interest rates of its deposit products.

REVIEW OF ACTIVITIES IN 2015

	2015 BGN '000	2014 BGN '000	Change (% , yoy)
Interest income	307,046	350,708	(12.4)
Interest expense	(50,233)	(110,704)	(54.6)
Net interest income	256,813	240,004	7.0

Lending interest income of the individuals increased by 6.9% yoy and amounted to BGN164.9 million. Interest income from loans to companies amounted to BGN 105.9 million and decreased by 19.1% yoy. Interest income from financial institutions increased by 113.4% yoy to BGN 6.8 million. Interest income from loans and advances to banks decreased by 84.4% and at the end of 2015, amounting to BGN 2.5 million. Interest income arising from financial assets at fair value through profit or loss amounted to BGN 13.8 million and decreased by 63.4% yoy. Interest income, originating from securities available for sale, recorded a growth of 51.0%, and amounted to BGN 13.1 million. Furthermore, at the end of 2015, the total amount of interest income declined by 12.4% yoy.

Interest expenses decreased drastically by 54.6% yoy and, at the end of 2015, amounted to BGN 50.2 million, as a result of the policy of reducing the cost of funding to individual and corporate customers of the Bank. Interest expense on borrowings from other banks amounted to BGN 0.4 million. Interest expenses on deposits from individual customers amounted to BGN 40.0 million and decreased by 54.7% yoy. For the same period, the interest expense on deposits from non-banking financial institutions decreased by 76.4% and amounted to BGN 1.3 million. Interest expenses on corporate deposits amounted to BGN 6 million and decreased by 47.9% yoy. Interest expenses on credit lines amounted to BGN 1.6 million and decreased by 52.0% yoy. At the end of 2015, the cost of borrowed subordinated debt amounted to BGN 0.9 million and declined 46.5% yoy.

Net fee and Commission income

UBB's net income from fees and commissions totaled BGN 87.3 million, compared to BGN 83.2 million at the end of 2014, and registered a growth of 4.9% yoy. For the same period net income from fees and commissions on a consolidated basis amounted to BGN 91.7 million, compared to BGN 87.1 million at the end of 2014, growing by 5.2% yoy and reflecting the direct effect of the activities of the subsidiaries and associates of the Bank. In 2015, revenue from fees for operating the transfers and cash transactions amounted to BGN 18.1 million and grew by 3.1% yoy. Income from fees for servicing deposit accounts amounted to BGN 30.7 million and increased by 14.1% yoy. Income from fees on debit and credit cards amounted to BGN 21.2 million, decreasing by 1.7% yoy. At the end of 2015, income from fees and commissions on loans and advances to customers increased by 11.2% yoy and reached BGN 8.9 million. Revenues from commissions on guarantees and letters of credit decreased by 37.0% yoy and amounted to BGN 2.2 million. An increase in revenues from other fees and commissions is 9.0% yoy, which, at the end of 2015, amounted to BGN 11.2 million. At the same time, the increase in UBB's fees and commissions expenses, of 9.3% yoy, is a key factor in net income from fees and commissions. At the end of 2015, UBB's total fees and commission's expense amounted to BGN 4.9 million.

On a consolidated basis, at the end of 2015, revenues from *other fees and commissions* increased by 10.1% yoy to BGN 16.1 million. The total revenue from fees and commissions,

REVIEW OF ACTIVITIES IN 2015

on a consolidated basis, amounted to BGN 97.1 million, and increased by 5.4% yoy. Furthermore, on a consolidated basis the fees and commissions expenses increased by 8.8% yoy, and amounted to BGN 5.4 million.

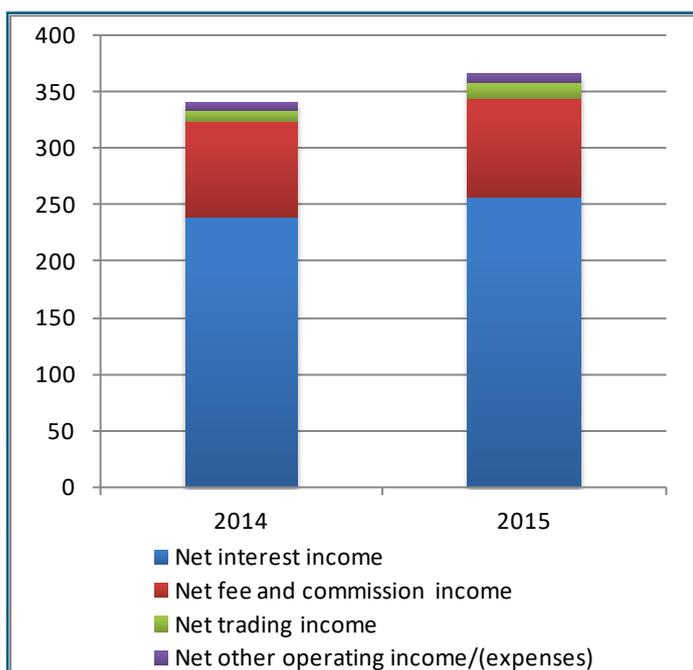
Net trading income

At the end of 2015, net trading income amounted to BGN 14.6 million and increased by 39.8% yoy. The largest contribution to this position is the gain on interest rate instruments gain, which, at the end of the year, amounted to BGN 10.3 million, and increased by 375.3% yoy. Net income from FX trading amounted to BGN 4.3 million.

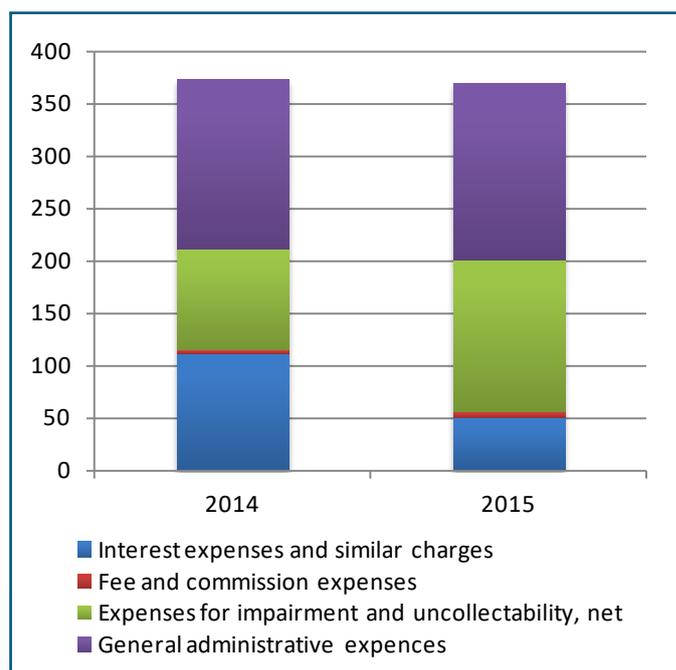
General and administrative expenses

In 2015, UBB's general administrative expenses increased by 4.1% yoy and reached BGN 166.8 million, providing normal conditions for business development. Furthermore, the dynamics of the administrative costs, on an annual basis, is as follows: 6.1% increase of the personal costs, 19.9% increase of deposits insurance premium, 17.1% decline in

Operating Income (BGN million)



Operating Expenses (BGN million)



depreciation/amortization charge, 2.2% decline in rentals, 4.5% increase of remuneration and taxes on third parties, 1.2% increase of marketing and advertisement, 11.8% increase of other consumables, 6.1% decline of insurance costs, 3.3% decline of telecommunications, 3.3% drop in services of T24 and SAP, 37.5% increase of impairment for assets, 4.3% increase of subscriptions, 268.1% decline of provisions for legal cases, 118.3% decrease of provision charges for forfeiting of letters of credits and 2.7% increase of other (audit, legal fees, etc.) costs.

On a consolidated basis, general administrative expenses for 2015 increased by 4.2% yoy and reached BGN 169.2 million. The dynamics on an annual basis in administrative expenses on a consolidated basis is as follows: 6.2% increase in personal costs, in rental expenses 2.2% decrease, 3.2% increase for fees and charges for third parties, 1.1% increase of marketing and advertisement, 3.6% decline for telecommunications, 6.4% drop for insurance costs, 11.7% for expenditure on consumables, 7.9% increase for subscription and 6.2% increase in other expenses (audits, consulting, legal fees).

Net charge for impairment

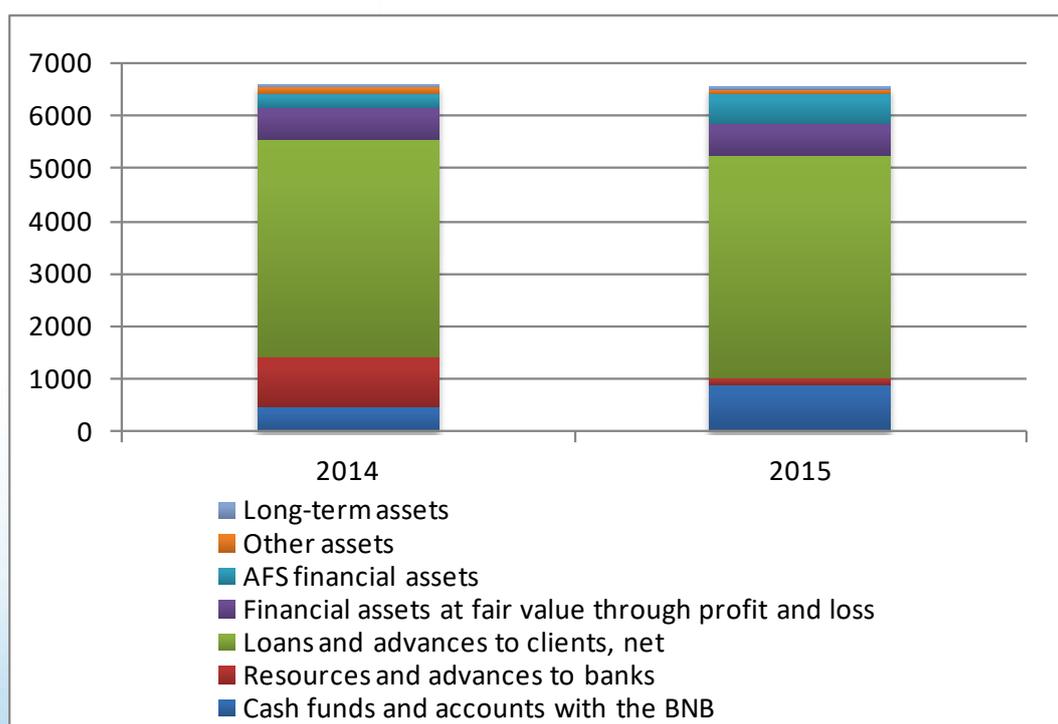
For the year end 2015, UBB's net impairment expenses increased by 51.5% yoy to BGN 145.8 million compared to BGN 96.2 million in 2014. For one year the impairment charges of loans and advances to customers increased from BGN 101.4 million to BGN 395.1 million. There was acceleration in the recovery of previously written-off debt from BGN 11.5 million in 2014 to BGN 263 million in 2015, and the impairment of investment securities available for sale rose from BGN 1.8 million to BGN 9.9 million.

On a consolidated basis, net charge for impairment increased by 51.5% yoy to BGN 145.9 million, compared to BGN 96.4 million in 2014. For a period of one year, impairment charges on loans and advances increased from BGN 101.6 million to BGN 404.1 million.

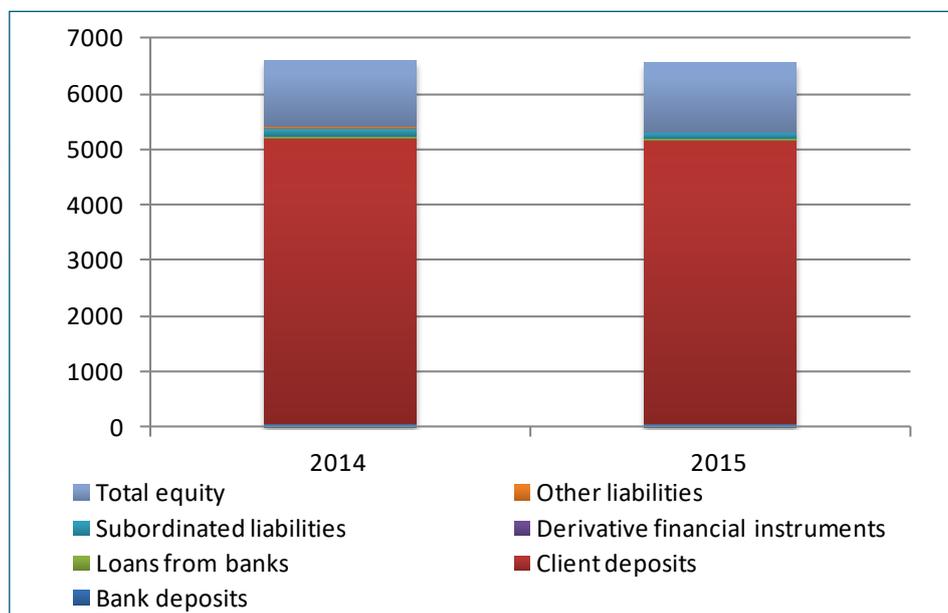
ASSETS AND LIABILITIES

At the end of 2015, the UBB's total assets decreased by 0.4% yoy, reaching BGN 6,544 million, compared to BGN 6,570 million in 31.12.2014. Structurally, the main balance sheet items of the Bank reported the following dynamics:

Assets (BGN million)



Liabilities and Capital (BGN million)



At the end of 2015, consolidated assets reached BGN 6,549 million and decreased by 0.4% yoy (2014: BGN 6,575 million).

Cash and cash equivalents

At the end of 2015, UBB's and consolidated cash and balances in the Central bank amounted to BGN 887.7 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-15	Jun-15	Sep-15	Dec-15
Minimum Required Reserve and funds within BNB	374	368	484	721
Fulfillment (monthly average)	146%	102%	121%	155%

Due from banks

At the end of 2015 the net amounts due from banks amounted to BGN 158.2 million, decrease by 82.9% yoy.

On a consolidated basis loans and advances to banks amounted to BGN 158.2 million, decreased by 82.9% yoy.

Financial assets designated at fair value through profit or loss

At the end of 2015 UBB's separate and consolidated financial assets designated at fair value through profit and loss amounted to BGN 628.7 million and are allocated as follows: 72.4% in Bulgarian government securities, 25.5% in debt from foreign issuers, 2.1% in foreign securities listed on official stock markets.

Loans and advances to customers

In 2015, due to the 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 1.6% 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 2015 the net value of loans amounted to BGN 4,192 million compared to BGN 4,148 million at the end of 2014. In 2015, the high growth of unemployment and the contraction of the salary income from the population led to a decline in loans to households of 8.9% yoy. For the same period, loans in the corporate sector increased by 3.7% yoy, amounting to BGN 3,013 million. At the end of 2015 the loans classified past due up to 30 days are 14.5%, past due 31-60 days are 3.6%, past due 61-90 days are 3.0%, past due 91-180 days are 2.4%, past due 181-365 days are 3.5%, past due 1-2 years are 10.7%, past due over 2 years are 62.2%. In 2015, 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 2015, the net amount of loans amounted to BGN 4,193 million, compared to BGN 4,149 million in 2014, increased by 1.1% yoy. For the same period, loans on a consolidated basis in the corporate sector increased by 3.7% yoy and amounted to BGN 3,015 million.

Financial assets available for sale

At the end of 2015 the Bank's and consolidated financial assets, available for sale, amounted to BGN 526.6 million, and registered a 90.5% yoy increase. In structural aspect, 85.9% of them are Bulgarian government securities, 5.5% corporate bonds, and 8.6% equity securities.

Attracted resources and equity

At the end of 2015 UBB's amount of liabilities reached BGN 5,323 million, compared to BGN 5,405 million at the end of 2014, registering a nominal decrease of 1.5% for one-year period.

For the same period liabilities on consolidated base decreased by 1.6% yoy and amounted at BGN 5,319 million.

Deposits from banks

Funds deposited by banks declined by 24.9% yoy. At the end of 2015 the deposits from banks amounted to BGN 62.8 million, compared to BGN 83.6 million at the end of 2014. Their relative share of total liabilities presented 1.2%.

Deposits from customers

At the end of 2015 customer deposits reached BGN 5,089 million, compared to BGN 5,114 million at the end of 2014 and registered 0.5% yoy decline. During the year, the deposits of individuals decreased by 3.9%, due to the decelerated interest rates on deposits' products, which was character for the overall banking system in 2015. Deposits from non-bank financial institutions increased by 117.0% yoy. Corporate deposits declined by 2.3% yoy.

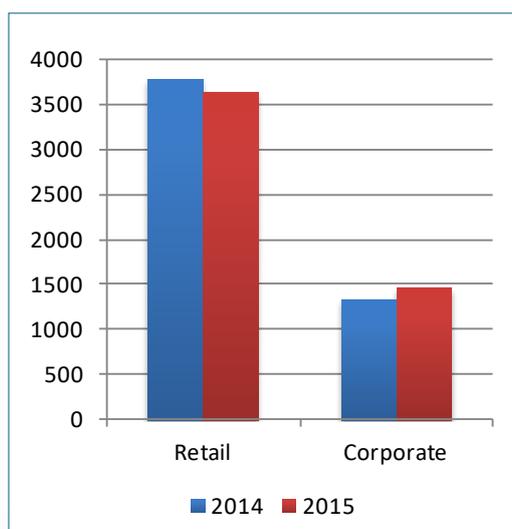
Deposits from government institutions and agencies declined by 30.7% yoy.

Deposits' Structure

Deposits from clients, BGN (000)	31.12.2015	31.12.2014	Change yoy (%)
Deposits of individuals	3,624,940	3,772,934	(3.9)
Deposits of non-bank institutions	310,255	142,951	117.0
Corporate deposits	1,112,809	1,138,526	(2.3)
Deposits from government institutions	41,349	59,634	(30.7)
TOTAL	5,089,353	5,114,045	(0.5)

The deposits of individuals continued to dominate the structure of deposits, representing 71.2% 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 21.9%. The relative share of deposits from non-bank financial institutions improved to 6.1% and the share of deposits from government institutions and agencies declined to 0.8%.

Clients Deposits (BGN million)



As of December 31, 2015 UBB has key market positions by holding 8% of retail deposits and 6% of the corporate deposits in the local market.

Bank Borrowings

level of BGN 33 million. In 2015, UBB concluded two new agreements under programs for the segment of Small and Medium-sized businesses – A Memorandum of Understanding with State Fund Agriculture in August, and an agreement with the National Guarantee Fund in October for securing a portfolio of deals within the SME-2015 initiative. In December, UBB and the European Investment Fund reached an arrangement to extend the inclusion period for loans in the guaranteed portfolio, under the JEREMIE initiative until 30.06.2016. Within the year, the newly granted loans under partnership programs

numbered 153, totaling BGN 51 million. Concurrently, the Bank persisted on its systematic initiatives, aimed at enhancement of asset quality and balance sheet reinforcement, by making additional corporate loan book impairment, worth BGN 110 million, and problem loans' write-off, equaling BGN 151 million.

TREASURY ACTIVITIES

In 2015, UBB's "Treasury" continued to provide optimal liquidity through participation in the 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 businesses. Furthermore, the "Treasury" ended 2015 with a significant contribution to UBB's financial results, generating more than EUR 27 million net profit by overall activity. Additionally, UBB continued to maintain optimal Loans/Deposits Ratio at 82% as of end of 2015. Furthermore, UBB continues to keep its status as a self-financing financial credit institution, with independent liquidity from the parent bank.

INVESTMENT BANKING

In 2015, UBB Investment banking department was striving to meet the needs of the Bank's current and potential clients through rendering investment intermediation and depository services. UBB continued to participate actively in the corporate bond market by rendering services related to bond restructuring, as well as providing services to its capacity of a trustee of bondholders, focused mainly on keeping its existing trustee business and successful bond restructuring. In 2015, UBB performed the function of a trustee bank for the bondholders of 19 bond issues. UBB brokerage services unit succeeded in maintaining its market positions in the stock market, in the context of an ongoing financial crisis, and low liquidity on the stock exchange that led to a considerable outflow of institutional investors in 2015. Despite a decline in major indexes and competing with more than 50 investment intermediaries, UBB maintained its client base and booked 20 new customers in its *U-Broker* stock trading platform. In 2015, depository services unit offers all services allowed under Bulgarian law to customers from all sectors of the Bulgarian capital market. Currently the bank has a portfolio of 75 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 exceed BGN 2,5 million at the end of 2015. The structure of the pension insurance market remains unchanged, in terms of number of licensed pension. At the end of 2015 Bank reports, on separate basis, BGN 59.7million credit lines from banks. These are essential credit lines from BGN 9.7 million for retail banking and BGN 50.0 million for the financing of small and medium enterprises.

Subordinated debt

At the end of 2015 the Bank recorded, on a separate basis, BGN 101.8 million subordinated

debt. In October and November 2007, UBB signed two subordinated debt agreements with the National Bank of Greece, totaling EUR 150 million. Subordinated debt is used as a supplement to the capital reserves in accordance with the requirements of the BNB on capital adequacy. Repayment of subordinated debt is not guaranteed by the Bank. Original maturity of subordinated debt is 10 years. Since 2013 UBB began annual repayment of the subordinated debt in both agreements in equal installments for the amount of BGN 50,852 thousand for the period 2013-2017.

Shareholders Equity and capital adequacy

UBB's shareholders equity, at the end of 2015, amounts to BGN 1,222 million (2014: BGN 1,165 million).

On a consolidated basis, the total amount of shareholders equity is BGN 1,230 million at the end of 2015, compared to BGN 1,171 million, reported at the end of 2014.

The total capital adequacy as of 31 December 2015, as per *CRD IV* regulatory framework, amounts to 28.2% (based on total Regulatory Capital on individual basis at BGN 1,237 million and on consolidated basis at BGN 1,242 million) and Tier 1 capital adequacy amounts to 26.1%.

1.2. BUSINESS DEVELOPMENT

RETAIL BANKING

In 2015, the United Bulgarian Bank retained its strong market position in the banking sector for retail loans and deposits. With regards to retail deposits, it was a year focused on adjusting the deposit rates as the Bank aimed to promote savings and current accounts, rather than term deposits, while making constant monitoring and price adjustments, aligned with the market to ensure a positive effect on the P&L. The Bank's retail deposit portfolio reached BGN 3,625 million at the end of 2015. The realized interest expenses was BGN 40.1 million or 10% lower than the budgeted one. Although, the promotional lending activities by the major banks, the retail loans market recorded a decrease in balances. In 2015, UBB had 25% growth in the newly disbursed volumes in mortgage lending and 15% growth in the consumer lending disbursements, where the total retail loans year-end portfolio was BGN 1,929 million. UBB continues to be one of the top bank issuers of international credit and debit cards under the logos of Master Card and VISA. In 2015, the mass debit product, Maestro, was gradually replaced by Debit MasterCard, together with the launch of a new World Debit MasterCard for the upper-mass customers. In terms of absolute figures, during 2015, the total portfolio of UBB's cards in circulation had constant growth in number of transactions i.e. 16.9 million on an annual basis, while the total volume of transactions surpassed BGN 2.3 billion. Thus, throughout the whole year, the number of POS transactions of the Bank's credit and debit cards business grew by 3.7%. In terms of cards servicing, UBB upgraded the loyalty platform for its cardholders to move forward from product oriented to a customer centric model. The retention programme in CRM was enriched with more offers to our customers, aiming to decrease the attrition ratio of the credit card portfolio. Gradual migration of the credit cards portfolio to contactless is planned for 2016. Throughout 2015, the Bank continued to provide its high standard professional banking services to its affluent customers, leading to

increased number of customers of UBB Club. In the field of card acceptance and servicing of card transactions in 2015, our focus was on activation and efficiency improvement of UBB's POS and ATM network. During the year, the Bank reduced the number of ATM terminals with 8%, while retaining the levels of serviced transactions and volumes from 2014. By improving the efficiency of our POS terminals network, UBB reduced the number of active POS terminals by 10% in 2015, and meanwhile reported a growth in the number of transaction by 6.5%, an increase of the turnover and gross income by 3% and an increase of net income by 14%, compared to 2014. In 2015, UBB's Retail banking continued its efforts for sustainable development of innovative products and promotional campaigns in all retail categories in an environment of increased competition. Consequently, many "bricks-and-mortar" activities of the bank have been transformed to "clicks-and-mortar" by incorporating Internet sales. Through 2015, UBB launched online application channel for credit cards, opening the root for other consumer products to be offered online also in 2016. UBB's credit cardholders have the opportunity to transfer purchases to installments through the e-banking channel. The Bank's e-banking customers are able to choose from a wide range of products, now available to be opened online, or see some personalized offers in their personal profile. Pre-roll of the mobile banking application was prepared for launch that is expected in 2016. At the end of 2015 UBB started to offer packaged proposals for banking products and services to its individual customers. The packages provide freedom and convenience for daily banking, and special conditions upon the included products and services. Similar offers will be offered throughout 2016 to cover the needs of the different segments. In mortgage lending, the Bank further improved the promotional parameters for the most demanded products and launched special "No Bank fees" campaign for external refinancing. In consumer lending in 2015, the Bank introduced the Energy efficiency consumer loan under the European Bank for Reconstruction and Development REECL credit line. The new product, targeting mainly the mass segment, resulted in 2,771 new loans for the amount of BGN 10 million disbursed in less than 10 months, and BGN 2 million grand paid to the customers. The attractive consumer loan for refinancing has been fine-tuned, both price and risk wise, which positioned it among the best-selling offer on the market. Throughout the year, both products were supported by continuous promotional activities. At the end of 2015, UBB introduced new business model for the development of the general insurance portfolio. The Bank enhanced the business partnership to a higher level with one of the market leaders in Bulgaria – Bustrad Vienna Insurance group, that acquired a 100% stake in UBB, AIG, and renamed Nova Ins EAD. The cooperation with Nova Ins insurance company will allow UBB to focus more actively on providing better insurance protection possibilities for the customers and upgrading the current business. During 2015, the life – insurance company, UBB Metlife, again is ranked between the Top 5 biggest life insurance companies in Bulgaria, having 10% market share.

PAYMENT PRODUCTS AND SERVICES

In 2015, the number of clients, registered for the e-banking service was 200,483, representing a growth of 8% yoy. The electronic banking channel accounted for 63% of the realized fund transfers. The utility bill payment service, at the end of 2015, was actively used by 69,862 clients with 139,611 registered consents for payment to utility companies. Over 2015, the Bank successfully promoted and further developed its new alternative channel for payment of utility bills and taxes - UPAY (www.ubbpay.bg) – reaching 32,886 registered users at the

year-end, and enabled payment of obligations to more than 200 companies for utilities and other services. UBB's market share, in terms of realized payments through the Western Union money transfer system, was 11% at end of 2015. Furthermore, over 2015, the Bank retained its leadership position, in terms of the ATM deposit service, as the annual number of realized cash deposits reached 237,000 and grew by 11%, compared to 2014. UBB's Call Center meets the highest standards of customer service through alternative banking channels. 2015 marked the adding of new services to this channel, the most successful of which had proved the utilization of money transfers via Western Union and deferred repayment of credit card transactions.

CORPORATE BANKING

Throughout 2015, the efforts of United Bulgarian Bank in the corporate segment targeted improvement of the Bank's market position and containment of the declining interest rate impact on its income. While implementing this objective during the year, UBB extended new corporate loans for the amount of BGN 593 million (against BGN 571 million in 2014) and additionally enlarged its portfolio volume through purchasing high quality portfolios, totaling BGN 289 million. Simultaneously, notwithstanding the new production upsurge and the newly acquired yield-bearing assets, as a consequence from the improved terms to its borrowers, UBB's interest income from corporate loans contracted from BGN 131 million in 2014 down to BGN 106 million in 2015. At the same time, the annual fee and commission income from corporate clients was sustained at the level of BGN 33 million. In 2015, UBB concluded two new agreements under programs for the segment of Small and Medium-sized businesses – A Memorandum of Understanding with State Fund Agriculture in August, and an agreement with the National Guarantee Fund in October for securing a portfolio of deals within the SME-2015 initiative. In December, UBB and the European Investment Fund reached an arrangement to extend the inclusion period for loans in the guaranteed portfolio, under the JEREMIE initiative until 30.06.2016. Within the year, the newly granted loans under partnership programs numbered 153, totaling BGN 51 million. Concurrently, the Bank persisted on its systematic initiatives, aimed at enhancement of asset quality and balance sheet reinforcement, by making additional corporate loan book impairment, worth BGN 110 million, and problem loans' write-off, equaling BGN 151 million.

TREASURY ACTIVITIES

In 2015, UBB's "Treasury" continued to provide optimal liquidity through participation in the 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 businesses. Furthermore, the "Treasury" ended 2015 with a significant contribution to UBB's financial results, generating more than EUR 27 million net profit by overall activity. Additionally, UBB continued to maintain optimal Loans/Deposits Ratio at 82% as of end of 2015. Furthermore, UBB continues to keep its status as a self-financing financial credit institution, with independent liquidity from the parent bank.

INVESTMENT BANKING

In 2015, UBB Investment banking department was striving to meet the needs of the Bank's current and potential clients through rendering investment intermediation and depository services. UBB continued to participate actively in the corporate bond market by rendering services related to bond restructuring, as well as providing services to its capacity of a trustee of bondholders, focused mainly on keeping its existing trustee business and successful bond restructuring. In 2015, UBB performed the function of a trustee bank for the bondholders of 19 bond issues. UBB brokerage services unit succeeded in maintaining its market positions in the stock market, in the context of an ongoing financial crisis, and low liquidity on the stock exchange that led to a considerable outflow of institutional investors in 2015. Despite a decline in major indexes and competing with more than 50 investment intermediaries, UBB maintained its client base and booked 20 new customers in its U-Broker stock trading platform. In 2015, depository services unit offers all services allowed under Bulgarian law to customers from all sectors of the Bulgarian capital market. Currently the bank has a portfolio of 75 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 exceed BGN 2,5 million at the end of 2015. 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 2015, UBB's "Information Technologies" Department successfully completed several significant projects. Proof of Concept (PoC) was realized and a pilot implementation of a Virtual desktop infrastructure (VDI) was implemented. This will allow the next 2-3 years to shift to a technologically new, centralized and highly reliable technical infrastructure. As a result, the bank will achieve better manageability of the technical resources and flexibility in customer service in the branch network of the Bank. It was carried out the migration to Windows 7 operating system on all PCs within the Bank. Furthermore, successfully started the deployment of U-Mobile - mobile banking application.

HUMAN RESOURCES MANAGEMENT

In 2015, HRM Department continued to take care of the development and retention of employees by providing the necessary professional training and remunerations, comparable to the market levels. A new way for employees' performance appraisal process was implemented. It provided the possibility for employees and managers to fill and sign the appraisal forms electronically. Due to the HR team efforts and the good organization of the process, an extremely high percentage of completed appraisal forms was achieved. The HR department constantly monitored and supported, in real time, the whole performance

appraisal process. The process of implementation of e-signature for internal documents continued. Following the initiative of the “Standard” newspaper, a competition “The new generation: Bankers” has been launched. Its purpose is to promote young managers in the financial sector and make them recognizable. The HR department made a proposal which was approved by the Executive Directors to nominate two employees – one from the Risk Management Division in the category “Young expert” and another from Corporate Banking Division in the category “Quick start”. Both UBB nominees won the awards in their categories. During the training process in 2015, the HR department emphasized on the e-learning form. The E-Learning system of the bank migrated to a higher version with easier navigation and more opportunities for visual effects. New electronic courses for managers in Branch Network were added, as well as such for Microbusiness employees, employees responsible for classified information, and employees selling Asset management products. Materials for all courses and modules of the system were updated and enriched. Employees from the “Risk Management” Division were provided with the opportunity to use 1-year electronic course of SAS Institute North Carolina, which helped them in the calibration of the corporate rating model and in producing fundamentally new model for assessing the creditworthiness scoring. Employees from 10 HO departments participated in e-learning – Webinar by Ken Blanchard „The New One Minute Manager“: Managing Your Work and Life, Live webcasts “SWIFT - The KYC Registry”, “Applying Data-Mining in Finance” and MasterCard Web Academy. In support of the Bank’s strategy for business development and performance improvement, specialized trainings for SME, Micro segments, Branch managers, reassigned Retail team managers and others were realized, as well as seminars and IT trainings for teams and employees of the HO structures. In 2015, 1,887 participations of employees in different forms of trainings were organized (incl. induction trainings, internal and external advanced trainings) and 2,498 participations in tests for checking the knowledge in the different areas. An initiative of HR and Small and Medium Enterprises, and Specialized Programs Departments for a 3-month internship program “Successful start,” directed to a senior-year students and graduates in economics, was successfully implemented to identify potential candidates for positions in Branch Network. Total of 6 students completed the internship program and 5 of them started working with business customers.

BRANCH NETWORK

In 2015, the total number of UBB branch network structural units is 198, including:

- 122 structures, focused on servicing retail and micro business customers;
- 27 structural units, servicing retail, micro and small business;
- 17 structures for retail, micro and SME business;
- 8 Business Centers - specialized structural units, profiled in servicing SME business customers;
- 24 representative offices.

Customers to all UBB locations are provided with individual approach, professional, competent and high level of servicing, wide range and variety of products and services, meeting their needs and necessities.



**Sponsorship and
Corporate Social
Responsibility**

SPONSORSHIP AND CORPORATE SOCIAL RESPONSIBILITY

In 2015, UBB persisted with further developing its policy in the sphere of sponsorship and corporate social responsibility, in alignment with its all-round strategy, targeting the encouragement and support for culture and arts, science and sports, as well as the aid to vulnerable social groups. UBB also deployed a brimming regional sponsorship program. UBB's overall sponsorship and Corporate Social Responsibility (CSR) expenses for 2015 adds up to a total of EUR 121,000. The main activities, in the sphere of CSR, throughout the year, were carried out along the following lines:

- **Cultural Projects**

- **March Music Days International Festival**, Ruse town – UBB marked 12 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 became a focal point for artists from all over the world.
- **Partnership with Sofia Opera and Ballet's via Opera in the Park and Stage of the Ages initiatives, Veliko Tarnovo town** – in 2015, UBB continued to expand its cultural initiatives with Sofia Opera and Ballet, and as a result two significant summer events with exceptional cultural value were realized – Opera in the Park Summer Festival, held for a 6th consecutive year, and the premiere of the first Bulgarian opera - Borislav - by the Opera company of artists during the Stage of the Ages Festival. The former event once again received opera and ballet aficionados in the park of G.S. Rakovski National Military Academy in Sofia, while, during Stage of the Ages, the first Bulgarian historical opera, based on Ivan Vazov's novella, was staged within Tsarevets Stronghold in Veliko Tarnovo town.
- **Varna Summer International Theater Festival** – in 2015, UBB gave a helping hand to the festival for a 10th consecutive year. The Festival promoted classical productions, as well as modern artistic interpretations, staged by Bulgarian and foreign theater companies. Its versatile programme, Varna Summer, transformed Bulgaria's seaside capital once again into a festivity town for the event's duration.
- **Apollonia Festival** – UBB was again a general partner for the Festival of Arts in Sozopol town by presenting its traditional jazz club - Apollonia/ UBB Stage Club - as a favorite venue for jazz lovers every summer. But there is more to that – UBB again bestowed its special award to an outstanding Bulgarian artist.
- **Scene at Crossroads International Festival** – UBB was again part of the “sponsor société” of the festival, held for a 19th consecutive 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 – The Palaveevi Sisters - a performance within the festival's framework, staged under the patronage of the Bank.
- **NATFA** – the young actors from the National Academy for Theater and Film Arts once more received the support of UBB, as in 2015 the bank sponsored for a second time the realization of the First Steps in Cinema Arts educational workshop, organized exclusively for the newly-enrolled students of the Academy.

- **Establishment of Serdica-2 Tourist Information Center** – in 2015, UBB supported Sofia Municipality in its initiative to build a one-stop tourist information center, situated at Serdica metro station, where the guests of the capital city could obtain information, not only about Sofia’s sights and landmarks, but also about accommodation and cultural events that are taking place during the period of their stay.
 - **Sports**
- **Children tennis tournaments** – UBB once again focused its attention on the support for the realization of two children tennis tournaments – one for the private schools and another- “Masters” rank for all kids-champions at regional competitions. The competitions were traditionally held under the motto “For the awards of UBB” and widely covered by the national media, while the children, who demonstrated sporting excellence, were awarded by the Bank’s representatives. Through this support UBB seized the opportunity to showcase its care and responsibility as a member of the society, concerned about the kids’ healthy living and the need of playing active sports.
 - **Support for Science**
- **National Museum of Natural History** – in 2015, 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; a zoological expedition for discovering a previously unknown population of the rare red wolf, and the making of a 360-degree interactive walk through the museum halls in Bulgarian and in English. The projects were properly advertised in the scientific circles and UBB was once again distinguished as one of the museum’s leading patrons.
 - **Regional Sponsorships**
- In 2015, UBB supported financially 44 regional signature events of high prominence for the local community and culture. Among them 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. 187e
and Art. 247 of the
Commerce Act**

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

IV. INFORMATION REQUIRED PURSUANT TO ART. 187”d” and ART. 247 of THE CODE ON COMMERCE

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 31.12.2015, 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 31.12.2015, 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	<u>75,964,082</u>

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 2015 was BGN 603 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	31.12.2015	31.12.2014
Stilian Petkov Vatev	290 shares	210 shares
Total:	290 shares	210 shares

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

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

- 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's 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

UBB – AIG Insurance Company AD (UBB - AIG), 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

Cash Services Company AD Board member

Member of the Board of Foundation "Atanas Burov"

Chairman of the 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

UBB has not paid dividends for the last three years. The annual net profit was entirely allocated, by decision of the General Shareholders Meeting, to the general reserves.



Financial Instruments and Risk Management

VI. 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 Risk Strategy, 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 Strategy describes the Bank's fundamental attitude towards risk as described by risk principles and objectives, as well as the Bank's current and target risk profile and appetite, risk governance and organization, and key risk management capabilities.

The Board of Directors, through its Risk Management Committee, has the responsibility to approve and periodically review 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 have the responsibility for implementing the risk strategy 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 Bank Risk Management unit, 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 internal and external norms, and banking best practices. The Bank Risk Management function is capturing all material risk sources across all portfolios and operations.

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 is ensuring, through proper procedures, that the requirements and deadlines provided 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 of 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 subjected to adequate procedures and controls before being introduced or undertaken. The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, 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 adopting 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 to the Bank's activity.

Credit risk

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

The main source of credit risk for the Bank is the loans to customers, which, as of 31.12.2015 amounted to BGN 4,945 million (BGN 4,944 million on consolidated basis). As of the same date, the total amount of impairment (IFRS provisions) was BGN 751 million, or 15% of the credit portfolio. Additionally, the specific provisions (considered as Capital buffer by the Central Bank), under the canceled BNB Ordinance № 9, amounted to BGN 304 million.

Credit risk management decisions are made in compliance with the approved Risk Strategy and respective credit policies, which are regularly reviewed. UBB has adopted and implemented *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.

Early warning system (EWS) is an assessment process of the corporate clients, designed to detect the problem exposures at an early stage and recovery actions to be taken on time. An application is 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.

The Credit Policy for the Small Business Lending Segment determines the approval and monitoring processes for the products in the respective business area.

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 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 on an obligor level and by industries. The largest sectors in the 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.

The Lending Portfolios' quality (in terms of NPLs and NPL ratios) is continuously improving, but effort is needed for a full recovery of the troubled loans. The corporate NPLs have almost stabilized and there is a clear improvement in the area of collaterals' liquidation, while the Retail NPLs are declining with BGN 150 million corporate and BGN 110 million retail loans were written-off in 2015, improving the NPL ratios.

The Bank continues its effort to collect the delinquent loans, but, in parallel, focuses on generating new and healthy lending business, thus, improving 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 should be approved ad-hoc by NBG 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.

Liquidity risk

The liquidity risk is related to possible unfavorable impact on 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 without delay, both in a normal environment and under stress conditions. The Bank invests mainly in liquid assets and maintains an average of 33% ratio of liquid assets to total liabilities and 35% ratio of liquid assets to customer deposits. The Bank succeeded to maintain comfortable liquidity in the first seven months of 2015, when withdrawals of deposits were experienced due to the political situation in Greece, and to almost fully recover its deposits by the year-end.

UBB have a solid funding structure as far as the loan portfolio is largely funded by customer 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 maintain access to a variety of alternative funding sources, to provide protection 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 designed to be aligned with the Bank's Risk Strategy and to meet all the requirements, set by the Bulgarian National Bank.

The liquidity management is centralized and is measured through evaluation of the mismatches between cash flows of assets, liabilities, and off-balance sheet positions. The liquidity is being 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, such as Loans/Deposits ratio, Quick Liquidity Ratios, and Internal Liquidity Ratios by main currencies.

UBB is applying regular stress-tests in order to evaluate the liquidity risk for the Bank in unfavorable economic and market scenarios. The stress-tests are based on assumptions for different parameters of shock and their impact on the in-flow and out-flow of funds.

Market risk

The market risk is related to possible unfavorable impact on 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 31.12.2015, amounted to BGN 6.1 million, or 0.50% 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, underlying the operations of UBB in international money and capital markets, and focuses on UBB's approach to 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.

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 view of an estimated potential adverse change in the product price), or to avoid exceeding authorized limits on 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 acceptable 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)	30.12.2015	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

VaR (daily value)	30.12.2014	2014		
		min	max	average
Equity Risk VaR	303	150	583	260
FX Risk VaR	2	0	16	4
Interest Rate Risk VaR	4,553	288	6,306	1,097
Total VaR	4,760	335	6,612	1,131

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

The Bank increased its securities portfolio, during 2015, by BGN 267 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. Upon the effective 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, the exchange rates of other currencies to the Euro.

The Bank manages the risk of other than EUR to 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 in 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 on the profit and capital of the Bank by adverse movements in interest rates, affecting the Bank's non-trading positions.

The Bank's exposure to interest rate risk in the banking book is relatively small and, as of December 2015, amounted to 5% of the regulatory capital.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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 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 economic value of equity (EVE) sensitivity to unfavorable changes in interest rates separately for any of the main currencies, in which the Bank/Group 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 31.12.2015					
Interest Rate Mismatch	up to 3M	3M-1Y	1Y-5Y	above 5Y	Total
BGN	-772,524	-351,964	-89,750	35 991	-1,178,248
EUR	85,624	-377,139	-70,847	495,735	133,74
USD	-78,512	-86,823	-34,681	0	-200,016
Total	-765,411	-815,926	-195,279	531,726	-1,244,890
Change in the economic value at 200b.p. yield curve shift					
	up to 3M	3M-1Y	1Y-5Y	above 5Y	Total
BGN	-444	3,981	425	-5,039	-1,078
EUR	271	4,519	728	-69,403	-63,886
USD	132	1,056	1,123	0	2,311
Общо	-41	9,556	2,275	-74,442	-62,652

as of 31.12.2014					
Interest Rate Mismatch	up to 3M	3M-1Y	1Y-5Y	above 5Y	Total
BGN	-583,427	-476,121	-101,413	28,164	-1,132,797
EUR	536,164	-495,545	-20,896	258,281	278,004
USD	-4,439	-87,095	-28,073	0	-119,607
Total	-51,702	-1 058 761	-150,383	286,445	-974,400
Change in the economic value at 200b.p. yield curve shift					
	up to 3M	3M-1Y	1Y-5Y	above 5Y	Total
BGN	-397	5,084	1,469	-3,43	2,212
EUR	-46	5,869	-2,393	-36,159	-32,730
USD	96	1,046	1,044	0	2,186
Total	-347	11,998	119	-40,102	-28,332

EVE sensitivity of IRRBB exposure (200 bps parallel shift of the yield curve) is about BGN 62.7 million (5% of own funds), as of December 2015. UBB's exposure to IRRBB increased, in 2015, 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:

		0 – 3 m.	3 m. – 12 m.	> 12 m.
IRR BB Stress Test Scenario 1	BGN	+ /- 300 bp	+ /- 300 bp	+ /- 300 bp
	Other CCY	+ /- 200 bp	+ /- 200 bp	+ /- 200 bp
		0-3 M	3 M -12 M	> 12 M
IRR BB Stress Test Scenario 2	BGN	+ /- 100 bp	+ /- 200 bp	+ /- 300 bp
	Other CCY	+ /- 50 bp	+ /- 100 bp	+ /- 200 bp
		0-3 M	3 M -12 M	> 12 M
IRR BB Stress Test Scenario 3	BGN	+ /- 300 bp	+ /- 200 bp	+ /- 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 external events. This definition includes legal and compliance risk, but excludes strategic and reputation risk.

The Operational Risk Management in UBB is based on approved Operational Risk Management Framework. 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 was fully automated by implementation of specialized software.

An annual risk self-assessment of activities and processes is performed for 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 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 the required capital for operational risk is being developed.

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

Business Continuity Plan

UBB operates 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 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. In the UBB's BCP are also included NBG Competence Center, UBB Insurance Broker, UBB Asset Management and UBB Factoring.

The BCP maintenance is implemented through planned or 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 the business continuity management in UBB, including ensurance and management of effective actions, directed for the restoring of the interruption functioning of the separate business processes and systems, and the Bank as well, in case of the occurrence of events that violate its normal

functioning.

Capital and capital adequacy

Solo basis

The capital, owned by UBB Group shareholders, by the end of 2015, amounts to BGN 1,222 million (2014: BGN 1,165 million) and provides for maintaining capital adequacy over the Central Bank's regulations' requirements. The total capital adequacy, as of 31 December 2015, as per CRD IV regulatory framework, amounts to 28.2% (based on total Regulatory Capital on solo basis at BGN 1,257 million) and Tier 1 capital adequacy amounts to 26.1%.

Consolidated basis

The capital, owned by UBB Group shareholders, by the end of 2015, amounts to BGN 1,229 million (2014: BGN 1,171 million) and provides for maintaining capital adequacy over the Central Bank's regulations' requirements. The total capital adequacy, as of 31 December 2015, as per *CRD IV* regulatory framework, amounts to 28.2% (based on total Regulatory Capital on consolidated basis at BGN 1,242 million) and Tier 1 capital adequacy amounts to 26.1%.



**Activity of UBB's
Subsidiaries and
Associate companies as
of 31.12.2015**

ACTIVITY OF UBB'S SUBSIDIARIES AND ASSOCIATE COMPANIES AS OF 31.12.2015

VII. ACTIVITY OF UBB'S SUBSIDIARIES AND ASSOCIATE COMPANIES AS OF 31.12.2015

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

Transactions between UBB, its associated companies (UBBAIG Insurance Company AD and UBB Metlife Life Insurance Company AD), Cash Services Company 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 the maintenance 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	31.12.2015	31.12.2014
UBB Balanced Fund	2,401	2,475
UBB Premium Shares Fund	2,021	2,094
UBB Platinum Bond Fund	1,523	1,495

2. Important events that 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 consolidated basis.

In November 2014, the Board of Directors of UBB decided to proceed, jointly with AIG Central Europe & CIS Insurance Holding Corporation and Ethniki Insurance, for the sale of UBBAIG Insurance Company AD. The sale has been finalized on January 4, 2016.

3. Number and par value of the shares or stakes owned by UBB, a subsidiary or associate company or an individual, acting on his/her behalf, but at the expenses 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: No 83704, v. 1021, reg. I, p. 44, under company file No 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 - Metlaife Life Insurance Company AD

Location: Sofia

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

ACTIVITY OF UBB'S SUBSIDIARIES AND ASSOCIATE COMPANIES AS OF 31.12.2015

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

Capital: BGN 7,000,000

Participation in the company: 30% or BGN 2,100,000 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 No. 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: Cash Services Company AD

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

1632 Sofia, region „Ovcha kupel”, kv. „Ovcha Kupel» 2, 16 „Ivan Hadjiiski”Str. tel: 02/ 9560419, fax: 02/ 9560419 e-mail office@dku.bg, www.dku.bg

Number and batch of entry in the commercial register:

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

Capital: BGN 12,500,000

Participation in the company: 20% or BGN 2,500,000 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:

N 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 2015, the subsidiaries UBB Asset Management AD, UBB Factoring EOOD, and UBB Insurance Broker AD, and the associates - UBB Metlife Life Insurance Company AD and Cash Services Company AD, used no derivatives for hedging purposes.

b) Exposure of the company with regards 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 Cash Services Company AD are reported in compliance with regulations, evolving from the requirements and regulations on capital adequacy.



Corporate Governance

CORPORATE GOVERNANCE

Based on the concept that effective internal governance arrangements are fundamental if banks, individually, and the banking system altogether, are to operate well, the United Bulgarian Bank - as part of its long-term objectives - has been committed to the principles of good corporate governance and their implementation into the Bank's activity. The Bank recognizes the valuable contribution that a successful corporate governance makes for business prosperity, and to ensure accountability to its stakeholders, especially in view of the events in the international financial markets.

In accordance with the *Corporate Governance Programme*, approved in 2003, the Bank has established a proactive and transparent process of strategic decision-making. In 2015, the United Bulgarian Bank initiated actions for improvement of the institution's internal governance system by launching *UBB's Corporate Governance Enhancement* project. To improve the internal transparency throughout the Bank, a *Chart of Authorities* was drafted, outlining their structure in a well-defined, translucent and consistent lines of responsibilities of the Bank's governing bodies. A new *Corporate Governance Programme* was developed and submitted for debate throughout the Bank.

The Code of Ethics of UBB's staff, the respective policies for disclosure, and prevention of conflicts of interest clearly define the conflicting cases, as well as the methods for their prevention. In 2015, the Bank invested adequate efforts and resources to ensure the effective management of any potential or actual conflict of interest. In 2015, the *Policy for Avoiding Conflicts of Interest* was reviewed and its scope - widened.

In its capacity as a Personal Data Controller, UBB gives top priority to the legal requirements for keeping the bank secrecy and protection of personal data. While complying with these, in 2015, the Bank adopted a *Policy for Protection of Personal Data*, introducing the criteria and standards, assumed by NBG at a Group level, and supplementing the existing internal rules of the Bank, developed in accordance with the applicable Bulgarian laws. The Policy ensures that the data is being processed in conformity with the law and stipulates a clear set of rules and principles, regulating the administration by UBB of personal data, collected in the course of business or other relationships, while protecting human rights, fundamental freedoms and privacy.

Board of Directors (BoD)

The Board of Directors is the supreme governing body of the Bank, responsible for setting the strategy, overseeing the management and reliably controlling the Bank. It is also within its competency to approve the Bank's annual budget. UBB Board of Directors ensures that the Bank is being managed with the ultimate aim to enhance its long-term value and promote corporate interest. The BoD members play an essential role in the strategic decision-making processes at the Bank, therefore, particular attention is being paid to their selection. During 2015, Mr. Pavlos Mylonas and Mr. Panagiotis Karandreas were released from their membership in UBB Board of Directors, at their request. The new

BoD members - Mr. Marinis Stratopoulos and Mr. Alexandros Benos – were elected for a 3-year mandate. Mr. Stilian Vatev, Mrs. Radka Toncheva and Mr. Konstantinos Bratos were reelected for another 3-year period.

Board Committees

The following committees, established as part of the UBB Board of Directors, facilitate its work:

Risk Management Committee, Remuneration Committee, Audit Committee.

- The Risk Management Committee (RMC) advise the Board of Directors on the Bank's overall, current and future, strategy, as regards to risk and the Bank's risk appetite. This committee proposes for approval to the BoD, the *Bank's Risk Strategy, RiskAppetite Statement*, and risk management policies, and oversees their implementation by UBB's senior management. RMC comprises non-executive members of the Bank's BoD, appointed by the latter. The Committee holds its meetings quarterly.
- The Remuneration Committee (RC) is responsible for the preparation and proposal of decisions, concerning policies, and practices on remuneration of officials, who influence the assumed risks and their management at the Bank. This committee assists the BoD in the preparation, reviewing and monitoring the implementation of the Bank's Remuneration Policy. RC comprises non-executive members of the Bank's BoD, appointed by the latter. The Committee, as a rule, holds annual meetings.
- The Audit Committee ensures the effective functioning of the internal control systems, financial reporting, internal audit, compliance, and risk management from the point of view of applying the principles of stable corporate governance, and the Bank's strategic objectives. The Audit Committee members are independent experts in finance, banking and law, elected by the General Meeting of Shareholders under the procedure, established by the *Independent Financial Audit Act*. The Committee has to hold meetings every two months.

Communication with Shareholders

The Bank is committed to the equitable treatment of all its shareholders. Also, insofar as practicable, the bank ensures equal access to information for all shareholders. Shareholders are provided with full year accounts to help them keep up to date with the UBB's performance and progress. The Annual General Meeting provides the shareholders with an opportunity to ask questions to the Board Directors.

The Bank believes that full disclosure and transparency in its operations are of an interest, not only for its own good governance, but also for the benefit of a sound and stable banking sector.

Performance Reporting and Internal Financial Control

This annual report includes the Board of Directors' statement on the performance and prospects of the Bank. The Board acknowledges that it has ultimate responsibility for ensuring that the Bank has the appropriate financial control systems in place. The

objectives of these systems are to guarantee the following routine:

- identification and management of key business risks
- safeguarding of assets against unauthorized use
- maintenance of proper accounting records and reliability of financial information, used for publication purposes
- compliance with legal and regulatory requirements.

It should be noted that such financial control systems could provide only reasonable and not absolute assurance against material misstatements or losses.

Financial Control, Data Processing and Monitoring

The Bank uses certain financial and other authorization limits, as well as procedures for approving capital expenditures. The Board of Directors approves strategic plans and detailed annual budgets, and reviews the Bank's monthly performance against those.

The Specialized Internal Audit Department monitors, on an ongoing basis, the internal financial control systems across all branches, divisions and departments of the Bank, and reports directly to the Board of Directors.

There is an effective procedure at the Bank, enabling all UBB employees to alert about issues, concerning incorrect or imprecise representation of accounting information, or data, on which the independent financial audit is based, or reports to supervisory authorities are being prepared.



**Statement of
Management's
Responsibilities**

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES

The Bulgarian National Bank endorses the financial statements' preparation by the Management, in accordance with the *International Financial Reporting Standards*.

While drafting the financial statements the Management should ensure that:

- accounting policies have been suitably selected and applied consistently
- judgments and estimates are reasonable and prudent
- the *International Financial Reporting Standards* have been followed, with regards to any material circumstances, which are to be disclosed and explained in the financial statements.

The Management acknowledges compliance with the above requirements, while preparing the financial statements.

The Bank's Management is responsible for keeping proper accounting records, reflecting accurately, at any moment, the UBB's financial performance. The Management is also accountable for safeguarding the assets of the Bank, on both individual and consolidated basis, and also for initiating prudent actions upon establishing attempts at fraud, the latter's disclosure, or other irregularities.



Additional Information

GENERAL CUSTOMER INFORMATION

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